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European Commission

# Annual Activity Report 2021

## Directorate General for Economic and Financial Affairs

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# THE DG IN BRIEF

The mission of the Directorate General for Economic and Financial Affairs (DG ECFIN) is to contribute to raising the economic welfare of citizens in the European Union and beyond by ensuring that the Treaty obligations set out in Title VIII (Economic and Monetary Policy) of the Treaty on the Functioning of the European Union (TFEU) are met. We also contribute to the External Action of the Union (part five of the TFEU) and provide an economic service function for key EU policy initiatives.

Member States (MS) are required to regard their economic policies as a matter of common concern and coordinate them in the Council of the EU, and DG ECFIN facilitates these requirements. The COVID-19 pandemic, which struck in March 2020, continued to impact the work of DG ECFIN throughout 2021. Effort and resources were directed at supporting MS economies weather the pandemic, in particular through the implementation of the Recovery and Resilience Facility (RRF) and the instrument for temporary Support to mitigate Unemployment Risks in an Emergency (SURE). In parallel, traditional areas of DG ECFIN work continued to be carried out, such as DG ECFIN's efforts to support the Commission's contribution to global economic policy coordination, by conducting economic surveillance of EU enlargement countries, providing macro-financial assistance to third countries, analysing global economic developments and being active in the IMF/G7/G20 fora. Close work continued with the EIB Group, the EBRD, the World Bank Group and other multilateral development banks.

In 2021, DG ECFIN has been assigned financial responsibilities for the implementation of the RRF on behalf of the Commission. Considering the scale of the RRF funds, DG ECFIN activities are now backed by budget expenditures, achieved mainly through direct management with MS as beneficiaries. Besides, and like in previous years, ECFIN's other activities are achieved through grants and purchases or through indirect management with entrusted entities and budgetary guarantees. As Authorising Officer by Delegation, DG ECFIN has first to give reasonable assurance on the RRF funds paid to the MS during the year while continuing relying on entrusted entities for other programmes.

DG ECFIN continued to interact with the Economic and Financial Committee (EFC), the Economic Policy Committee (EPC) and the Eurogroup Working Group (EWG). The Secretariat for these three committees, their sub-committees and their Presidents as well as the Eurogroup and its President, is based in DG ECFIN.

DG ECFIN has many stakeholders. Internally: other Commission Directorates-General (DGs). Externally: MS authorities, national parliaments, social partners and other business, academic and civil society organisations. The ECB, ESM, OECD, IMF, G7, G20 and international development banks, together with key non-EU national authorities are also important stakeholders.

In 2021, ECFIN adapted significantly its organisation and resources to the new tasks and responsibilities assigned for the implementation of the RRF. Additional external resources were allocated to the units most heavily impacted by these new tasks, notably the country desks, responsible for the assessment of the plans and the monitoring of implementation, as well as the new unit on control and evaluation, created at the beginning of the year to implement the audit strategy for the RRF. In addition, ECFIN adapted its working methods to the remote and hybrid environment, in line with the new HR guidelines.A new Directorate comprising four units was created, reporting directly to the Deputy Director General, and charged with the implementation of InvestEU and relations with financial institutions. Although most of ECFIN's staff work in Brussels, 62 colleagues work in Luxembourg and 3 in the USA and China.

In 2021, DG ECFIN met and subsequently exceeded its established target for first female middle-management appointments, with three new appointments, and its internal target for female deputy appointments, with seven new appointments. As part of the Commission's commitment to mainstream equality internally and across all policy areas, DG ECFIN adopted an Equality work plan in October 2021 and shared it with the Commission task force on equality. Implementation of the plan started in 2021 and will continue in 2022.

# EXECUTIVE SUMMARY

This Annual Activity Report is a management report of the Director-General of DG ECFIN to the College of Commissioners. Annual Activity Reports are the main instrument of management accountability within the Commission and constitute the basis on which the College assumes political responsibility for the decisions it takes as well as for the coordinating, executive and management functions it exercises, as laid down in the Treaties ([1]).

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

In 2021, the COVID-19 pandemic continued to have a deep impact on the European economy. The European Union and its Member States have adopted a forceful and coordinated policy response to mitigate the negative consequences on European citizens and companies. DG ECFIN has been at the forefront of the Union economic recovery strategy and, throughout 2021, continued to focus its resources on supporting the economy, in particular through its contribution to the implementation of the NextGenerationEU recovery strategy. In parallel, DG ECFIN continued to play a central role in the multilateral surveillance of Member States economic developments and on ensuring the proper functioning of the Economic and Monetary Union. DG ECFIN finally contributed to international economic cooperation and, in the context of its Macro-Financial Assistance instrument, it provided financial support to EU neighbourhood countries.

DG ECFIN, together with the Recovery and Resilience Task Force (RECOVER), is responsible for the design and implementation of the Recovery and Resilience Facility (RRF), which is the centrepiece of the European economic strategy for the recovery and will finance reforms and investments in Member States until 31 December 2026. The RRF regulation entered into force on 19 February 2021 and the Commission has officially received 26 Recovery and Resilience Plans (RRPs), of which 22 were fully assessed and 4 are still being assessed. In 2021 EUR 54.3 billion of grant and loan pre-financing was disbursed to 20 Member States.

DG ECFIN continued to implement the SURE initiative ([2]) to provide temporary loans supporting Member States' significantly expanded public expenditure on short-time work schemes and similar measures. By the end of 2021, over 94% of the total envelope has been allocated to 19 Member States. Disbursements to Member States have been swift at favourable pricing, attaining EUR 90 billion.

In order to tackle the current economic crisis with crucial support for companies and economic recovery, the Commission proposed to enhance the InvestEU programme, which

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([1]) Article 17(1) of the Treaty on European Union

([2]) Instrument for temporary support to mitigate unemployment risks in an emergency has been designed to support corporate investment. In March 2021, the Regulation establishing the InvestEU programme entered into force. The investment mobilised by the programme will support objectives under the Sustainable Europe Investment Plan (climate target of at least 30% of the overall financial envelope and a 60% target of the investment under the Sustainable Infrastructure Window). The InvestEU Fund will also support investments for the digital transformation. In 2021, DG ECFIN set up the governance structure, including external and internal governing bodies, to ensure effective implementation of the Programme.

The European Semester for economic policy coordination, the core of the multilateral economic policy surveillance, had to be adapted in 2021 to the most urgent challenges arising from the pandemic and thus concentrated on the implementation of the RRF. The Commission neither issued non-fiscal country specific recommendations nor country reports this year, due to overlapping objectives of the RRPs. Meanwhile, DG ECFIN engaged into substantial analysis of the economic impact of the COVID-19 pandemic, and the interaction with fiscal and monetary policy responses. This was made in particular in the context of the 2021 quarterly European Economic Forecasts produced by DG ECFIN. Implementation of the Macroeconomic Imbalances Procedure continued broadly unchanged in 2021. Analysis in the 2021 Alert Mechanism Report took stock of the evolution of imbalances and concluded that In-Depth Reviews would be needed for 12 countries. The UN Sustainable Development Goals (SDGs) found reflection in the RRPs and were taken into account in the assessment. DG ECFIN continued to consider how the SDGs can best be integrated in the economic surveillance framework, notably through the European Semester.

As regards fiscal surveillance, DG ECFIN presented the results of its assessment of the economic situation and of the application of the general escape clause in a Communication on the fiscal policy response in March 2021. On that basis, DG ECFIN designed qualitative fiscal policy recommendations for 2022, when the general escape clause will remain active and assessed draft budgetary plans for euro area Member States. Furthermore, the Commission relaunched the public debate on the review of the EU's Economic Governance Framework with a Communication prepared by DG ECFIN and published on 19 October and through the organisation of a number of dedicated conferences, e.g. on medium-term budgetary frameworks.

DG ECFIN continued its work on long-term drivers of public finances. A new edition of the Debt Sustainability Monitor was published in early 2021, analysing short-, medium- and long-term challenges to fiscal sustainability, including the expected impact of the RRF on debt sustainability over the medium-term. Falling within the context of economic, fiscal and social aspects of demographic change and ageing, the second volume of the 2021 Ageing Report was published in May 2021. The economic and budgetary projections for the 27 Member States (2019-2070) fed into the updated fiscal sustainability analysis.

In addition, DG ECFIN continued to ensure the good-functioning of the Economic and Monetary Union. Besides specific surveillance of the euro area economic developments, in particular through the euro area policy recommendations, DG ECFIN continued to work with the competent national authorities of Bulgaria and Croatia to monitor and report on the implementation of their post Exchange Rate Mechanism II (ERMII) entry commitments and to help the countries prepare for the changeover to the euro. By adopting the Regulation (EU) 2021/840 establishing the Pericles IV programme on 20 May 2021, the Commission made another step towards the overall protection of the euro banknotes and coins against counterfeiting and related fraud. In September followed the Council Regulation (EU) 2021/1696, which extended the application of the 'Pericles IV' to the Member States that do not have the euro as their official currency. Furthermore, the Commission prepared a draft impact assessment on uniform rounding rules for payments that might lead to a possible EU legal initiative on 1- and 2-cent euro coins.

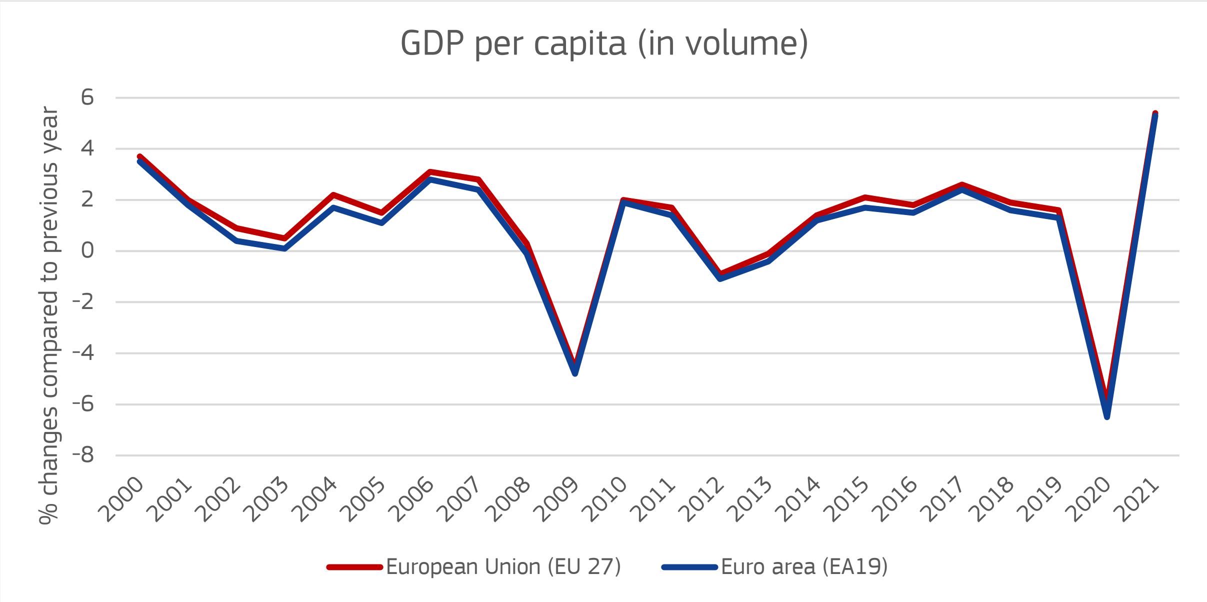
DG ECFIN played a leading role in economic policy discussion in the G20 and G7 fora, and in the IMF and other IFIs to coordinate the international policy response to the pandemic. A notable result of ECFIN’s work was the agreement at the G20 Summit in October 2021 to establish a G20 Joint Finance-Health Task Force aimed at enhancing dialogue and global cooperation on issues relating to pandemic prevention, preparedness and response while developing coordination arrangements between Finance and Health Ministries.

Economic dialogue with enlargement and neighbourhood countries took place throughout 2021. In April, the Commission adopted seven Staff Working Documents (SWD) containing the assessment of the Economic Reform Programmes for 2021-2023. These served as a basis for the Economic and Financial Dialogue of the EU with Western Balkans and Turkey in July. Moreover, DG ECFIN continued implementing ongoing Macro Financial Assistance (MFA) operations with neighbourhood countries. By the end of 2021 eight out of the ten MFA programmes have been completed (Kosovo, Montenegro, North Macedonia, Jordan, Moldova, Georgia, Ukraine and Albania). DG ECFIN has also disbursed the first tranches of assistance to Tunisia and Bosnia and Herzegovina, and continued with the implementation of Jordan MFA III.

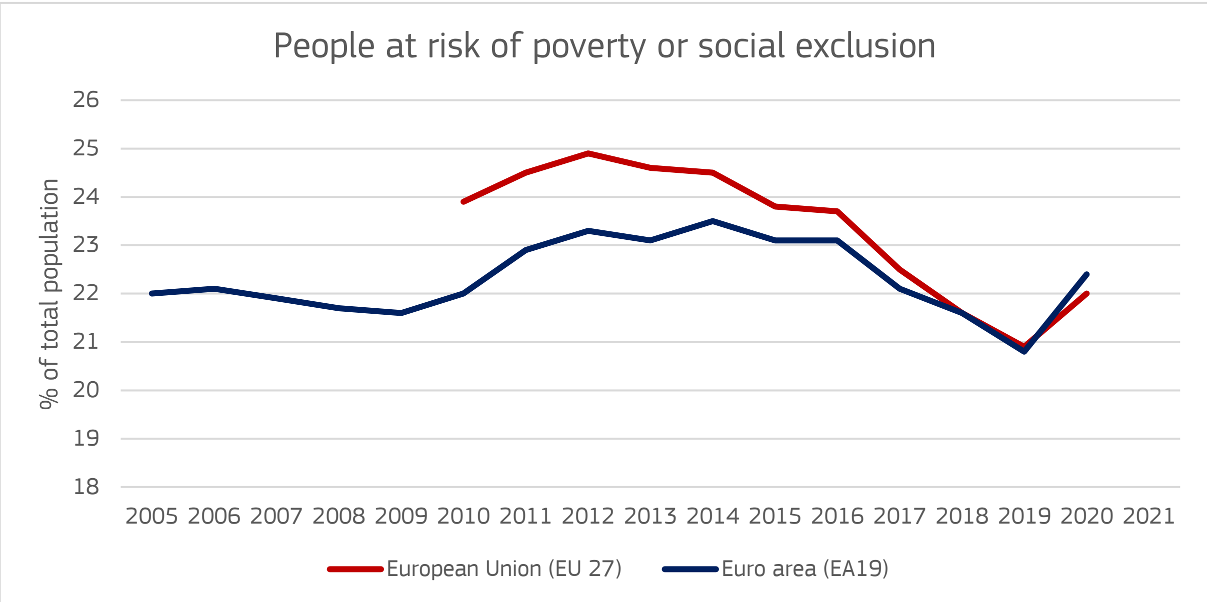
Alongside policy work, ECFIN strategically used its communication tools to explain, promote and engage with a diversity of audiences on numerous ECFIN activities. The EU response to the Covid-19 crisis was at the centre of DG ECFIN’s flagship annual event, the 2021 Brussels Economic Forum, which attracted its highest level of speakers ever. Additionally, DG ECFIN launched a broad communication campaign on the 20th anniversary of the introduction of euro banknotes and coins. On 7 October 2021, DG ECFIN organised the first inaugural EU Sustainable Investment Summit, which took stock of progress related to the Sustainable Europe Investment Plan.

## B. Key Performance Indicators (KPIs)

DG ECFIN selected the real GDP per capita growth rate and people at risk of poverty or social exclusion as its 2 key performance indicators in its Strategic Plan 2020-2024. Increasing GDP growth and reducing people at risk of poverty reflect DG ECFIN's ultimate goal: raising living standards fairly. These indicators are based on official statistics released on an annual basis by Eurostat. The graphs below give the latest known situation:




Source: Eurostat




Note: Estimates for euro area in 2020 and for the EU27. Structural break in the series in 2020.
Source: Eurostat

## C. Key conclusions on Financial management and Internal control (executive summary of section 2.1)

In line with the Commission's Internal Control Framework DG ECFIN has assessed its internal control systems during the reporting year and has concluded that it is effective and the components and principles are present and functioning as intended. Please refer to AAR section 2.1.3 for further details.

