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European Commission

Annual Activity Report 2020

Directorate General for Economic and Financial Affairs

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THE DG IN BRIEF

Our mission 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. DG ECFIN facilitates these requirements. The nature of that work changed completely in March 2020 when the COVID-19 pandemic struck. Effort and resources shifted to support MS economies weather the pandemic. Nonetheless, some traditional areas of DG ECFIN work continued: Post-programme surveillance continued for countries receiving financial assistance after the economic crisis starting in 2008. So did DG ECFIN 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 2020, some DG ECFIN activities were backed by budget expenditures, achieved either through direct management, grants and purchases or through indirect management with entrusted entities and budgetary guarantees. Hence, DG ECFIN mixes direct assurance and third party assurance in its accountability chain, an arrangement that has proved smooth and reliable. We also designed and implemented, in close cooperation with the EIB Group and the EBRD, EU investment programmes including the "Investment Plan for Europe", its proposed successor programme, InvestEU and the "External Investment Plan".

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 IMF, G7, G20 and international development banks, together with key non-EU national authorities are also important stakeholders.

A Commission wide reorganisation on 01/01/2020 saw staff transfers from DG ECFIN to DG BUDG, leaving DG ECFIN with an average 600 statutory members of staff working in 9 directorates, 3 devoted to country-specific analysis, 6 to horizontal issues (policy coordination, resources, international relations, growth drivers, fiscal policy, InvestEU and financial institutions by January 2021) and the Secretariat of the ECOFIN formations EFC, EPC, EWG and the Eurogroup President.

Three units reporting directly to the Deputy Director General were charged with InvestEU. Most staff work in Brussels, but 50 work in Luxembourg and 3 in the USA and China.

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 takes political responsibility for the decisions it takes as well as for the coordinating, executive and management functions it exercises, as laid down in the Treaties[1].

A. Key results and progress towards the achievement of the Commission's general objectives and DG's specific objectives (executive summary of section 1)

2020 was exceptional. In February, DG ECFIN's winter forecast saw a small slow-down in economic activity. A month later, the COVID-19 pandemic plunged the EU economy into an unprecedented recession. DG ECFIN targeted resources on supporting the economy during and after the pandemic and analysis to prepare a radically different economic outlook.

In response to Member States' immediate economic needs, DG ECFIN worked on the SURE initiative[2] to provide temporary loans supporting Member States' significantly expanded public expenditure on short-time work schemes and similar measures. SURE kicked off in summer 2020 with the assistance of DGs BUDG and EMPL as well as the Legal Service. With the same goal in mind, ECFIN helped put in place the ESM's Pandemic Crisis Support, a precautionary credit line for Member States worth up to €240billion. A Delegated Regulation prepared by ECFIN and adopted on 19 June 2020 streamlined the economic policy surveillance of Member States using this facility.

On 27 May 2020, the Commission presented its Communication on Next Generation EU, its comprehensive plan to protect lives and livelihoods, repair the single market and build lasting recovery. DG ECFIN analysis of the pandemic's financial impact on the corporate sector appeared in the accompanying Staff Working Document. The package included a proposal for a new Recovery and Resilience Facility (RRF), which ECFIN was central in putting together. The package was agreed politically on 18 December and implementation begins in 2021.

DG ECFIN has been preparing intensively for the RRF's implementation since mid 2020, working closely with SG RECOVER and many other line DGs. ECFIN has also been actively

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

helping Member States prepare their national Recovery and Resilience Plans and preparing the steps once implementation starts.

DG ECFIN also co-operated with SG RECOVER to operationalise the green and digital dimensions of the plan, the "Do not significant harm" concept laid down in the Regulation and develop a methodology for climate tracking and digital tagging.

Publication of the winter package in February 2020 was as normal but the pandemic's arrival shortly after meant the subsequent annual European Semester work focussed on the immediate reform and investment priorities needed to mitigate the impact of the shock and support recovery. In the spring package published on 20 May 2020 country-specific recommendations (CSRs) were proposed with economic policy guidance to all EU Member States focused on their most urgent challenges in facing the pandemic. Subsequently, the Annual Sustainable Growth Survey (ASGS), presented in September 2020, introduced significant changes to the operation of the European Semester, to accommodate the implementation of the Recovery and Resilience Facility and streamline the procedures involved.