In addition, DG ECFIN has systematically examined the available control results and indicators, including those for supervising entities to which it has entrusted budget implementation tasks, as well as the observations and recommendations issued by the internal auditor and the European Court of Auditors. These elements have been assessed to determine their impact on management's assurance about the achievement of the control objectives. Please refer to Section 2.1 for further details.

In conclusion, management has reasonable assurance that, overall, suitable controls are in place and working as intended; risks are being appropriately monitored and mitigated. In 2021 DG ECFIN has set up its control strategy for the RRF (see part 3) and will continue to implement and improve it in 2022. The Director-General, in his capacity as Authorising Officer by Delegation has signed the Declaration of Assurance.

## D. Provision of information to the Commissioner

In the context of the regular meetings during the year between the DG and the Commissioner(s) on management matters, the main elements of this report and assurance declaration, have been brought to the attention of Commissioner Gentiloni, responsible for economy.

# 1. Key results and progress towards achieving the Commission's general objectives and DG's specific objectives

This section provides detailed information on the key results and progress towards the achievement of the general and specific objectives set in the 2020-2024 strategic plans and towards the achievements of the outputs set in the 2021 management plans. The section is organised according to the four general objectives of the von der Leyen Commission that are most relevant for the activities of DG ECFIN: (i) an Economy that Works for People, (ii) a European Green Deal, (iii) a Europe Fit for the Digital Age, and (iv) a Stronger Europe in the World.

The Specific Objectives and activities that DG ECFIN has pursued in 2021 contributed to the achievement of thes general objectives and policy priorities of the von der Leyen Commission, especially in the context of the COVID-19 pandemic. DG ECFIN's activities helped address the negative economic and social consequences of the COVID-19 outbreak. Programmes managed by DG ECFIN -and in particular the SURE, the RRF and Macro-Financial Assistance programmes- strongly supported the EU's recovery and helped kickstart reforms and investments towards an inclusive green and digital economic transformation. The roll-out of these programmes bring strong European added value. Performance tables covering progress towards all objectives set in DG ECFIN's Strategic Plan for 2020-2024 and the outputs identified in the Management Plan for 2021 are presented in Annex 2.

## An economy that works for people

Delivering on an economy that works for people is the primary objective for DG ECFIN over the years 2020-2024. It does this through surveillance, analysis, coordination, legislative actions and through the provision of EU financing to governments that will provide them with the ability to support their economies and enact growth-enhancing investments and reforms to support resilience and recovery.

In the context of the pandemic, this general objective was primarily pursued through the implementation of the RRF and SURE. Indeed, the implementation of the RRF was the central economic policy challenge for ECFIN in 2021, starting with the assessment of national Recovery and Resilience Plans (RRPs) across Member States. This work was conducted in close cooperation with the Commission's Recovery and Resilience Task Force in SG (RECOVER). DG ECFIN also continued monitoring economic developments to assess medium-term challenges in the context of the European Semester, in order to support inclusive green and digital economic transformation in the post-COVID-19 recovery. Furthermore, the DG continued its work on the review of the economic and fiscal framework and it contributed to a deeper and more resilient EMU. DG ECFIN also ensured deeper coordination with the European Investment Bank (EIB) and the European Investment Fund (EIF), the European Bank for Reconstruction and Development (EBRD) and other European financial institutions in the implementation of EU policies through the institutions' governing bodies and other means of cooperation to promote coherence among IFIs in pursuing sustainable development and other EU policies.

## Specific objective 1: Support the Member States' economies to become more economically and socially resilient and minimise the lasting impact of the COVID-19 pandemic on the EU, including by delivering up to €672.5bn in grants and loans under the Recovery and Resilience Facility

### *Implementing the instrument for temporary Support to mitigate Unemployment Risks in an Emergency (SURE)*

The SURE instrument was put in place in May 2020 ([3]) by DG ECFIN in liaison with DG BUDG and DG EMPL to provide up to EUR 100 billion in loans to EU Member States to finance short-time work schemes and similar measures. By the end of 2021, **over 94% of the total envelope was allocated to 19 Member States**, including top-ups to six Member States already benefitting from SURE. Disbursements to Member States have been swift at favourable pricing, attaining EUR 90 billion.

Every 6 months the Commission is required to release a report addressed to the European Parliament, the Council, the Economic and Financial Committee and Employment Committee on the use of the SURE financial assistance and the continuation of the exceptional occurrence. The **Commission adopted the first bi-annual reports**, prepared by DG ECFIN with the support of DG BUDG and DG EMPL, on 22 March and on 22 September 2021.

### *Delivering and implementing a Recovery and Resilience Facility (RRF)*

The RRF regulation was negotiated with the Council and the Parliament and was adopted **on 18 February 2021**. The RRF will provide up to **€723.8 billion (in current prices) in loans (€385.8 billion) and grants (€338 billion)** to support Member States' economic and social recovery over the coming years. The scale of the support makes it critically important to have safeguards in place that protect the EU's financial interests ([4]). Given the scale of this new instrument and the set up of a specific audit and control framework to ensure the protection of the financial interest of the Union, a separate section is dedicated to the description of the instrument and of the related control environment (section 3).

For the first half of 2021, DG ECFIN led, together with RECOVER, the dialogue with Member States towards the finalisation of the national Recovery and Resilience Plans (RRPs). DG ECFIN staff worked as part of dedicated negotiation teams for each Member State. Horizontal units and dedicated teams (notably on costing) supported the negotiation teams to ensure consistency across RRPs.

The negotiation teams also took charge of the assessment of the plans, once officially submitted, and they prepared the proposals for Council implementing decisions (CIDs) and

([3]) Council regulation (EU) 2020/672 of 19 May 2020 on the Establishement of a European instrument for temporary support to mitigate unemployment risks in an Emergency (SURE) following the COVID-19 outbreak.

([4]) The implications for DG ECFIN are discussed in Part 2 of the present document.

the accompanying **staff working documents**. Once the CIDs were adopted and financial and loan agreements were signed, negotiation teams focussed on setting up the necessary framework for the implementation of the plans, **negotiating detailed operational arrangements** allowing for the preparation for payments and reporting.

By end-2021, the Commission had officially received **26 RRPs, of which 22 were fully assessed and 4 were still being assessed**. One national RRP was still pending to be officially submitted. In 2021, EUR 54.3 billion of grant and loan pre-financing was disbursed to 20 Member States and EUR 10 billion in regular instalment upon the achievement of milestones and targets.

The **delegated acts on the scoreboard and the common indicators as well as the one on the social expenditure methodology** have been adopted by the Commission **in September 2021 and entered into force on 2 December**. The Recovery and Resilience Scoreboard was launched officially on 15 December 2021, as required by the RRF Regulation.

In addition to wrapping up the legislative work and helping Member States to develop and finalise their national RRPs, DG ECFIN continued to prepare and ensure the adequate implementation of this facility in joint leadership with RECOVER. In coordination with RECOVER, ECFIN designed and developped a new dedicated IT reporting infrastructure called FENIX, shared between the Commission and Member States. With support from RECOVER, DG ECFIN also provided regular updates on the RRF financing needs, a key-enabler for the Commission's borrowing operations.

### *Monitoring Balance of Payment needs and working with the ESM on the Pandemic Crisis Support*

DG ECFIN continued to monitor Balance of Payment developments in Member States. In liaison with the ECB, DG ECFIN stands ready to work closely with the ESM and to support any use of the **Pandemic Crisis Support instrument**, should a Member State request it.

### *External communication*

On the basis of its multiannual communication strategy 2019-2024, DG ECFIN used a broad range of external communication tools to explain, promote and engage with a diversity of audiences on the EU response to the COVID-19 crisis, in particular SURE and the RRF but also InvestEU and the economic governance review.

In close partnership with SG-Recover, DG ECFIN communicated extensively on the RRF. It used press releases, webpages, infographics, factsheets, videos and social media posts, as well as a number of events and seminars to communicate on the different steps leading to the endorsement of the national recovery and resilience plans and to the subsequent first disbursements of funds. It set up the recovery and resilience scoreboard, a dynamic web tool giving an overview on the progress in the implementation of the RRF. It also regularly liaised with communicators in the Member States through the DG REGIO-managed INFORM

EU network that ECFIN joined in 2021. This allowed in particular to raise Member States awareness on their RRF-related visibility obligations.

The EU response to the crisis was also at the centre of ECFIN flagship events, in particular the Brussels Economic Forum, which attracted its highest level of speakers ever, and the first edition of the EU Sustainable Investment Summit, which also gathered a large online audience. Communication activities helped develop the visibility of the Annual Research Conference. The RRF and the economic governance review were at the centre of seven stakeholders outreach webinars for trade unions, financial institutions, SMEs, think tanks, civil society organisations, economy and finance ministries and the staff of the European Parliament. DG ECFIN also supported Commission Representations in organising economic events in the Member States.

DG ECFIN regularly reviewed and updated its web presence, improving for instance its presentation of the macroeconomic forecasts. It continued its cooperation with Euronews, which led to the broadcast of eight broad public "Real Economy" episodes on SURE, the RRF, the digital dimension of the RRF, debt issuance for the recovery, InvestEU, macro-financial assistance in Moldova, the Brussels Economic Forum, and the EU economic outlook. Finally, it supported the visibility of its internal analytical work through the publication of 60 academic titles, promoting them online and through social media visuals, email alerts and e-newsletter references.

## Specific objective 2: Integrate the Sustainable Developments Goals (SDGs) into the European Semester, supporting inclusive, green and digital economic transformations in the post- COVID-19 recovery

### *Adapt the European Semester processes, tools and outputs to respond to the needs of the RRF, and to integrate the new economic narrative and the UN Sustainable Development Goals*

The European Semester 2021 was adapted to reflect the implementation of the RRF. In particular, contrary to the usual practice, the Commission did not issue non-fiscal country-specific recommendations in Spring 2021. The Commission also did not issue the usual country reports as the objectives of these are mostly overlapping with the staff working documents prepared in the context of the assessment of the RRPs. The objectives of the RRF are fully consistent with those of the UN Sustainable Development Goals (SDGs). In particular, the analytical documents assessing the substance of the RRPs included an assessment of the implications of the plans for social developments and equality and a box outlining the performance of the respective MS with the implementation of the SDGs, indicating possible areas where investments and reforms in line with the objectives of the Facility could further accelerate the progress on the SDGs.

In parallel, the reflection continued on how to best integrate the SDGs into the forthcoming economic surveillance framework going forward, and in particular through the European Semester. ECFIN also continued working on the indicator-based framework to monitor and steer the transition to a climate-neutral and resource-efficient economy.

### *Strengthen the analytical framework for macroeconomic policies to build resilience & deliver a policy mix appropriate for the economic environment*

In order to better understand the impact of the COVID-19 pandemic on the economies and to help identify policy priorities going forward, DG ECFIN produced a range of **analyses on the COVID-19 impact and on the policy responses**, the interaction between public health issues and the economy, the implications of increasing government debt and financing needs and low interest rates for the conduct of monetary and fiscal policy, analysis of the interactions between monetary policy and fiscal policy, including taxation.

Besides, DG ECFIN worked at gradually incorporating climate change risks in the debt sustainability analysis framework and exploring the scope for development and coordination of national budgetary disaster risks management frameworks and policies.

### *External Communication*

DG ECFIN used the communication tools mentioned under specific objective 1 to explain, promote and engage with a diversity of audiences on the RRF and how it can accelerate the green and digital transitions in Europe, while making the EU more inclusive.

## Specific objective 3: Review and implement the economic and fiscal surveillance framework, to deliver conditions for sustainable economic growth

### *Design an improved economic governance framework*

A communication on an Economic Governance Review – looking at the extent to which the different surveillance elements, as introduced or amended by the six-pack and two-pack, have been effective in achieving their key objectives – was published on 5 February 2020. Its aim was to provide background work to launch an open debate. However, the follow-up to the Review was put on hold in view of the need to focus on the challenges of the COVID-19 pandemic. The President announced in the State of the Union that the consultation would resume in autumn 2021. On 19 October 2021, a Commission communication prepared by DG ECFIN assessed the implications of the changed circumstances for economic governance following the COVID-19 crisis and relaunched the public debate on the review of the framework. The public consultation ended on 31 December 2021. In parallel to this process, DG ECFIN continued to support discussions in the Council's committees and organised several conferences on topics covered by the review to reach out to stakeholders. In particular DG ECFIN held conferences on the future of the EU fiscal governance framework (12 November), medium-term budgetary frameworks (2 December), on a stronger policy mix for the euro area (3 December), on taking stock of the experience with the Macroeconomic Imbalance Procedure (8 December), and the role of independent fiscal institutions (9 December).

### *Forecast and monitor fiscal and macroeconomic developments and risks: implementation of surveillance*

**The four European Economic Forecasts produced by ECFIN staff over the course of the year lay the basis for an effective macroeconomic and fiscal surveillance.** They help support fiscal and macroeconomic stability in the euro area and the EU. The 2021 forecasts - produced in winter, spring, summer and autumn – also analysed and projected the economic impact of the Covid-19 crisis, both globally and in the EU. The regular (monthly) production and analysis of the European Commission Business and Consumer surveys was instrumental to this purpose, in that it allowed to take the pulse of businesses and consumers in the face of the unprecedented challenges posed by the health crisis and thus forecast the course of the economy in the short term.

**In 2021, DG ECFIN continued to implement the surveillance framework in line with the prevailing economic conditions**. Early-2021, DG ECFIN took stock of the economic situation and of the application of the general escape clause. It presented the result of its assessment in a Communication on the fiscal policy response in the year following the COVID-19 outbreak, adopted in March 2021. In accordance with the Stability and Growth Pact, DG ECFIN issued on 2 June an omnibus report, prepared under Article 126(3) TFEU, for 26 Member States to analyse their compliance with the deficit and debt criteria of the Treaty as well as legal documents and communications linked to the on-going Excessive Deficit Procedure in Romania. DG ECFIN designed qualitative fiscal policy recommendations for 2022, when the general escape clause will remain active, based on an analysis of the Stability and Convergence Programmes of Member States. The recommendations took into account that Member States should avoid withdrawing fiscal support abruptly and the importance of credible medium-term fiscal strategies, particularly for highly-indebted Member States. In November 2021, the Commission released its assessment of the 2022 draft budgetary plans of euro area Member States – and in particular at the consistency with the Council Recommendation of 18 June 2021- and of the overall budgetary situation in the euro area, including the aggregate fiscal stance. Due to the special circumstances, the Vade Mecum on the Stability and Growth Pact was not updated in 2021. For each of the countries under post-programme surveillance (Ireland, Spain, Cyprus and Portugal), (virtual) missions were held and reports published in spring and autumn. For Greece, in the context of enhanced surveillance, quarterly missions and reports were prepared.

**As part of EU regular fiscal surveillance, DG ECFIN produced its annual assessment of fiscal sustainability challenges in EU Member States**. A new edition of the Debt Sustainability Monitor was published in the first quarter of 2021, analysing risks to fiscal sustainability using a multi-dimensional approach covering short-, medium- and long-term fiscal sustainability challenges, in a comprehensive manner. It discussed the expected impact of the RRF on debt sustainability over the medium term. An update of this analysis was prepared in the second quarter 2021, including the 2021 spring forecast and the ageing cost projections from the 2021 Ageing Report.

**DG ECFIN continued to monitor macro stability risks from macroeconomic imbalances under the Macroeconomic Imbalance Procedure (MIP)**. While the European semester has been streamlined and adapted to the work with the RRFs, the monitoring under the MIP continued broadly unchanged. In line with the conclusions of the Alert Mechanism Report of 18 November 2020, In-Depth Reviews were prepared for 12 countries, of which 9 countries were identified with imbalances and 3 with excessive imbalances. The 2020 classification of the existence of imbalances was maintained in 2021. The assessment and analysis was discussed in Council's preparatory Committees. The annual Alert Mechanism Report was published in November 2021. It took stock of the evolution of imbalances, and concluded that In-Depth Reviews would be needed in spring 2022 for the countries that had been identified with imbalances or excessive imbalances in June.

A number of additional outputs have been prepared by DG ECFIN to ensure an effective economic and fiscal surveillance and support fiscal and macroeconomic stability in the euro area and the EU. These include regular economic forecasts for the EU and national economies published throughout the year and other documents in the form of monitoring, technical and methodological notes to the ECOFIN and its Committees (i.e. EFC, EWG, EPC and their working groups).

### *Strengthen national fiscal frameworks and public finance management*

Following the entry into force of the **Directive on budgetary frameworks, Two-pack and the Fiscal Compact**, the monitoring of national arrangements for the conduct of fiscal policies has become part of rule-based fiscal governance in the EU. In 2021, specific outputs have included (i) the finalisation of the compliance assessment for the Directive on national budgetary frameworks by completing all conform transposition related EU Pilots in view of the ECA recommendation; (ii) developing a structured methodology focusing on the operational performance of key elements of national fiscal frameworks; and (iii) updating the Fiscal Governance database. Cooperation with independent fiscal institutions (IFIs) is also being further developed, through workshops and a virtual collaborative workspace. In cooperation with DG REFORM, DG ECFIN is developing a **benchmarking framework to assess the quality of national public administrations**. The framework keeps being discussed at the LIME committee.

**In the context of the adaptation strategy inter-DG work, DG ECFIN is working on promoting disaster and climate risk management** to close the climate protection gap and build resilience. This includes working at gradually incorporating climate change risks in the debt sustainability analysis framework and exploring the scope for coordination of national budgetary disaster risks management frameworks and policies.

### *Deepen analysis of economic, fiscal and social aspects of demographic change and ageing, explore and promote adoption of green budgeting*

**The 2nd volume of the 2021 Ageing Report: economic and budgetary projections for the 27 EU Member States (2019-2070) was published** in May 2021, and accompanying Council Conclusions in June 2021. These projections fed into the updated fiscal sustainability analysis, with ageing costs accounted for in the medium- and long-term assessment. The results of the 2021 Ageing Report were disseminated by DG ECFIN through the participation in a series of online seminars. DG ECFIN was also involved in the preparation of the Commission's Green Paper on Ageing.

**In 2021, DG ECFIN has continued to promote the adoption of green budgeting practices across Member States**, in line with the Commission's Green Deal mandate. A greater use of green budgeting tools can help to redirect public policies to green priorities and away from harmful subsidies. This has been done by supporting and steering exchanges of experience among Member States on the use of green budgeting (e.g. at the EFC-A,) and providing analytical support and guidance, including via gathering evidence through a survey. In particular, DG ECFIN has developed jointly with the Member States a green budgeting reference framework which is intended to better guide Member States when embarking in these practices. Also, a green budgeting conference has been organised and technical support to Member States has been provided with DG REFORM. Given the surging needs for green public finance, DG ECFIN continues to cooperate with Eurostat in the reflection and work surrounding the developments of these indicators. Finally, DG ECFIN presented a green budgeting study conducted jointly with the IMF and OECD at COP26.

#### *Other*

DG ECFIN investigates the medium- to long-run productivity consequences of the Covid-19 pandemic, exploring the various channels through which labour and total factor productivity will possibly be affected. In addition, DG ECFIN continues to analyse the impact of population ageing on productivity growth, for example through the human capital formation channel.

DG ECFIN has also started to examine ways to strengthen the public financial management of public investment. To this end, it has conducted some analytical work and steered discussions with the Member States to identify and then promote best practice in the conduct and implementation of public investment, including in the context of the RRF.

#### *External communication*

DG ECFIN used the communication tools mentioned under specific objective 1 to explain, promote and engage with a diversity of audiences on the relaunch of the economic governance review, hosting on its website the public consultation on the review.

### Specific objective 4: A deeper and more resilient EMU in both the economic and financial dimensions

The pandemic underlined the importance of a stable architecture of the economic and monetary union (EMU), including a well-functioning financial union. The EU crisis-response instruments proposed by the Commission outlined under specific objectives 5 and 1, supported Member States' economies throughout the economic crisis. To complement this effort, in a medium- to long-term perspective, it is necessary to make further progress in the deepening of EMU. Three files relative to the future of EMU are particularly critical: the Banking Union, the Capital Markets Union and the international role of the euro.

### *Contribute to overall EMU deepening, focusing on aspects of financial union which are relevant for economic, monetary and fiscal policy*

**In 2021, DG ECFIN continued with the analysis of the interaction between sovereign bond markets and the broader economy**, including as regards issues related to the sovereign-bank nexus. This is particularly relevant in the context of increased public debt levels resulting from Member States' crisis response. It is also of specific importance in view of common EU issuance under Next Generation EU and SURE. DG ECFIN also continued the work to deepen the understanding that the increased bond issuance – both by Member States and under the new EU instruments – has on capital markets, and, in turn what that means for the landscape within which EMU operates.

Together with our counterparts in DG FISMA and DG CNECT, **DG ECFIN also engaged in joint technical work with the ECB to understand the benefits and challenges of a Digital Euro** (central bank digital currency) and identify the most relevant technical designs. In particular, DG ECFIN is providing support for the definition of the necessary legal framework, considering its potential legal tender status, and to analyse the effects that a digital euro may have on economic developments, financial stability and the monetary policy transmission mechanism.

Finally, with the objective of aligning public spending towards green priorities that could sustain the transition, DG ECFIN continues to support DG FISMA in its reflection of application of the EU Green Bond Standard to sovereigns.

### *Protecting the euro against counterfeiting and managing euro cash policy and legislation*

The overall protection of the euro banknotes and coins against counterfeiting and related fraud is achieved through specific legislative measures, training actions financed by the Pericles programmes, technical assistance provided by the European Technical Scientific 11 Centre (ETSC) and coordination among relevant stakeholders within the established cooperation fora with the Member States, the ECB and Europol.

**Regulation (EU) 2021/840 establishing the Pericles IV programme was adopted on 20 May 2021**. Council Regulation (EU) 2021/1696 extending the application of 'Pericles IV' to the Member States that do not have the euro as their official currency was adopted on 21 September 2021.

**The Commission continued to monitor the authentication of euro coins and handling of euro coins unfit for circulation**.

Based on the report to the European Parliament and to the Council (COM (2019) 311 final), the Commission prepared infringement procedures to be launched in the event that the

College decides that Member States have not taken the necessary measures to comply with the Directive 2014/62/EU of the euro and other currencies against counterfeiting by criminal law.

The Commission prepared a draft impact assessment on uniform rounding rules for cash payments that might lead to a possible EU legal initiative on 1- and 2-cent euro coins. The draft received a positive opinion with reservations by the Regulatory Scrutiny Board .

**The Commission reconvened the euro legal tender expert group (ELTEG III)** in close coordination with the ECB. The group met on 28 April and 30 September 2021. Within ELTEG III, the Commission discusses the acceptance and availability issues of cash with the ECB, national central banks and treasuries in view of the recent developments, including the progress towards a digital euro. ELTEG III can provide legal expertise to the Commission and contribute to the assessment of a possible EU legislative initiative on euro legal tender.

The Commission continued to monitor the implementation of the Monetary Agreements with Andorra, San Marino, Monaco and The Vatican. The four Joint Committees met in autumn to prepare the annual updating exercise of the annexes to the Agreements, which contain the list of EU legal acts and rules to be implemented from the four countries.

### *Monitor and provide guidance for economic policy coordination in the euro area*

DG ECFIN conducted analytical work to identify economic challenges and policy priorities for the euro area. These analysis provided the basis for which were the basis for the draft recommendations on the economic policy of the euro area (EARs) and the related Staff Working Document (SWD), which were released on 24 November 2021 as part of the Autumn package on economic policy coordination .

In the framework of the **Eurogroup thematic discussions** DG ECFIN contributed analysis and steering notes to foster exchanges on relevant issues notably for what concerns challenges for policy in the post-COVID-19 environment (including on sectoral impact of the COVID-19 crisis, and implications for corporate vulnerability).

### *Promote Exchange Rate Mechanism (ERM) II participation and expand euro area membership if possible*

DG ECFIN continued to monitor and support the economic convergence progress of Bulgaria and Croatia as well as of the other EU Member States that have not adopted the euro within the appropriate frameworks.

**In the case of Bulgaria and Croatia, DG ECFIN is working with the competent national authorities, to monitor and report on the implementation of their post-ERM II entry commitments**. Indeed, when joining the Exchange Rate Mechanism II (ERMII) 12 in July 2020, Bulgaria and Croatia both committed to implement a number of specific policy measures in reform areas of high relevance for achieving a high degree of sustainable economic convergence. DG ECFIN presented its assessment of the progress with post-entry commitments for Bulgaria and Croatia to the EWG and EG in June. The assessment was based on report submitted by the national authorities.

**For Croatia**, the Member States of the euro-area and the Commission signed a memorandum of understanding on the start of euro coin production and on the preparatory tasks prior to the start of production. Croatia can mint up to 1 m coins per denomination (1c to 2E coin) for testing purposes. Croatia submitted a first set of national euro coin designs but withdrew its request for approval by the Council following reactions from some Member States. Croatia will revise the designs and re-submit them. The Commission also signed a Partnership Agreement with Croatia regarding the communication campaign on Croatia's euro changeover.

The **Partnership Agreement** (PA) is a political commitment from the Commission to support the organisation of an information and communication campaign on the changeover to the euro in Croatia planned on 1 January 2023, provided that the country fulfils all the convergence criteria. This PA is the basis for the preparation and signature of a Grant Agreement (GA), which will allow the Commission to co-finance communication activities on the euro changeover in Croatia.

### *External communication*

DG ECFIN used the communication tools mentioned under specific objective 1 to launch, in cooperation with other institutions, in particular the ECB and the Council, a broad communication campaign on the 20th anniversary of the introduction of euro banknotes and coins. It also prepared, together with Croatia, the public communication campaign on the future euro changeover in this country, leading to the signature of a Partnership Agreement between the European Commission and Croatia on 6 December 2021. The work of promoting the euro in the EU and in Croatia benefited from the results of two Eurobarometer surveys, respectively on the 'introduction of Euro in Member States that have not yet adopted the common currency' and on 'views and attitudes related to the Euro in 19 Euro-area countries'.

## A European Green Deal

By establishing the European Green Deal as the EU growth strategy, the President of the Commission has put the green transition at the core of the policy agenda of the Commission. Accordingly, the various policy instruments of DG ECFIN, and in particular the RRF, contribute to the green transition (see Specific objective 1). Analytical work done by DG ECFIN in the context of the EU Semester (see Specific objective 2) and international fora also addresses, among others, the need to foster the green transition. Important streams of work in that respect include the work on green budgeting (see Specific objective 3) and work with DG FISMA on the application of the EU Green Bond Standards to sovereigns.

However a number of deliverable of DG ECFIN seek to specifically contribute to the Green Deal. This include mainly mobilising around €300 billion of investment funding to finance the green and digital transitions of the EU economy, in particular through InvestEU.

## Specific objective 5: Mobilise around €300 billion of investment funding to finance the green and digital transitions of the EU economy

### *A Sustainable Europe Investment Plan*

On 14 January 2020, the Commission adopted the Communication on the "Sustainable Europe Investment Plan" (SEIP), the investment pillar of the European Green Deal. The Investment Plan sets the EU strategy to mobilise at least 1 trillion euros of sustainable investments until 2030 with the help of funding under the EU budget as well as private investment, fostered through EU budget instruments. In this respect, the InvestEU Programme, including its advisory support dimension, is a key action to mobilise finance for private investments. Other initiatives include the enabling frameworks such as the EU Taxonomy on environmentally sustainable economic activities, the broader Renewed Sustainable Finance Strategy as well as the revision of State Aid rules to support sustainable investments.

In light of substantial progress made on various initiatives included in the Sustainable Europe Investment Plan, **DG ECFIN organised the inaugural EU Sustainable Investment Summit, as announced in the SEIP, on 7 October 2021**. The EU Summit gathered high-level European and international speakers representing EU and international organisations, companies and civil society, centred around four session on sustainable investments and finance. The Summit, with participation of the President and a number of Commissioners, allowed taking stock of progress across the different work streams included in the Sustainable Europe Investment Plan and to foster cooperation between the EU and its international partners, in order to promote sustainable development globally. The EU Summit also helped prepare the EU's position for the COP 26 summit in Glasgow in November 2021.

In parallel, DG ECFIN engaged with the EIB Group and other International and National Financial Institutions with the aim of supporting projects activities closely associated with the European Green Deal objectives. As a result, the President has announced a pioneering partnership between the European Commission and Breakthrough Energy Catalyst at COP 26, to support and fund commercial-stage demonstration projects for critical decarbonisation technologies under InvestEU.

### *Delivering and implementing the InvestEU Programme*

**The Regulation establishing the InvestEU Programme entered into force in March 2021**. InvestEU has an ambitious climate target of at least 30% of the overall financial envelope and a 60% target of the investment under the Sustainable Infrastructure Window to contribute to EU objectives on climate and environment. Still, the investment mobilised by the InvestEU Programme will support not only the objectives under the Green Deal Investment Plan but also a wide range of other priorities like research and innovation, the digitisation of the society, SMEs, social enterprises, skills and infrastructure.

**Following the adoption of the InvestEU Regulation, DG ECFIN developed a set of guidance documents to facilitate the implementation of the InvestEU Programme.**

These included, namely, the Investment Guidelines, the guidance on sustainability proofing, the climate and environment tracking methodology and the scoreboard of indicators to assess eligibility of the financing and investment operations proposed by implementing partners under the InvestEU guarantee.

DG ECFIN has set in place the governance of the InvestEU Programme, in particular the two external governing bodies (i.e. Advisory Board and Steering Board), which include representatives from the EIB Group and other potential implementing partners along with Commission and Members states' representatives. Both governing bodies are convening on regular basis. The Steering Board provides strategic and operational guidance for the implementing partners and oversees the implementation of the Programme. In 2021 the relevant rules required for the Investment Committee set up as well the Risk methodological framework were adopted. The twelve members of the Investment Committee were appointed by the Commission after recommendation from the Steering Board. The Investment Committee met for the first time in November 2021, electing its chair and adopting its rules of procedure.

Finally, an internal governing body has been established - the InvestEU Governing Group - and another one – the InvestEU Working Group - has continued to ensure the close cooperation among all DGs involved in the Programme that characterizes InvestEU.

**In 2021, DG ECFIN initiated the work to operationalise cooperation with its implementing and advisory partners**. DG ECFIN negotiated a Guarantee Agreement and an Advisory Agreement with the EIB Group, with a strong emphasis given to the European Green Deal and Digital Age priorities.

DG ECFIN also launched the first Call for Expression of Interest to select the implementing and advisory partners than the EIB Group, namely national promotional banks and international financial institutions. The applications to the Call, with two deadlines for applications (30 June 2021 and 1 October 2021), have been fully evaluated. For the InvestEU Fund supported by the EU Guarantee, 18 potential implementing partners have been selected, to negotiate a Guarantee Agreement in 2022.

Furthermore, DG ECFIN coordinated work with other DGs on the possibility to provide additional budget resources from EU programmes to InvestEU ('blending') and prepared the use of the InvestEU Member State Compartment by Romania which intends to provide resources received from the RRF for the purpose of risk-sharing under InvestEU.

For the InvestEU Advisory Hub, the Commission opened negotiations with 5 potential Advisory Partners selected through the Call after the first submission deadline, and the evaluation of another application submitted by the second application deadline is finalised.

### *Strengthening resilience and productivity by promoting national structural reforms*

Throughout 2021 ECFIN has continued supporting the establishment and functioning of the National Productivity Boards, primarily by facilitating their joint network. Meetings were organised with the network of the Boards, which allowed exchange of experiences and best practices, discussions on relevant topics and stimulated joint analytical work, which also considers the euro area dimension. ECFIN has also taken initiatives to strengthen analytical capacities available to the Boards, including by means of technical assistance. Over time, the objectives of ECFIN activities are being achieved. An increasing number of Member States is establishing Productivity Boards, and the existing Boards are becoming more active and more influential in the public debate, as for instance by the role they played in 2021 in analysing issues linked to the impact of COVID-19 and policies to support economic activity.

ECFIN has continued building analytical frameworks to assess reform needs and monitor implementation of reforms. Benchmarking indicators have been developed inter-alia in the areas of taxation, public administration, and the business environment. Performance and policy gaps are assessed in macro-structural areas, including productivity. ECFIN has played a relevant role in fostering analysis in partner organisations including the OECD to strengthen the analytical basis to assess the need for structural reforms. To promote the implementation of structural reforms, thematic discussions in relevant committees (EPC, EPC-EA, EWG and EG) have been carried out, focusing among others on the sectoral impact of the Covid-19 crisis and on corporate vulnerability and post COVID-19 challenges for structural policies.

### *Economic service function*

The economic service function has been exercised in the form of participation in Interservice Consultations and other formal and informal exchanges with Commission services on specific topics where ECFIN's economic expertise is requested. ECFIN has organised seminars and workshops that were attended widely by experts across the Commission.

ECFIN has also been running an informal network of the Commission's chief economists, with regular meetings on topical issues.

### *External communication*

DG ECFIN used the communication tools mentioned under specific objective 1 to explain, promote and engage with a diversity of audiences on InvestEU. In particular, it launched the first version of the new InvestEU website in all EU languages to inform on the rollout and further progress of the InvestEU programme. It also conducted a stakeholder outreach campaign to raise awareness of InvestEU. DG ECFIN also organised the first inaugural EU Sustainable Investment Summit that gathered high-level European and international speakers. The virtual high-level summit took stock of progress with the implementation of the Sustainable Europe Investment Plan and fostered international cooperation.

## A Europe fit for the digital age

The digital transformation of our economy and our society more widely brings many opportunities, it also brings many challenges on both an economic and a social level. DG ECFIN contributes to the Commission's digitalisation agenda, through its support for tangible and intangible investment, and by prioritising the need for Europe to develop, invest in and use cutting edge technologies.

Investment and reforms to promote digitalisation are central to several of the instruments that have been implemented by DG ECFIN in 2021. As part of the RRF, Member States had to ensure that 20% of the allocation they received is used for digital expenditures (see Specific Objective 1). InvestEU also supports investments in the digital transformation, under the Research, Innovation and Digitisation Window. Furthermore, the work on the integration of the SDGs in the European Semester includes an objective to increase digitalisation (See Specific Objective 2).

### Specific objective 5: Mobilise around €300 billion of investment funding to finance the green and digital transitions of the EU economy

The InvestEU Programme is a central element of the Sustainable Europe Investment Plan, but covers also other policy priorities, notably the digital transformation. It will allow public and private investors to take part in this green and digital transformation by providing an EU budgetary guarantee that will de-risk investments performed by its implementing partners, together their networks of private and public financiers.

Apart from supporting the green transformation, which is a cross-cutting priority to be addressed throughout all InvestEU policy windows, the InvestEU Fund will also support investments for the digital transformation. Although there is no dedicated quantitative investment target in the digital transformation under InvestEU, it encompasses a dedicated policy window that focusses on research, innovation and digitisation investments (RIDW).

In order to help create a competitive digital single market, the InvestEU Fund can support finance to a wide range of digital investments, such as digital connectivity infrastructure, the deployment of high-capacity digital networks and the support of the digital transformation of the Union's enterprises, including SMEs.

DG ECFIN is currently negotiating various financial products and advisory initiatives that will be included in Guarantee and Advisory Agreements with selected InvestEU implementing and advisory partners. Such financial products may particularly address investments in digital technologies and the digital transformation.

#### *External communication*

DG ECFIN used the communication tools mentioned under specific objectives 1 and 5 to explain, promote and engage with a diversity of audiences on InvestEU. Communication also emphasised the interrelatedness with and importance of the RRF requirements for green and digital investments to be included in the national Recoveryand Resilience Plans .

## A stronger Europe in the world

DG ECFIN continues to contribute to the geopolitical agenda of the Commission, through its conduct of economic policy and through its interactions with global partners. To support enlargement and neighbourhood countries and help them weather the deep impact of COVID-19 pandemic DG ECFIN rolled out Macro Financial Assistance programmes. The EU acted as a global leader in international and multilateral organisations – and in particular in the G7, G20 and IMF to advance international cooperation.

### Specific objective 6: Strengthen Europe's role as a global player on economic issues and increase the international role of the euro

#### *Support for neighbourhood countries and enlargement partners*

**During 2021, DG ECFIN continued with the implementation of ongoing Macro Financial Assistance (MFA) operations**. These include disbursement of the remaining instalments of the €3 billion emergency MFA package for ten enlargement and neighbourhood partners ([5]). By the end of 2021, 8 out of the 10 MFA programmes have been completed (Kosovo, Montenegro, North Macedonia, Jordan, Moldova, Georgia ([6]), Ukraine and Albania). DG ECFIN has also disbursed the first tranches of assistance to Tunisia and Bosnia and Herzegovina. For these partners, DG ECFIN is now in the process of assessing that the agreed policy reforms are being carried out ahead of the second instalments. Besides the new 'COVID-19' MFAs, DG ECFIN continued with the implementation of Jordan MFA III which was adopted by the EU on 15 January 2020. The third tranche will be disbursed, possibly in 2022, once conditions are met.

**DG ECFIN continues working to ensure the proper use of MFA funds by i.a. carrying out evaluations of the programmes**. The evaluation on Ukraine (MFA III) was published in April 2021. The evaluation on Tunisia (MFA II) and Jordan (MFA II) was launched in the beginning of 2021, and the final report was delivered in September 2021. The evaluations focus on assessing ex-post the contribution of MFA to structural reform and the macroeconomic performance of the recipient country, thereby complementing the MFA implementation reports prepared by DG ECFIN.

**Furthermore, DG ECFIN concluded the work on a metaevaluation of the MFA operations implemented during the 2010-2020 period**. The study, launched in late-2020, assessed the principles and characteristics governing the MFA instrument aiming to provide input on how to improve the instruments' relevance, effectiveness, efficiency, value added and its ability to respond to the priorities of EU external action as well as the day-to-

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([5]) The Republic of Albania, Bosnia and Herzegovina, Georgia, the Hashemite Kingdom of Jordan, Kosovo, the Republic of Moldova, Montenegro, the Republic of North Macedonia, the Republic of Tunisia and Ukraine

([6]) Partially disbursed.

day management of MFA interventions. The final report from the consultants was delivered in September 2021.

**Besides the financial support through MFA, DG ECFIN conducted in-depth policy dialogue and analytical work to provide policy guidance for the recovery in enlargement and neighbourhood countries**. In particular, ECFIN was (together with NEAR and EMPL) in the lead to produce the SWDs containing the assessment of the Economic Reform Programmes for 2021-23 submitted at the end of January by Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia, Serbia and Turkey. The SWDs were adopted on 21 April and served as a basis for the Economic and Financial Dialogue of the EU with the Western Balkans and Turkey, held on 12 July. High-level participants of this dialogue adopted joint conclusions including country-specific policy guidance to steer the economic recovery and address long-standing structural weaknesses. DG ECFIN also conducted economic dialogues with a number of partners in the enlargement and neighbourhood. These include dialogues with Kosovo (September 2021), North Macedonia, Montenegro (October 2021), Albania, Turkey (November 2021), Serbia (December 2021), Algeria (February 2021), Moldova (March 2021), Morocco (May 2021), Ukraine (October 2021), Palestine (November 2021) and Georgia (December 2021).

**DG ECFIN also continued its analytical and monitoring work on enlargement countries**. Besides quarterly reports and specific analytical contributions, DG ECFIN has also evaluated the level of preparedness and progress made by enlargement countries towards meeting the economic criteria for joining the EU. ECFIN's assessments are part of the country reports, published under the Commission's annual enlargement package in October.

### *Increase the international role of the euro*

In 2021, DG ECFIN continued to contribute to the implementation of initiatives announced in the 2020 Communication on Strengthening Europe's open strategic autonomy in economy and finance. ECFIN has also developed its understanding of third countries' interest in using the euro more for their currency reserves, investment or trade invoicing.

**In 2021, ECFIN organised two virtual workshops with countries in Europe's neighbourhood** to explore hindrances and opportunities for a greater use of the euro in government borrowing and management of international reserves**.** A virtual workshop with **the six Eastern Partnership (EaP) countries** (Armenia, Azerbaijan, Belarus, Georgia, Moldova, and Ukraine) took place in February and a virtual workshop with some of the southern neighbourhood countries (Algeria, Egypt, Israel, Jordan, Lebanon, Libya, Morocco, Palestine[7], Syria[8] and Tunisia) was organised in October. Both virtual workshops took were

(7) This designation shall not be construed as recognition of a State of Palestine and is without prejudice to the individual positions of the Member States on this issue

(8) Currently, cooperation is suspended with Syrian authorities but the EU maintains direct support to the Syrian population

preceded by surveys conducted with these countries. Results of the Eastern partnership workshop were also reported upon in a discussion paper.

More generally, DG ECFIN discussed the international role of the euro with national authorities of non-EU G20 countries during regular macro-economic dialogues.

***Support a stronger, more coordinated position through the IMF, G-groups and IFIs***

**A key ongoing challenge is the need for a continued well-coordinated international policy response to the COVID-19 crisis while ensuring that fiscal and monetary support is not withdrawn prematurely**. ECFIN has been leading the G20 finance track efforts to combat the pandemics working hand-in-hand with health specialists in the European Commission and the Secretariat General. Notably, the agreement at the G20 Summit in October 2021 to establish a G20 Joint Finance-Health Task Force aimed at enhancing dialogue and global cooperation on issues relating to pandemic prevention, preparedness and response while developing coordination arrangements between Finance and Health Ministries has throughout 2021 been pushed by ECFIN.

DG ECFIN's work also contributed to put climate change at the forefront in G7 and G20 meetings, either via its representatives in the Finance track or when formulating positions proposed to the Commissioner for international meetings at Ministerial level, including the G20 international conference on climate change. Thanks to these efforts, sustainable finance, carbon pricing, risk monitoring and economic transformation are high on the agenda. As regards strengthening cooperation with International Organisations on climate change issues, four high level dialogue meetings have already been organised between Commission officials and the IMF. Topics dealt with were: green budgeting and fossil fuel subsidies, green recovery, coordination on IMF and international work on climate change-related policies.

ECFIN was also in the lead of the work in the European Commission on the **new allocation of IMF Special Drawing Rights amounting to USD 650 billion** and its rechannelling to countries most in need; including through significantly scaling up the IMF Poverty Growth and Reduction Trust (PRGT) and the establishment in the IMF of the Resilience and Sustainability Trust (RST) to provide affordable long-term financing to help vulnerable countries reduce the risks to prospective balance of payment stability, focusing primarily on climate change, as well as on pandemic preparedness. ECFIN also pushed for the extension of the G20-Paris Club Debt Service Suspension Initiative until 2021 and the full and swift implementation of the new G20-Paris Club Common Framework on Debt Treatments for low income countries. ECFIN prepares and participates actively in discussion of the Sub-committee of the EFC on IMF matters (SCIMF) with at least 11 common messages adopted for the past two years until end-2021 on horizontal matters of EU interest.

Furthermore, DG ECFIN continued to develop strategic bilateral cooperation with non-EU G20 partner countries, carried out analytical and monitoring work on global macroeconomic developments and provided input on global economy to regular ECFIN forecasts. Macroeconomic dialogues with several G20 countries and other key partners took place throughout the year. Analytical work on global macroeconomic issues focused in particular on: (i) assessing the macroeconomic policy response to the Covid-19 crisis in the US, (ii) analysing US and global inflation dynamics, (iii) assessing macroeconomic and financial imbalances in China, (iv) analysing financial vulnerabilities in emerging market economies and developing countries, (v) analysing global supply chain disruptions and their impact on global and EU economy.

ECFIN continued to work on the ongoing discussions stemming from the report of the High-Level Group of Wise Persons aimed at improving and streamlining the European Financial Architecture for Development (EFAD) and possible scenarios for its evolution, also in respect to the role of the EIB and EBRD.

ECFIN also continued working closely with the Office of EU Executive Director at the EBRD to facilitate the coordination of EU Member State' positions on the EBRD Board of Directors.

### *External communication*

DG ECFIN used the communication tools mentioned under specific objective 1 to explain, promote and engage with a diversity of audiences on the international role of the euro, in particular within the communication campaign on the 20th anniversary of the introduction of euro banknotes and coins. DG ECFIN also communicated on the main steps of the MFA programme, for instance by working with Euronews on a “Real Economy” episode on the MFA support for Moldova.

# 2. MODERN AND EFFICIENT ADMINISTRATION AND INTERNAL CONTROL

## 2.1. Financial management and internal control

Assurance is provided on the basis of an objective examination of evidence of the effectiveness of risk management, control and governance processes.

This examination is carried out by management, who monitors the functioning of the internal control systems on a continuous basis, and by internal and external auditors. The results are explicitly documented and reported to the Director-General. The following reports have been considered:

- the reports from AOSDs;
- the reports from Authorising Officers in other DGs managing budget appropriations in cross-delegation;
- the reports on control results from entrusted entities in indirect management, as well as the results of the DG's supervisory controls on the activities of these bodies;
- the contribution by the Director in charge of Risk Management and Internal Control, including the results of internal control monitoring at DG level;
- the reports on recorded exceptions, non-compliance events and any cases of ‘confirmation of instructions’ (Art 92.3 FR);
- the reports on ex-post supervision and/or audit results;
- the limited conclusion of the Internal Auditor on the state of internal control, and the observations and recommendations reported by the Internal Audit Service (IAS);
- the management opinions concerning the RRF by ECFIN’s management on the level of assurance obtained with regards to the legality and regularity of the payments to the Member States and the implementation of article 22(5) on the proportionate reduction of the support in case of fraud, corruption or conflict of interest;
- the observations and the recommendations reported by the European Court of Auditors (ECA).

These reports result from a systematic analysis of the available evidence. This approach provides sufficient guarantees as to the completeness and reliability of the information reported and results in a complete coverage of the budget delegated to the Director-General of DG ECFIN.

This section covers the control results and other relevant elements that support management's assurance. It is structured into 2.1.1 Control results, 2.1.2 Audit observations and recommendations, 2.1.3 Effectiveness of internal control systems, and resulting in 2.1.4 Conclusions on the assurance.

### 2.1.1. Control results

This section reports and assesses the elements identified by management which support the assurance on the achievement of the internal control objectives (ICO) ([9]). The DG's assurance building and materiality criteria are outlined in AAR Annex 5. The AAR Annex 6 outlines the main risks together with the control processes to mitigate them and the indicators used to measure the performance of the relevant control systems (RCS).

The following overview table illustrates in more detail the scope of this assurance:

([9]) 1) Effectiveness, efficiency and economy of operations; 2) reliability of reporting; 3) safeguarding of assets and information; 4) prevention, detection, correction and follow-up of fraud and irregularities; and 5) adequate management of the risks relating to the legality and regularity of the underlying transactions, taking into account the multiannual character of programmes as well as the nature of the payments (FR Art 36.2). The 2nd and/or 3rd Internal Control Objective(s) (ICO) only when applicable, given the DG's activities.

## Overview table (amounts in EUR million)[10]

| Risk-type / Activities | Grants (e.g. actual costs based, or lump sums, or entitlements) | Procurement (e.g. minor or major values) | Shared mngt (MS's OPs, PAs, etc) + EAC (for NAs) | Cross-delegations to other DGs (other AOXDs) | Contributions and/or funds to EE (EU Agency, EA, JU) | Delegation / Contribution agreements with EE (EIB, Int-Org, etc) | Other (describe any other expenditure not covered by the previous columns) | *Total Expenditure* | NEI, e.g. Revenues, Assets, OBS ((in)tangible or financial assets & liabilities) | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | Revenue[11] | Financial assets & cash, receivables (+) Financial liabilities (-) | Financial income (-) and costs (+) | Guarantees received (+) or given (-) |
| **Recovery and Resilience Facility (RRF) (RCS 1) (grants)**[12] | | | | | | | 46373.30 | 46373.30 | | | | |
| **Financial instruments managed via IFIs (RCS 2)** | | | | | | | | 0 | 28.97<br>CIP SMEFF SMEG<br>TTP ESU98 | 785.13<br>-43.70 | -213.44<br>37.16 | -161.59 |
| **Grants under ELENA / Entrusted Entities (RCS 3)** | | | | | | 23.39 | | 23.39 | | | | |
| **Equity Investments (EBRD, Marguerite Fund) (RCS 4)** | | | | | | | | 0 | 0.68 | 245.83 | | |
| **EFSI EU Guarantee** | | | | | | | | | | 3585.40 | -1056.34 | -24730.24 |

[10] *Legend for the abbreviations: OP=Operational Programme, PA=Paying Agency, NA=National Agency, AOXDs =Authorising Officer by Cross-Delegation, EA=Executive Agency, JU=Joint Undertaking, NEI =Non-Expenditure Item(s), OBS= Off-Balance Sheet, ICO = Internal Control Objective, L&R=Legality and Regularity, SFM= Sound Financial Management, AFS= Anti-Fraud Strategy measures, SAI=Safeguarding Assets and Information, TFV=True and Fair View, RER=Residual Error Rate, CEC=Cost-effectiveness of controls, Mngt =Management*

[11] AAR Annex 3 – Table 7 - Income

[12] RRF loans (off-budget transactions) not included (see AAR Part 3, Annex 3 NGEU Loans and Annex 14)

| Risk-type / Activities | Grants (e.g. actual costs based, or lump sums, or entitlements) | Procurement (e.g. minor or major values) | Shared mngt (MS's OPs, PAs, etc) + EAC (for NAs) | Cross-delegations to other DGs (other AOXDs) | Contributions and/or funds to EE (EU Agency, EA, JU) | Delegation / Contribution agreements with EE (EIB, Int-Org, etc) | Other (describe any other expenditure not covered by the previous columns) | ***Total Expenditure*** | NEI, e.g. Revenues, Assets, OBS ((in)tangible or financial assets & liabilities) | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | Revenue[11] | Financial assets & cash, receivables (+) Financial liabilities (-) | Financial income (-) and costs (+) | Guarantees received (+) or given (-) |
| **(RCS 5)** | | | | | | | | | | -3587.89 | 543.15 | |
| **Provisioning of the Common Provisioning Fund[13] – EFSI and InvestEU compartments (RCS 6)** | | | | | | | 832.53 EFSI | 832.53 | 394.87[14] EFSI | | | |
| | | | | | | | 300.78 InvestEU | 300.78 | | | | |
| **Macro-financial assistance (MFA (RCS 7))[15]** | | 0.36 | | | | | 6.33 Provisioning CPF | 6.69 | | | | |
| **Grants (Business Consumer Surveys (BCS), Pericles, European Investment** | 18.03 | 6.23 | | 1.29 | | | 0.33[18] | 25.88 | 0.03 | | | |

[13] Reporting on CPF in DG BUDG AAR

[14] Following the transfer of the EFSI Guarantee and GF to the CPF on 01.01.2021, off budget transactions concerning the management of EFSI guarantee and related reflows are now recorded in LIGA – see Annex 3 LIGA. Outcome of the process are revenues assigned to the provisioning of the CPF.

[15] No payments for MFA grants in 2021

| Risk-type / Activities | Grants (e.g. actual costs based, or lump sums, or entitlements) | Procurement (e.g. minor or major values) | Shared mngt (MS's OPs, PAs, etc) + EAC (for NAs) | Cross-delegations to other DGs (other AOXDs) | Contributions and/or funds to EE (EU Agency, EA, JU) | Delegation / Contribution agreements with EE (EIB, Int-Org, etc) | Other (describe any other expenditure not covered by the previous columns) | *Total Expenditure* | NEI, e.g. Revenues, Assets, OBS ((in)tangible or financial assets & liabilities) | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | Revenue[11] | Financial assets & cash, receivables (+) Financial liabilities (-) | Financial income (-) and costs (+) | Guarantees received (+) or given (-) |
| **Advisory Hub (EIAH) (RCS 8), HERO Pilot Project), procurement and administrative expenses**[16][17] | | | | | | | | | | | | |
| **EIF capital and dividends** | | | | | | | 371.88 Capital increase | 371.88 | | 1192.21 | | |
| **Enforced budgetary surveillance**[19] | | | | | | | | 0 | | | | |
| **Totals (coverage)** | **18.03** | **6.59** | **0** | **1.29** | **0** | **23.39** | **47885.16** | **47934.47** | **424.55** | ***+5808.57 -3631.59*** | **-1269.78 +580.31** | **-24891.83** |
| ***Links to AAR Annex 3*** | ***Overall total (m EUR); see Table 2 – payments made*** | | | | | | | ***Overall total (m EUR)*** | ***Table 7 - Income*** | ***Table 4 – Assets (AI3 AI4 AI6 AII1*** | ***Table 5 P&L (II121 II28)*** | ***Table 5 bis - OBS (OB1 OB2)*** |

[18] Administrative Arrangements with JRC (0.285) - InvestEU Investment committee (0.045)
[16] Only EIAH is part of RCS 8, i.e. BCS and Pericles grants are not part of RCS 8.
[17] Including RRF administrative expenses.
[19] No transactions in 2021.

| Risk-type / Activities | Grants (e.g. actual costs based, or lump sums, or entitlements) | Procurement (e.g. minor or major values) | Shared mngt (MS's OPs, PAs, etc) + EAC (for NAs) | Cross-delegations to other DGs (other AOXDs) | Contributions and/or funds to EE (EU Agency, EA, JU) | Delegation / Contribution agreements with EE (EIB, Int-Org, etc) | Other (describe any other expenditure not covered by the previous columns) | ***Total Expenditure*** | NEI, e.g. Revenues, Assets, OBS ((in)tangible or financial assets & liabilities) | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | Revenue[11] | Financial assets & cash, receivables (+) Financial liabilities (-) | Financial income (-) and costs (+) | Guarantees received (+) or given (-) |
| | | | | | | | | | | ***AII3 AII6) Liabilities (PI3 PII3)*** | | |

DG ECFIN uses the following definitions of a positive conclusion for the five Internal Control Objectives and their associated indicators:

> *Residual Error Rate: below 2%*
>
> *Cost-Effectiveness: ratios do not increase unreasonably versus last year and are not otherwise unreasonably high without a statisfactory explanation*
>
> *Anti-Fraud Strategy: no qualification to the Declaration of the Assurance;*
>
> *Safeguarding of assets: adequate return with no or minimal breaches to assets guidelines;*
>
> *Reliability of Reporting: no material error and no reservations.*

At DG ECFIN, financial operations relate to 2 main categories: direct budget management payments and indirect budget management payments. Each has its own specificities, so our control system uses these categories as building blocks.

More specifically, direct management covers expenditures on grants, MFA, procurements and administrative expenses, equity investments, EIF capital and dividends, as well as the provisioning of the following compartments of the Common Provisioning Fund: EFSI, InvestEU and External Action Guarantee Fund for MFA-loans, and non-repayable financial support under the RRF (see part 3). Indirect management grants spending programmes entrusted to other entities and Financial Instruments managed via IFIs.

The overall conclusion table below summarises all control results. The main benefit of controls is the achievement of control objectives, e.g. error-free financial statements and legally compliant transactions. Some control objectives are explicitly provided for all DGs such as time-to-pay (all), time-to-inform (grants), time-to-contract (grants). DG ECFIN considers that these controls will be cost-effective if their costs are considered acceptable by management and if periodically these controls are re-assessed, improved, made less costly and/or more risk differentiated. Nonetheless, some controls, identified through periodic risk-assessments, have to be exercised irrespective of their historic outcome.

The details of the assurance of the achievement of internal control objectives related to these internal control systems are to be found in Annex 7.

In line with the 2018 Financial Regulation, DG ECFIN's assessment for the new reporting requirement is as follows:

No cases are to be reported concerning

- Cases of "confirmation of instructions" (new FR art 92.3)
- Cases of financing not linked to costs (new FR art 125.3)
- Financial Framework Partnerships >4 years (new FR art 130.4)
- Cases of flat-rates >7% for indirect costs (new FR art 181.6)
- Cases of "Derogations from the principle of non-retroactivity [of grants] pursuant to Article 193 FR" (new Financial Regulation Article 193.2)

### *1. Effectiveness of controls*

In order to be considered effective, controls are expected to meet the internal control objectives (20) and for each of those control objectives result in benefits. The objectives are detailed hereafter:

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

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

DG ECFIN's portfolio consists of segments with a relatively low error rate (target error rate of 0%), i.e. expenditures under direct management with low inherent risk such as the MFA (RCS 7), provisioning of the EFSI and InvestEU (RCS 6), Marguerite fund (RCS 4), EIF capital and dividends, or expenses of an administrative nature & procurement (0,5%). A few segments have a slightly higher target error rate of <2%, i.e. grants with the reimbursed cost mechanism (BCS, PERICLES and the HERO Pilot Project (not part of any RCS because of the small volume) as well as EIAH (RCS 8) and entrusted entities (ELENA (RCS 3) and Financial Instruments managed via IFIs (RCS 2). These error rates are low for each segment thanks to the inherent risk profile of the activities and the performance of the related control systems.Through recoveries and financial corrections, DG ECFIN has in place an effective mechanism for correcting errors. During the reporting year the executed corrective capacity amounted in total to €0.286 million representing 0.018% of the relevant expenditure. The benefit at ex ante level control amounts to €0.286 million, whilst recoveries and financial corrections following the results of ex post controls amounted to €0 million. (for more details see Annex 7).

Ex-post controls are usually performed on a limited range of transactions identified using an annual risk-analysis. Errors found are unrepresentative of overall expenditure as we control the “riskiest” transactions, hence they cannot be extrapolated over total overall expenditure.

Due to COVID-19 measures and the priority contribution to the RRF plan approval process (review of the arrangements to prevent, detect and correct corruption, fraud and conflicts of interest and avoid double funding) both the 2020 and 2021 ex-post control plan are implemented with delay. The control of 4 framework contract partners for BCS grants

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[20] 1) Effectiveness, efficiency and economy of operations; 2) reliability of reporting; 3) safeguarding of assets and information; 4) prevention, detection, correction and follow-up of fraud and irregularities; and 5) adequate management of the risks relating to the legality and regularity of the underlying transactions, taking into account the multiannual character of programmes as well as the nature of the payments (FR Art 36.2). The 2nd and/or 3rd Internal Control Objective(s) (ICO) only when applicable, given the DG’s activities.

foreseen for 2020 was carried out 2nd half of 2021. The contracts were selected because the respective partners had not been included in ex-post control for more than 7 years. In particular errors in the calculation of staff costs were identified and for 2 out of 4 partners the findings will lead to a recovery in respect of the payments subject to the ex-post control (May 2018 – April 2019 and May 2019 – April 2020).

Based on our control results and the control result experience built over previous years (compare with qualitative materiality criteria in Annex 5 on past experience) and the known inherent risks of the various transactions, additional details on the error rates for each key segment (or sub-segment), can be found in annex 7.

The calculated weighted overall Average Error Rate for DG ECFIN is 0% - 0.03%.

Following the entry into force of Regulation (EU, Euratom) 2018/1046 (the Financial Regulation), the Commission requested all entities to be entrusted with EU budget implementation to complete the complementary pillar assessments (ex ante checks on management and control systems) by 31/12/2021. Since April 2019, nine entities have approached DG ECFIN for a complementary pillar assessment with a view to participate in the InvestEU Programme. Six of these complementary assessments have been finalised and approved. The pillar assessments of the remaining three entities are very close to finalisation (two are subject to a reassessment that is now over, while one has submitted a final report that is currently being updated to reflect a number of comments the services have raised on it) and are expected to be completed by end June 2022.

Overrides and non-compliance events

Analysis of the registry of overrides and non-compliance events in 2021 revealed 3 non-compliance events in 2021 and 3 exceptions.

Details on the overrides and non-compliance events in 2021 can be found in Annex 7.

Negotiated procedures

In 2021, no negotiated procedures above € 60.000 were awarded.

Benefits of controls

No recovery orders concerning irregularities were issued in 2021. Ex-ante controls detected 23 irregularities worth €285,774.60. Eleven of those irregularities concerned non-eligible costs in cost claims worth €231,327.67and 12 covered credit notes worth €54,446.93. One of the irregularities, concerning non-eligible costs pertained to the Relevant Control Systems (RCS) 8 All the others pertained to none of the RCS. The total of recoveries and corrections sum up to less than 0.018% of the DG's expenditure under direct and indirect management combined.

DG ECFIN's relevant expenditure, its estimated overall risk at payment, estimated future corrections and risk at closure are set out in Table X: Estimated risk at payment and at closure.

The overall estimated risk at payment/closure does not cover the expenditure under the RRF which is subject to section 3.

The estimated overall risk at payment for 2021 expenditure amounts to €0.04 to 0.52 million, representing 0 to 0.03 % of the DG's total relevant expenditure for 2021. This is the AOD's best, conservative estimate of the amount of relevant expenditure during the year not in conformity with the contractual and regulatory provisions applicable at the time the payment was made.

This expenditure will subsequently be subject to ex-post controls and a proportion of the underlying errors will be detected and corrected in subsequent years. The conservatively estimated future corrections for 2021 expenditure amount to €0 million.

The difference between those two amounts results in the estimated overall risk at closure of €0.04 to 0.52 million, representing 0 to 0.03 % of the DG's total relevant expenditure for 2021.

This result is comparable with the one in 2020, where the estimated risk at closure was € 0.03 to 0.43 million (0 to 0.033%).

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

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

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

| DG ECFIN | Relevant expenditure | Estimated risk (error rate %) *at payment* | | Estimated future corrections and deductions | | Estimated risk (error rate %) *at closure* | |
|---|---|---|---|---|---|---|---|
| *(1)* | *(2)* | *(3)* | | *(4)* | | *(5)* | |
| | *m EUR* | *m EUR* | *%* | *m EUR* | *%* | *m EUR* | *%* |
| RCS 2 | 0 | 0 - 0 | 0% – 2% | 0 | 0% | 0 | 0% - 2% |
| RCS 3 | 0.06 | 0 - 0 | 0% – 2% | 0 | 0% | 0 | 0% – 2% |
| RCS 4 | 0 | 0 | 0% | 0 | 0% | 0 | 0% |
| RCS 6 | 1133.32 | 0 | 0% | 0 | 0% | 0 | 0% |
| RCS 7 | 6.69 | 0 | 0% | 0 | 0% | 0 | 0% |
| Grants (BCS – Pericles – EIAH (RCS 8)– HERO PP) | 23.71 | 0 - 0.47 | 0% – 2% | 0 | 0% | 0 – 0.47 | 0% – 2% |
| Procurement and administrative expenses | 8.65 | 0.04 | 0.5% | 0 | 0% | 0.04 | 0.5% |
| EIF capital and dividends | 371.88 | 0 | 0% | 0 | 0% | 0 | 0% |
| **DG total** | **1544.31 m EUR** | ***0.04 -*** | ***0% -*** | ***0 m EUR*** | ***0%*** | ***0.04 –*** | ***0% -*** |

| DG ECFIN | Relevant expenditure | Estimated risk (error rate %) *at payment* | | Estimated future corrections and deductions | | Estimated risk (error rate %) *at closure* | |
|---|---|---|---|---|---|---|---|
| *(1)* | *(2)* | *(3)* | | *(4)* | | *(5)* | |
| | *m EUR* | *m EUR* | *%* | *m EUR* | *%* | *m EUR* | *%* |
| | | *0.52 m EUR* | *0.03 %* | | | *0.52 m EUR* | *0.03%* |

### b) Fraud prevention, detection and correction

In 2021, ECFIN's anti-fraud strategy was updated for the period 2021-2023. It takes into account the methodology and guidance for services' anti-fraud strategies issued by OLAF in July 2021 and the insights gained in respect of the management of RRF. The new anti-fraud strategy was submitted to OLAF for peer-review in December 2021 and formally adopted by the DG in January 2022.

In ECFIN, the implementation of the anti-fraud strategy is being monitored, with annual reporting to the management and adhoc presenttaions to the Internal Control Management Group (ICMG). In 2021, all necessary actions from the previous Anti-Fraud Strategy had been completed. DG ECFIN also contributed to the Commission anti-fraud strategy and followed up 100 % of OLAF's 2 financial recommendations.

The main results achieved during the year thanks to the anti-fraud measures in place can be summarised as follows:

- awareness raising on ethics and integrity for the staff involved in the RRF: some 95 officials participated in the first round of the specific RRF designed ethics trainings in March 2021. A second round of trainings started end of 2021 end runs till February 2022;

- implementation in 2021 of a specific control framework for the RRF including:
    - The assessement by the relevant Commission services of the measures described in the recovery plans to prevent, detect and correct fraud;
    - The setting up of an audit strategy including system audits on the protection of the financial interests of the union (see part 3 of the AAR);
    - Training provided by ECFIN and OLAF to the Member States on fraud prevention, including specific guidance on the use of Arachne.

On the basis of the available information, DG ECFIN has reasonable assurance that the anti-fraud measures in place are effective. Following the first payments made for the RRF, the first system audits on the protection of the financial interest of the union will take place in February 2022.

Other control objectives: safeguarding of assets and information, reliability of reporting (if applicable)

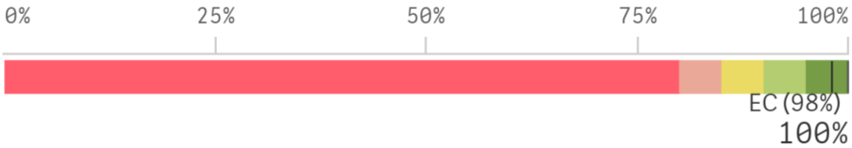
Find relevant information on “EU budgetary guarantee under the EFSI” and “EFSI and InvestEU compartments of the Common Provisioning Fund” in Annex 7. The absence of negative results flowing from the implemented control procedures under RCS 6 and the absence of control failure demonstrate compliance with the safeguarding of assets principle, as well as compliance with the target error rate of close to 0%. Moreover, the various measures described under RCS 6 (see Annex 6) and the positive results of these measures lead us to conclude positively on the achievements of the control objectives as regards "Safeguarding of Assets and Information" and "Reliability (true and fair view) of Reporting".

## 2. *Efficiency of controls*

Three main indicators are used to monitor control efficiency: time to pay; time to inform; time to grant. As reported in Annex 3, table 6, the average time-to-pay with suspension in 2021 was 18.1. days (17.9 days in 2020). The periods specified in article 116.1 of the Financial Regulation were complied with and 100% of the overall value of payments were executed in time as reported in Annex 4.

The average time-to-inform (the time-period starting from receipt of proposals and ending with the applicants learning about the outcome of the evaluation of their application) was 177,0 days for Framework Partnership Agreements (FPA) and 37,7 for grant agreements (GA) and specific grant agreements (SGA). Meanwhile, the average time-to-sign (the time-period starting from the date of informing the successful applicants and ending with the signing of the grant agreement at Commission level) was 16.6 days for FPAs and 10.7 for GAs and SGAs. This complies with the periods specified in article 194.2 of the Financial Regulation (a maximum of six months for informing all applicants and a maximum of three months for signing grant agreements with applicants).

The new FPAs were concluded following an open call for proposal concerning the BCS programme. The full six month time to inform the applicants was necessary because of the complexity of the call and the large number of proposals received to be evaluated under Covid circumstances. A total of fourty-two FPAs were suceesfully signed, with a duration of 4 years.

| **Timely Payments** | **ECFIN Score** | **EC Score** |
|---|---|---|
|   | **100%** | **98%** |

As in previous year, in 2021, DG ECFIN efficiently managed to execute 100% of payments within the legal deadline which is above Commission average of 98%.

### 3. *Economy of controls*

In the AAR 2021 the numbering of the RCS has been changed due to the change of programme and responsibilities, and hence also the changing of existing and introduction of new RCS as described in Annex 6 and Annex 7 in more detail.

Considering all Relevant Control Systems (RCS), incl DG-horizontal control tasks not attributable to a single RCS, DG ECFIN's ratio of cost of control is 0,027% (up from 0,0106% in 2020). The ratio is calculated as the total sum of costs of control (i.e. ex-ante controls; ex-post controls; FTEs for Budget and Accounting; coordination incl. Strategic, Programming and Planning, internal control, assurance and quality management; as well as anti-fraud), which was € 24.779.969 divided by the total amount of funds managed in the relevant control systems, which was € 93.123.756.354 [21]. This means a cost of €266 (up from €106) to control 1 Million € of funds managed (more detailed figures are to be found in table Y of Annex 7 and the remainder of Annex 7).

Cost of control ratio at entrusted entity level for RCS covering indirect management was 0,39% (down from 0,57%)[22]. This concerns only RCS 3 Grants under the European Local Energy Assistance (ELENA).

Further details on costs of control, including also remuneration fees paid, can be found in Annex 7.

### 4. *Conclusion on the cost-effectiveness of controls*

Based on the most relevant key indicators and control results, DG ECFIN has assessed the effectiveness, efficiency and economy of its control system and reached a positive conclusion on the cost-effectiveness of the controls for which it is responsible.

Costs of control are overall very low for DG ECFIN even though they are higher than in 2020. Overall they are are mostly impacted by the new RCS 1 for the RRF. This is because a large but adequate number of resources have been assigned to control the RRF, however the payments made under the RRF have been still low, compared with the expected payments in 2022. This is as expected since the RRF legislation was only put in place in 2021, and a considerable amount of resources were necessary to assess the Recovery and Resilience Plans by the Member States.

For comparison, excluding the new RCS 1 for the RRF, the cost of control ratio would be 0,014% for 2021, which would in fact be lower than the 0,018% in 2020.

[21] The figures are based on the accounting systems and DG ECFIN's internal analysis of FTEs involved in the various control stages and other related costs. While some figures, for example FTEs involved, are estimates, the DG is convinced the estimates are very good and accurate. FTEs were analysed not just by control stage, but also differentiated by cost of job function and statute/contract type.

[22] This is remarkable, because last year costs of control at entrusted entity level included only management remuneration fees, while this year it also includes fees for external audits.

Annex 7 gives also an overview of the small spending programmes under the control of DG ECFIN that are not included in an RCS due to their small volumes. Such small programmes, generally have higher cost of control ratios, as there is little potential for economies of scale.[23]

No known fraud cases, a very low error rate and extremely low ratio of cost-effectiveness of control, mean DG ECFIN's control strategy meets the intended control objectives efficiently and at a very reasonable cost.

### 2.1.2. Audit observations and recommendations

DG ECFIN is audited by the Internal Audit Service (IAS) and the European Court of Auditors (ECA).

In 2021, DG ECFIN closed 15 ECA audit recommendations. Details on these are presented in annex 7.1.C. No ECA audit recommendation, whether closed in 2021 or still open, provide grounds to believe that DG ECFIN's Declaration of Assurance is impaired.

ECFIN also considers one open recommendation from the IAS *audit of the management of the European Fund for Strategic Investments Guarantee Fund* to have been implemented in time; the IAS is currently reviewing DG ECFIN's actions (details to be found in Annex 7.1.A). The IAS is not expected to complete that review in time for this Annual Activity Report.

**ECA audits**:

In 2021, DG ECFIN received and accepted 11 recommendations from 2 ECA Reports, Special Report No 18 2021 *Commission's surveillance of Member States exiting a macroeconomic adjustment programme: an appropriate tool in need of streamlining* and Special Report No 22 2021 *Sustainable finance: More consistent EU action needed to redirect finance towards sustainable investment*. None compromise DG ECFIN's control environment.

In addition, the Court announced four performance audits in the course of 2021: two on the RRF (*audit on the Commission's assessment of Member States' Recovery and Resilience Facility plans* launched in June and *audit on the design of control for the Recovery and Resilience Facility* in November) as well as an *audit on the EU's financial architecture* in July, and one audit on *SURE* in November. The audit on the EU's financial architecture is very wide in scope (the MFA, the Greek Loan Facility, EFSM, the EFSF, the ESM and SURE), so involving lots of ECFIN resources.

**IAS Audits**:

[23] The BCS programme for example has a cost of control ratio of 9,5%, which is about equal to last year. However, it being a small programme, it none-the-less serves an important purpose in providing valuable economic data. Similarly the PERICLES programme is very small and thus has a high cost of control ratio of 54% (up from 29% in 2020, mostly due to around 55% less expenditure), but serves an important purpose in preventing currency counterfeiting.

In 2021 the Internal Audit Service launched an *audit on HR management in DG ECFIN*; its results are expected in May 2022.

It is the limited conclusion of the IAS that the internal control systems in place in DG ECFIN for the audited processes are effective[24].

Conclusion regarding all audits: At the time of drafting this 2021 Annual Activity Report there is no reason to believe that audit recommendations issued to DG ECFIN impair its Declaration of Assurance.

### 2.1.3. Assessment of the effectiveness of internal control systems

The Commission has adopted an Internal Control Framework based on international good practice, to ensure the achievement of its policy and management objectives. Compliance with the internal control framework is a compulsory requirement.

DG ECFIN uses the organisational structure and the internal control systems suited to achieving its policy and internal control objectives in accordance with the internal control principles and has due regard to the risks associated with the environment in which it operates.

DG ECFIN updated its overall Internal Control Strategy to reflect the changed setup and control environment of DG ECFIN in 2021, including the new responsibility for the RRF and developed a specific control strategy for the RRF.

In 2021 DG ECFIN worked with the Internal Control Principles to assess the effectiveness of our key internal control systems in accordance with applicable Commission guidance and using monitoring indicators supplemented by other sources of information (details in annex 8). This allows the Internal Control Coordinator to report the state of internal control and make recommendations to the Director General.

All but one internal control monitoring criteria met their target values.

DG ECFIN's Risk Management exercise found no critical risk in the DG. The only high risk is related to the various aspects of the management of the Recovery and Resilience Facility (RRF).

It is a risk stemming from the RRF around decisions taken outside the Commission, but also internal organisation and processes, as well as resources. However, risk controls are in place to mitigate the risk and an action plan has been put in place to further reduce the risk. There is confidence that this will lead to a further risk reduction.

ECFIN has assessed its internal control system during the reporting year and has concluded that it is effective and the components and principles are present and functioning well

[24] Ares(2022)1078749

overall, but some improvements are needed as minor deficiencies were identified related to staff getting a clearer understanding of what is expected from them at work. The improvements implemented are based on the further development of process documentation and trainings.

### 2.1.4. Conclusions on the assurance

This section reviews the assessment of the elements already reported above (in Sections 2.1.1, 2.1.2 and 2.1.3) as well as in part 3 for the RRF, and the sub-conclusions already reached. It draws an overall conclusion to support the declaration of assurance and whether it should be qualified with reservations. The declaration of assurance from the Director General is based on these parts 2 and 3. It covers the full scope of the budget (direct and indirect management) delegated to him as reflected in Annex 3.

All 5 control objectives were met for both major control systems at DG ECFIN (direct and indirect managements) as shown in section 2.1 and with full details provided under Annex 6 and Annex 7. Available audit results and observations did not highlight critical or high risks that would qualify the Declaration of Assurance, as shown in section 2.1.2. Management assessments of the implementation of internal control principles did not identify deficiencies with a negative impact on the declaration as shown in section 2.1.3.

These comprehensive assessments provide sufficient guarantee with respect to the 5 statements included in the declaration of assurance (true and fair view, resources used for the intended purpose, sound financial management, legality and regularity and non-omission of significant information) as well as to other internal control objectives (safeguarding of assets and information; the prevention, detection and correction of fraud and irregularities) for both expenditure and revenue operations.

For budget under indirect management the Statements of Assurance and financial reports audited by an external independent auditor are expected by end of March 2022 or April 2022 as appropriate. They will give further assurance on the proper safeguarding of assets and information. Details are to be found under Annex 7.

**Overall conclusion**

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

### 2.1.5. Declaration of Assurance

**Declaration of Assurance**

I, the undersigned,

Director-General of DG ECFIN

In my capacity as authorising officer by delegation

Declare that the information contained in this report gives a true and fair view[25].

State that I have reasonable assurance that the resources assigned to the activities described in this report, including its Section 3 below, have been used for their intended purpose and in accordance with the principles of sound financial management, and that the control procedures put in place give the necessary guarantees concerning

(1) the legality and regularity of the underlying transactions and

(2) the implementation of Article 22(5) of the Regulation on the proportionate reduction of the support under the RRF and recovery of any amount due to the Union budget or the request for early repayment of the loan, in cases of fraud, corruption, and conflicts of interests affecting the financial interests of the Union that have not been corrected by the Member State, or a serious breach of an obligation resulting from the agreements referred to in Article 15(2) and 23(1) of the RRF Regulation.

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

Confirm that I am not aware of anything not reported here which could harm the interests of the institution.

Place *Brussels*, date *2022-04-05*

*Signed*

(signature)

Maarten Verwey

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([25]) True and fair in this context means a reliable, complete and correct view on the state of affairs in the DG/Executive Agency.

## 2.2. Modern and efficient administration – other aspects

This section looks at how the key objectives, indicators and expected outputs in DG ECFIN's Annual Management Plan 2021 have evolved to illustrate how the DG has performed over the last year in terms of organisational management.

Examples of economy and efficiency introduced by DG ECFIN in the course of 2021:

- ECFIN adapted its organisational management to the new tasks and responsibilities assigned in the context of the RRF, including by recruiting and integrating significant additional external ressources in a very short period of time;

### 2.2.1. Human resource management

In 2021, human resource management has continued to be impacted by the COVID-19 pandemic, resulting in a very heavy workload across the DG. The role of the HR BC team has continued to be impacted on two levels. First, there have been important staff management considerations with respect to remote and hybrid working conditions. In this context, support to managers and teams has been paramount. Second, DG ECFIN is a front-line DG in the EU's policy response to the crisis, flexibility and agility have been required to allow the DG to respond effectively to evolving and urgent policy needs. In this respect, ECFIN's HR Board regularly reviews the state of play regarding vacancies and staffing needs, reallocating and reinforcing as necessary. Furthermore, a reorganisation at the beginning of 2021 served to adapt ECFIN's organisational structure to the implementation of its new tasks and responsibilities.

The increased workload has been recognised by the central services with additional resources allocated and new staff members successfully integrated on key files at short notice, giving an overall increase in staff numbers of over 10% (largely due to external reinforcements). In 2021, DG ECFIN met and subsequently exceeded its established target for first female middle-management appointments, with three new appointments[26], and its internal target for female deputy appointments, with seven new appointments[27].

DG ECFIN has continued to support the development of its highly specialised workforce including tailored interactive courses on ethical conduct for colleagues involved in RRF implementation. In parallel, emphasis was placed on providing solutions to support and develop managers and teams, through team events and coaching.

In addition, a number of on-line sessions and other activities focusing on staff well-being were organised, including a Midday Session for all staff.  Furthermore, a staff wellbeing survey was conducted in February 2021 to determine the impact of remote working and the heavy workload on ECFIN colleagues. This was followed by the adoption of guidelines

[26] Exceeding the target by 2 recruitments.

[27] Exceeding the target by 2 recruitments.

for managing the digital overload. Appropriate support has been offered to colleagues, individually and through channels such as ECFIN's AST Network. Furthermore, additional, more targeted, opportunities for discussion and shared support have been provided through ECFIN's Middle Management Club[28].

In line with central recommendations, DG ECFIN's HR Strategy (2022-2024) was approved in October 2021. It is designed to guarantee that HR management in ECFIN addresses the new requirements in terms of skills and profiles to support the implementation of the RRF, while maintaining DG ECFIN's high analytical capacity and rigor, essential to face the challenges ahead both within the EU and at international level. The strategy also gives a prominent place to staff participation and well-being, in light of the very heavy workload that DG ECFIN's new responsibilities entail. ECFIN's Sounding Board and Group on Equality Mainstreaming will be active partners in the design and implementation of initiatives in this context. The internal dimension of DG ECFIN's recently adopted Equality work plan foresees measures to make DG ECFIN a more attractive and inclusive place to work. The implementation of first elements, such as training on inclusive management and setting up diversity networks started in 2021.

### 2.2.2. Digital transformation and information management

During 2021 a first set of mandatory modules of the InvestEU Management Information System went live. The development time line for InvestEU is thus respected.

The new Forecast Data Management System "Star" (FDMS*) is now finalised and went live. In consequence, FDMS* is now in maintenance mode and but will be continuously enhanced to further adjust to the digital strategy principles, like for the FASTOP29 Information System. The implementation of the digital strategy principles progressed as planned, with a global result of 45% which is very close to the 50% objective of 2022.

In the context of workload and intensive preparations for the management of the RRF, cross units' and cross DGs working arrangements were implemented like the intensive use of the "teams" application for video-conferences and document sharing. The IT support for the Recovery and Resilience Facility (RRF), including the introduction Microsoft 365 within DG ECFIN, proved to be efficient, since the plans were assessed in due time. In addition, the ITCB validated the Project Initiation Request, the Business Case and the Project Charter of FENIX, the Information System dedicated to the management of RRF structured data. FENIX went live in Q3, along with the RRF Scoreboard, the public reporting of RRF, in Q4.

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[28] 2 online sessions were held.

[29] FASTOP is a set of small and medium size IT modules supporting the DG ECFIN Business. (Structural Reforms Analysis, European Semester Country-Specific Recommendations, Stability and Convergence Programmes, Draft Budgetary Plans, Recording of Fiscal Policy Measures, Sectoral Performance Indicators, Monitoring the influence of tax and benefit instruments on household incomes and incentives to work, etc…)

During 2021, DG ECFIN continued work on implementing corporate principles for the governance of key data assets as identified in the EC data catalogue and Eurostat's inventory of other statistics. Eurostat's Reference Quality Framework for Other Statistics was implemented for those statistics identified as priorities in the pilot phase, publication is foreseen for early 2022. Also, the decision to set up a dedicated ECFIN data governance board was taken in order to establish data governance as a permanent principle. The board will take up its work in early 2022.

DG ECFIN continued its efforts to comply with data protection requirements in 2021. The Data Protection Coordinator submitted the second Annual report on developments in the data protection field to senior management and the network of correspondents continued its meetings. The update of ECFIN-records in the DPMS was accomplished and the ECFIN data protection workspace was renewed and presented in a more userfriendly version. At the end of the year, senior management (Directors' meeting) discussed data protection in their meeting (with the DPO as guest speaker) and approved a training and awareness plan, to be implemented in the coming years (2022/2023).

### 2.2.3. Sound environmental management

Notwithstanding that DG HR as the lead department manages the European Commission's Eco-Management and Audit Scheme (EMAS) framework, each DG is instrumental in its contribution to the overall performance of the institution. The overall impact on the environment of the COVID-crisis, and the large-scale teleworking measures that this has brought, will be assessed by central services. DG ECFIN has continued to strongly promote all corporate campaigns, including the EMAS campaign on recycling and the use of the waste-sorting stations in May 2021. The formation of an ECFIN Green Team, comprising colleagues from across the DG with enthusiasm for green activities and volunteering in future awareness-raising actions remains a goal for 2022.

# 3. RECOVERY AND RESILIENCE FACILITY

## 3.1. Presentation of the RRF and of the related control environment

As part of a wide-ranging response, the aim of the Recovery and Resilience Facility (RRF) is to mitigate the economic and social impact of the coronavirus pandemic and make European economies and societies more sustainable, resilient and better prepared for the challenges and opportunities of the green and digital transitions. The Facility is a temporary recovery instrument, which allows the Commission to raise funds to help Member States implement reforms and investments that are in line with the EU's priorities. It makes available €723.8 billion (in current prices) in loans (€385.8 billion) and grants (€338 billion) to finance reforms and investments in Member States from the start of the pandemic in February 2020 until 31 December 2026.

**To benefit from the support of the Facility, Member States submit their recovery and resilience plans to the European Commission** for assessment and subsequent endorsement by a Council Implementing Decision. Each plan sets out reforms and investments to be implemented by end-2026 and Member States can receive financing up to a previously agreed allocation. Each plan should effectively address challenges identified in the European Semester, particularly the country-specific recommendations of 2019 and 2020 adopted by the Council. It should also advance the green and digital transitions and make Member States' economies and societies more resilient.

The RRF is a performance-based instrument, implemented through direct management where Member States are the beneficiaries. Pre-defined instalments are paid when agreed milestones and targets are satisfactorily fulfilled. As a performance-based instrument, the RRF does not reimburse actual expenses incurred for the reforms and investments included in the Recovery and Resilience Plans.

**DG ECFIN and SG Recover jointly lead the implementation of the Facility.** The DGs have set up joint working arrangements ensuring their complementarity and good coordination. The negotiation, assessment and monitoring of RRPs are under the responsibility of dedicated country teams comprising officials from ECFIN and Recover which keep a broader country team of Commission DGs informed throughout the process and consult relevant DGs whenever necessary. Each country team is under the joint responsibility of two lead negotiators, one each from ECFIN and Recover. The coordination and provision of horizontal guidance is undertaken by the dedicated horizontal units in ECFIN working jointly with specialised cross-unit teams in Recover. Weekly coordination meetings are held between the two Director Generals. The preparation of guidance documents and liaison with the European Parliament, Council, Member States representatives and external stakeholders are also undertaken jointly. A fully joint decision making is therefore assured. The ex-ante assessment of the satisfactory fulfilment of the milestones and targets of each payment request is also the responsibility of the dedicated ECFIN/SG-RECOVER country teams. Nevertheless there is a single Authorising Officer by Delegation, the Director General of DG ECFIN. As a result, DG ECFIN has a specific responsibility in some areas, specifically the audit work for which a dedicated new "control and evaluation" unit has been established in 2021. Finally, DG ECFIN has also a specific responsibility for legal checks, and for IT development.

**Member States are the beneficiaries of the RRF funds, which, once disbursed, become national funds**. Any reforms and investments implemented by the Member States as part of their plan are therefore financed from national funds. This also means that the Commission can only control elements that pertain to the relation between itself and the Member States, and not what happens when the funds are disbursed by the Member States.

The RRF Regulation imposes on Member States a number of obligations on how they use the funds received in relation to the measures supported by the Facility. As a performance-based programme, the reference point for Member States' control obligations are the supported investments and reforms rather than the funds used, as it is Member States funds that are being used to pay for the investments and reforms. Union funds are payments for the completion of associated milestones and targets and, given their fungible nature, cannot be directly traced to specific projects.

Article 22 of the RRF Regulation requires Member States to take all the appropriate measures to protect the financial interests of the Union and to ensure that the use of funds is in compliance with the applicable EU and national law. Member States must also provide an effective and efficient internal control system to this effect. These obligations remain the sole responsibility of the Member States, which is not shared by the Commission.

In addition, Article 22(5) provides a right for the Commission to reduce, recover or in case of a loan ask for early repayment in cases of fraud, corruption, and conflicts of interests affecting the financial interests of the Union that have not been corrected by the Member State, or a serious breach of an obligation under the financing and loan agreements. This implies a residual responsibility for the Commission to reduce, recover funds in those cases. The Commission's <u>residual</u> responsibility is explicitly limited to the three serious irregularities listed and the obligations under the financing and loan agreements.

The respective obligations of the Member States and the Commission are the following:

- Member States

The first level of control at Member State's level are the management verifications to check evidence that the pre-defined milestones and targets are completed. This forms the basis for the management declaration to be submitted by the Member States for each payment request.

In addition, the Member States' audit bodies should implement all the audit work necessary to provide assurance on the proper functioning of the internal control system implementing the Recovery and Resilience Facility, resulting in an audit summary accompanying each payment request and taken into account for the Management declaration.

- Firstly, Member States are solely responsible to check that the financing provided has been properly used in accordance with all applicable national and EU regulations.

- Secondly, Article 22(2) of the RRF Regulation, as well as the Key Requirements of the Member State's control system contained in the RRF Financing Agreement, identify as a priority the prevention, detection and correction of fraud, corruption and conflicts of interests. Whilst such issues need to be addressed by measures wider than only audits, audits are a key aspect of providing assurance that the Member State systems to prevent, detect and correct fraud, corruption and conflicts of interests are functioning.

Furthermore, in terms of content to be covered by audits related to the protection of the financial interests of the Union, Article 4(2) of the Financing Agreement provides an obligation on Member States to ensure that no double funding takes place.

- Finally, audits related to the effective functioning of Member State systems in terms of collecting, storing, verifying and certifying reliable and accurate data on the achievement of milestones and targets are part of the assurance framework that support the management declaration. Whilst not necessarily linked to the data that underpins a payment request, it provides assurance to the authority signing off on the management declaration that the applicable rules have been complied with.

➢ Commission

For the Commission, the legality and regularity of payments is solely linked to the satisfactory fulfilment of the milestones and targets. The Commission has also to check that the management and control systems put in place by the Member States ensure the protection of the financial interests of the Union.

On this basis, the control framework at Commission's level includes the following elements:

- Assessment of the plans

Under the RRF, DG ECFIN, jointly with SG Recover, is responsible for the assessment of the Recovery and Resilience Plans submitted by Member States as regards their relevance, effectiveness, efficiency and coherence. The assessment foresees the check of the robustness of the Member States' control systems. This check is a pass or fail mark. However, should the Commission detect weaknesses in the control systems, which can be addressed, it will propose to add measures necessary for complying with Article 22 RRF that need to be attained before the first disbursement can be made (with the exception of pre-financing).

- Ex-ante controls at the payment stage

Upon receiving a payment request DG ECFIN, jointly with SG Recover, will check the documentation provided as supporting evidence for the completion of milestones and targets. The Member State will need to provide due justifications, i.e. a demonstration why they have gained assurance that the milestone or target has been fulfilled, specifying their reasoning, and providing the underpinning evidence. As a rule, the documentation underpinning the payment request should be sufficiently detailed for DG ECFIN and SG Recover to be able to assess that all elements outlined in the CID, and the verification mechanisms as included in the annex to the operational arrangements, have been complied with and by default primary evidence should be preferred as supporting data. DG ECFIN and SG Recover will check the underlying evidence, where relevant, on a sampling basis. The Commission's controls are targeted to prevent, detect and correct errors and irregularities in the evidence that is provided to establish that the milestones and targets have been satisfactorily completed. DG ECFIN and SG Recover may ask for additional information and may decide to carry out additional controls in order to obtain the necessary complementary assurance on the achievement of the milestones and targets before making the payment. If the milestones and targets have not been satisfactorily fulfilled, payments will first be partially or fully suspended, as per Article 24(6) of the RRF. The Member State concerned may present its observations within one month of the communication of the Commission's assessment. As per Article 24(8), where the Member State concerned has not taken the necessary measures to ensure a satisfactory fulfilment of the milestones and targets within a period of six months from the suspension, the Commission shall proportionately reduce the amount of the financial contribution and, where applicable, of the loan after having given the Member State concerned the possibility to present its observations.

In the management declaration provided with the payment request, the Member States must refer to the fact that the control systems in place give the necessary assurances that the funds were managed in accordance with all applicable rules, in particular rules on avoidance of conflict of interest, fraud prevention, corruption, and double funding in accordance with the principle of sound financial management. The Member States must also provide a summary of the audits they conducted during the implementation period, particularly on the assessment of the impact of the identified weaknesses and the adequacy of the corrective action taken. DG ECFIN (through its dedicated control and evaluation unit) is responsible for the assessment of the management declarations and summary of audits.

Through its review of the management declaration and summary of audits, if DG ECFIN considers that there are cases of fraud, corruption, and conflict of interests affecting the financial interests of the Union that have not been corrected by the Member State, the Commission shall reduce proportionally the support under the Facility and recover any amount due to the Union budget or ask for early repayment of the loan, in line with Article 22(5) of the RRF Regulation.

- Ex-post audits

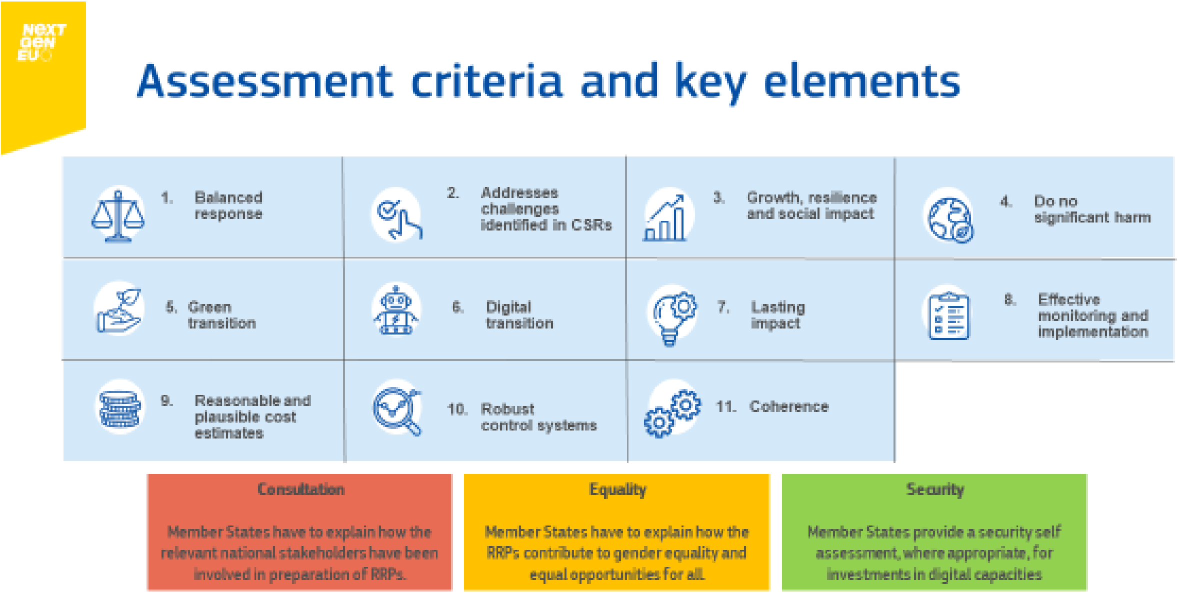
Depending on the risk assessment of the milestones and targets included in the payment claims received during the year, a number of audits on specific milestones and targets will be performed. In addition, DG ECFIN “control and evaluation” unit will conduct systems audits of the Member States’ internal control set-up during the lifetime of the instrument in order to ensure that the Member State is complying with its obligations to have processes in place to prevent and detect serious irregularities (i.e. fraud, corruption or conflicts of interest) or serious breaches of obligations of the financing agreement (including double funding). Furthermore the Commission will on a risk-based approach undertake system audits to check if the data collection system of Member States are reliable.

## 3.2. Progress made in 2021 and first achievements booked

**Almost all Member States have submitted their Recovery and Resilience Plans (RRPs)**, with a majority by summer 2021. By 30 April 2021, 13 Member States had officially submitted their RRP and by mid-October 2021, the Commission had officially received 26 RRPs. The Netherlands is the only Member State not to have submitted a plan yet.

**DG ECFIN, jointly with SG Recover,assessed the plans submitted in a consistent and transparent manner,** following the 11 criteria set out in Article 19(3) of the RRF Regulation and against the back of the six pillars of the Regulation. In most cases, the

Commission had to seek additional information for a comprehensive assessment. DG ECFIN, jointly with SG Recover, supported Member States to put forward ambitious plans with clear and realistic milestones and targets to monitor their progress of the implementation, while taking into account the national context and financial contribution size.




It is worth stressing that despite not being part of the assessment criteria, Member States had to explain how the RRPs would contribute to gender equality and provide a summary of the consultation process with local and regional authorities, social partners, civil society organisations, youth organisations and other relevant stakeholders and how the input of the stakeholders is reflected in the recovery and resilience plan (Article 18, RRF Regulation).

**By December 2021, the Commission had endorsed 22 RRPs** concluding its positive assessment and tabled proposals for a Council Implementing Decision accompanied by corresponding Staff Working Document analyzing the content of the respective plan. These are published on the Commission website. By end-2021 the assessment of the Commission was still pending for four plans (submitted by Bulgaria, Hungary, Poland and Sweden). .

**Overall, the assessment and endorsement of the 22 first RRPs followed a swift and smooth process.** DG ECFIN, jointly with SG Recover had a leading role in all phases of the preparation, negotiation and assessment of plans. DG ECFIN, jointly with SG Recover, contributed to the guidance provided to Member States throughout, from answering several hundred questions asked by national authorities through the RRF Q&A platform, to the preparation and circulation of comprehensive guidance documents, notably on the preparation of RRPs or on the technical implementation of the Do No Significant Harm (DNSH) principle ([30]). The latter reflects a strict eligibility condition set by the RRF Regulation, whereby Member States are to provide a detailed self-assessment for each measure. For most plans, the Commission adopted its positive assessment in less than the

([30]) Within the meaning of Article 17 of Regulation (EU) 2020/852 (the principle of 'do no significant harm').

2 months foreseen in the Regulation (Article 18(1)). The Council was then also able to approve the assessment of most RRPs within less than a month. Following the adoption of the plans, the Commission concluded a financing agreement – and where relevant, a loan agreement – with the Member State concerned.

The 22 RRPs approved by the Council in 2021 account for a total allocation of EUR 291 billion in non-repayable financing and EUR 154 billion in loans. Seven Member States requested loans (Cyprus, Greece, Italy, Poland, Portugal, Romania, Slovenia). These 22 RRPs include a total of 3,742 measures (around one third reforms and two thirds investments), and a total of 5,155 milestones and targets to be fulfilled by 2026 (see Annex 14). Some RRPs are 'front-loaded' with a concentration of milestones and targets rather at the beginning of the period, while other are more 'back-loaded' with a concentration in the second half of the RRF timeline. The same applies to the payment profile, which has been agreed according to each Member State specific needs (payment profiles and percentage of total payment in Annex 14).

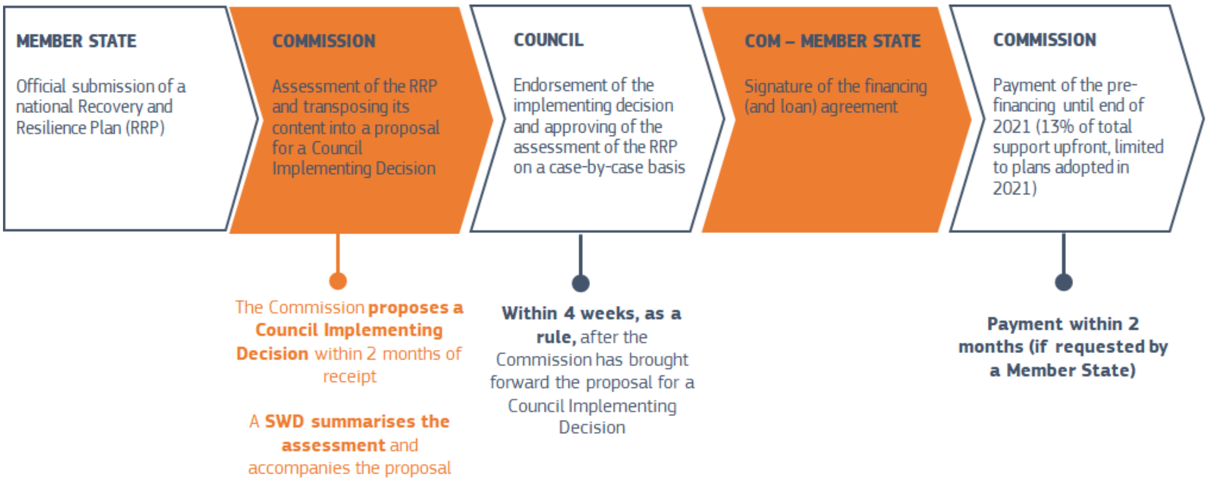
While taking into account the specific situation and challenges of each Member State, **reforms and investments included in the RRPs shall contribute to the six policy pillars** (Article 3, RRF Regulation). In order to report on such contribution, the Commission developed a methodology which assigns each (sub-) measure to a primary and a secondary policy area associated to one of the six pillars. To the extent possible, the pillar reporting is consistent with other tagging exercises (climate, digital, social expenditure).

**Moreover, the Commission has adopted a methodology to report on social expenditure** in the Delegated Regulation 2021/2105. Reforms and investments with a social dimension have been associated to one of nine social policy areas, each linked to one of four social categories (namely, employment and skills, education and childcare, health and long-term care, and social policies) as set out in the Annex to the Delegated Regulation. This is complemented by the flagging of measures with a focus on children and youth and/or on gender equality.

**The RRF Regulation also required each Member State to dedicate at least 37% of its recovery and resilience plan's total allocation to measures contributing to climate objectives and at least 20% of the total allocation to digital objectives.** The RRPs specified and justified to what extent each measure contributes fully (100%), partly (40%) or has no impact (0%) on the climate and/or digital objectives. The contributions to climate and digital objectives have been calculated using Annexes VI (climate tracking) and VII (digital tagging) of the RRF Regulation, respectively. Combining the coefficients with the cost estimates of each measure allows calculating to what degree the plans contribute to the climate and digital targets. About 40% of the total plans' allocation is related to measures supporting climate objectives and a number of RRPs exceed by a substantial margin the 37% climate target set in the Regulation. Likewise, the reforms and investments proposed by Member States have exceeded the 20% target; total digital expenditure in the adopted plans amounts to EUR 117 billion, about 26% of the total plan allocation.

Latest information on the RRPs and their contribution to the six pillars, achievement of climate and digital tagerts and on social expenditure are available in the Recovery and Resilience Scoreboard [31].

*Key steps in RRP assessment and pre-financing*




**The Commission disbursed the pre-financing payment of 13% of the financial contribution to the 21 Member States which requested it (of which 20 in 2021)**, following the signature of the financing agreement, and loan agreement when relevant. In accordance with Article 13 (1), the pre-financing payment only concern Member States whose RRPs were endorsed by the Council in 2021. In total, the Commission disbursed EUR 54.3 billion in pre-financing in 2021. Payments of the pre-financing were executed within 5 business days after the signing of the Financing Agreement (and/or Loan Agreements where relevant), well ahead of the 2-month deadline. These pre-financing will be then cleared proportionally at the time of the payment of each instalment. With this performance-based instrument, any subsequent disbursement is conditional on fulfilling the relevant milestones and targets underpinning the reforms and investments by the time of the payment request.

**In 2021, the Commission disbursed a first payment to Spain.** Spain was the first Member State to submit a payment request on 12 November 2021, following the signing of the operational arrangements. It concerned the fulfilment of 52 milestones, mainly relating to reforms that were already met by the second quarter of 2021. Moreover, as Spain had shared most of the information required for assessment prior to the official submission of the payment request, the Commission was able to process the payment request expeditiously and disbursed EUR 10 billion of the financial contribution to Spain on 27 December. In total, four Member States had submitted their first payment request at the end of 2021 (ES, FR, IT, EL).

**Reporting under the RRF is now fully operational.** In coordination with SG Recover, DG ECFIN set up an IT tool, named FENIX, for Member States to report the relevant information on the implementation of the plans. This tool allows Member States to update the

[31] Recovery and Resilience Scoreboard: https://ec.europa.eu/economy_finance/recovery-and-resilience-scoreboard/index.html?lang=en

information regarding the achievement of Milestones and Target at any moment and to avoid providing several times similar information for the purpose of the bi-annual reporting on progress towards completion of recovery and resilience plans, including on common indicators set out by Delegated Regulation (EU) 2021/2106 ([32]). As part of the bi-annual reporting in November 2021 (Article 27), Member States reported the required information on the actual or expected implementation of milestones and targets until Q3 2022, with a favorable outcome. Overall, of the backward-looking milestones and targets due by Q3 2021, 91% (266) were reported as "completed" and only 9% (25) were not completed. Of the forward-looking milestones and targets due between Q4 2021 and Q3 2022, 4.4% (41) were reported as delayed, while 79.7% (741) as "on track" and 14.9% (139) were reported as already completed. The next bi-annual reporting exercise will take place in April 2022.

**DG ECFIN has set up its audit and control strategies for the RRF and started to implement the new control framework.**

**ECFIN Director General has been designated as Authorising Officer by Delegation (AOD) for the RRF. As a result, DG ECFIN has created a new unit "Control and Evaluation"** in January 2021 with the mission to contribute to the declaration of assurance of the Authorising Officer by Delegation (AOD). The audit strategy was approved by the AOD on 15 December 2021. The objective is to assess if the national authorities have set up the required management and control systems for the implementation of their RRP which ensure the legality and regularity of the payment requests declared to the Commission and that any discovered cases of fraud, corruption, conflict of interest and double funding are adequately corrected, and when necessary, that corrective measures are taken to address significant breaches of the Financing Agreement.

The audit activities are carried out along three main steps: during the assessment of the national plans by the Commission; during the assessment by the Commission of the requests for payments submitted by the Member States and during the overall implementation of the plans and up to five years after the last payment has been submitted.

The table below provides an indicative overview of the Audit Unit's activities broken down by year of planned execution.

([32]) Commission Delegated Regulation (EU) 2021/2106 of 28 September 2021

| | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | Closure 2027/2028 |
|---|---|---|---|---|---|---|---|
| Assessment of Management and Control Systems in the Recovery and Resilience Plans | | | | | | | |
| Analysis of the Audit Summaries submitted with payment requests + fact-finding missions where relevant | | | | | | | |
| Systems Audits as regards Milestones and Targets based on Financing Agreement | | | | | | | |
| Audits on Milestones and Targets | | | | | | | |
| System audits on serious irregularities or serious breaches of FA (at least 1 per MS) | | | | | | | |
| System audits on Protection of the Financial Intersts of the Union | | | | | | | |
| Audits in case of suspicion of serious irregularities | | | | | | | |
| Preparation for closure | | | | | | | |
| Closure audits | | | | | | | |
| Coordination with Member States' audit bodies | | | | | | | |

**During the assessment of the national plans, DG ECFIN assessed the management and control systems described in the plans to check that:**

- the internal control system described in the recovery and resilience plan is based on robust processes and structures, and identifies clear actors (bodies/entities) and their roles and responsibilities for the performance of the internal control tasks; it notably ensures appropriate segregation of relevant functions;

- the controls system and other relevant arrangements, including for the collection and making available of data on final recipients described in the recovery and resilience plan, in particular to prevent, detect and correct corruption, fraud and conflicts of interests when using the funds provided under the Facility are adequate;

- the arrangements described in the recovery and resilience plan to avoid double funding from the Facility and other Union programmes are adequate;

- the actors (bodies/entities) responsible for controls have the legal empowerment and administrative capacity to exercise their foreseen roles and tasks

**Out of the 22 plans adopted in 2021, 16 Member States have been required to include in their Council Implementing Decisions specific reforms and corresponding milestones aiming to remedy certain deficiencies in their control systems** (see detail in annex 14). The identified deficiencies in the Member States' control systems included for instance the absence of a repository system able to collect and store data as required by the RRF regulation, the absence of legal mandates for the various bodies in charge of implementing and auditing the funds, the insufficient administrative capacity of the implementing and audit bodies in charge of the implementation of the RRP, the lack of a clear audit strategy or anti-fraud measures. The milestones included in the Council Implementing Decisions to address these deficiencies must be achieved before the first payments are requested.

**Several capacity building actions for Member States took place in 2021**. In October, during the 7th informal expert group meeting on RRF implementation, DG ECFIN presented the new RRF audit and control framework and gave the opportunity to the Member States' audit bodies to ask for clarifications related to their obligations in term of audit work to be performed. Two other expert group meetings took place on 29 November and on 1st December, focusing respectively on system audits on the protection of financial interests of the Union, on system audits on milestones and targets, on sampling and on IT systems. The Commission provided guidance notes on audit & control issues.

**Bilateral meetings between DG ECFIN and the audit bodies have already been planned with each Member State in 2022** and an annual multilateral meeting will take place annually in order to facilitate the exchange of good practices.

**Finally, DG ECFIN reviewed in 2021 the management declarations and summary of audits included in the four payment requests submitted by Spain, France, Greece and Italy**. Due to the short period of time between the approval of the plans and the submission of these payment requests, DG ECFIN noted that the scope of the audit work carried out by national authorities was in general limited. In the case of Spain, Greece and Italy, the summary of audits mainly referred to the audit report on the repository system, hence referring to the specific measure and corresponding milestone on system included in the Council Implementing Decision. Based on its analysis of these summary of audits, DG ECFIN requested additional information to assess in particular whether data required under the regulation were effectively collected and stored in the national system. While concluding positively on that point, DG ECFIN identified points to be followed up at national level in 2022. On France, DG ECFIN considered that the summary of audits was satisfactory, reporting substantial audit work in terms of scope and methodology.

Only the first Spanish payment request was paid at the very end of 2021. **As a consequence, the first audits are planned to start at the beginning of 2022** with system audits on milestones and targets (including where necessary the review of the fulfilment of a number of targets) and system audits on the protection of the financial Interest of the Union, in line with the newly established audit strategy. It is anticipated that the system audits on milestones and targets will be carried out principally at the start of the implementation period and that all Member States will be audited at least once during the implementation period. The audits on milestones and targets will be risk-based, according to a methodology applied across Member States. As far as the system audits on the Protection of the Financial Interest of the Union are concerned, DG ECFIN will carry out at least one system audit per Member State. Subject to the results of those system audits, additional follow-up measures will be defined where necessary.

## 3.3. Conclusions on the assurance

DG ECFIN has a reasonable assurance of the legality and regularity of the payments made in 2021 for the Recovery and Resilience Facility, based on the positive assessment of the evidence of the fulfilment of the milestones of the payment request concerned.

For the adoption of the plans, the Commission has assessed if the arrangements proposed by the Member States are expected to prevent, detect and correct corruption, fraud and conflicts of interests and when necessary requested to include in their CID specific reforms and corresponding milestones aiming to remedy certain deficiencies in their control systems.

## 3.4. Outlook for 2022

The assessment is still ongoing for four plans (submitted by Bulgaria, Hungary, Poland and Sweden). The RRP of the Netherlands is expected to be submitted in the first half of 2022.

The implementation of the plans will continue, with between 40 and 50 payment requests expected to be submitted by Member States in 2022.

DG ECFIN and SG RECOVER will also finalise certain elements of the design of the control strategy covering the legality and regularity, namely the procedures for suspension of payments and reduction of support in cases where milestones and targets for a particular payment request have not been met partially or fully. Additionally, DG ECFIN and SG RECOVER are also developing the assessment criteria to test the compliance of the key requirements of the management and control systems set out in annex 1 of the financing and loan agreements.

Finally, as provided by article 11(2) of the RRF Regulation, the calculation of the maximum financial contribution will be updated by 30 June 2022 for each Member State by replacing the data from the Commission Autumn 2020 forecasts with the actual outturns in relation to the change in real GDP 2020 and the aggregated change in real GDP for the period 2020-2021. In line with article 18(2) of the Regulation, Member States will have the possibility to submit updated plans to take into account the updated maximum financial contribution. These updated plans will be assessed in line with the requirements set by the Regulation.

According to the signed Financing Agreements, the 2022 commitments for the 22 Member States total €198 billion.