Implementation of the Macroeconomic Imbalances Procedure continued near normal in 2020. Analysis in the 2019 Alert Mechanism Report highlighting macro stability risks for some Member States led to in-depth reviews of 12 Member States published in February 2020: 9 identified as having imbalances, 3 as having excessive imbalances. The Alert Mechansim Report 2021 was produced in November 2020 and its analysis integrates the pandemic context. In it, the same 12 countries were selected for a new In Depth Review in 2021.

On fiscal developments, ECFIN focused on monitoring Member States' short-term measures to deal with the health crisis and mitigate the pandemic's economic impact following application of the General Escape Clause of the Stability and Growth Pact (SGP) proposed by DG ECFIN in March 2020. Article 126(3) reports under the Stability and Growth Pact were published in May 2020 but Excessive Deficit Procedures (EDP) were not opened against Member States with deficits likely to exceed 3% of GDP in 2020 in recognition of the pandemic's impact. The EDP for Romania was launched on the basis of its 2019 deficit.

A communication on an Economic Governance Review – examining the effectiveness of different surveillance elements introduced or amended by the six-pack and two-pack – was published on 5 February 2020. The onset of the pandemic has, however, put the review on hold because of its heightened impact on economic and budgetary uncertainty.

In January, DG ECFIN published its annnual Debt Sustainability Monitor comprehensively analysing short-, medium and long-term challenges to fiscal sustainability. It was updated in Spring 2020 to reflect the changing circumstances and feed into ECFIN's SGP assessments. Meanwhile, work continued to project the economic and budgetary impact of ageing with publication of 'The 2021 Ageing Report - underlying assumptions and projection methodologies' in November 2020.

With a view to adoption in January 2021, the last steps to finalise ESM reform were made in 2020. This reform will allow the creation of a facility for bank resolution, another step in completing the Banking Union. Also in 2020, DG ECFIN was a key contributor to the Communication “The European economic and financial system: fostering openness, strength and resilience” and started to study how the euro could stay fit in the digital age. On that, ECFIN has been cooperating with other services and the ECB.

Bulgaria and Croatia joined the Exchange Rate Mechanism (ERM) II in July 2020 after the Commission and the ECB assessed the fulfilment of the necessary prior commitments positively. DG ECFIN also contributed to future euro area enlargement with its 2020 Convergence Report adopted in June.

On 14 January 2020, the Commission adopted the Communication on the “Sustainable Europe Investment Plan” or the European Green Deal Investment Plan.

The Commission then proposed an enhanced InvestEU programme on 27 May 2020, putting another lever at the Commission’s disposal to tackle the current economic crisis with crucial support for companies and economic recovery. It will provide an EU budget guarantee allowing the EIB Group and other implementing partners to invest in more higher-risk projects, crowding in private investors; around €300 billion of additional public and private investment is expected in key EU green and digital policy areas.

By end 2020, approved EFSI operations mobilised investment over and above the EUR 500 billion of total investment. EUR 545.3 billion (109% of the end-2020 target) of investments were supported across both investment windows mentioned below. In the Infrastructure and Innovation Window, the European Investment Bank (EIB) approved 733 projects of around EUR 314.5 billion in investment value, with EFSI-guaranteed EIB financing expected to amount to EUR 69.8 billion. In the SME Window, 816 operations have been approved by the European Investment Fund for a total investment value of EUR 233.3 billion. About 1.46 million SMEs and mid-caps in all Member States are expected to benefit.

DG ECFIN continued to contribute to the Commission’s geopolitical agenda. Regular Macro Financial Assistance (MFA) continued; 3 operations providing financing to Ukraine, Georgia, Moldova were concluded and the first installment of Jordan MFA III disbursed (following EU adoption in January 2020). In April 2020, the Commission adopted a proposal for a €3 billion MFA package to 10 enlargement and neighbourhood partners to combat the pandemic; by end-2020, the EU had disbursed the first instalments to 7 of the 10 partners: Kosovo, Montenegro, North Macedonia, Georgia, Moldova, Ukraine and Jordan. In addition, DG ECFIN received two additional requests for new MFAs in 2020. ECFIN has assessed the first of these requests (Belarus) and is currently reviewing the second (from Armenia).

Macroeconomic dialogues took place throughout 2020. In May, the Economic and Financial Dialogue of the EU with the Western Balkans and Turkey adopted Joint Conclusions with specific policy guidance for enlargement countries. Enlargement countries' Economic Reform Programmes (ERP) submitted end-January initiated the dialogue and Commission assessment. In October, the Commission adopted country reports for 7 enlargement countries and the Investment Plan for the Western Balkans. DG ECFIN prepared the reports’ economic chapters.

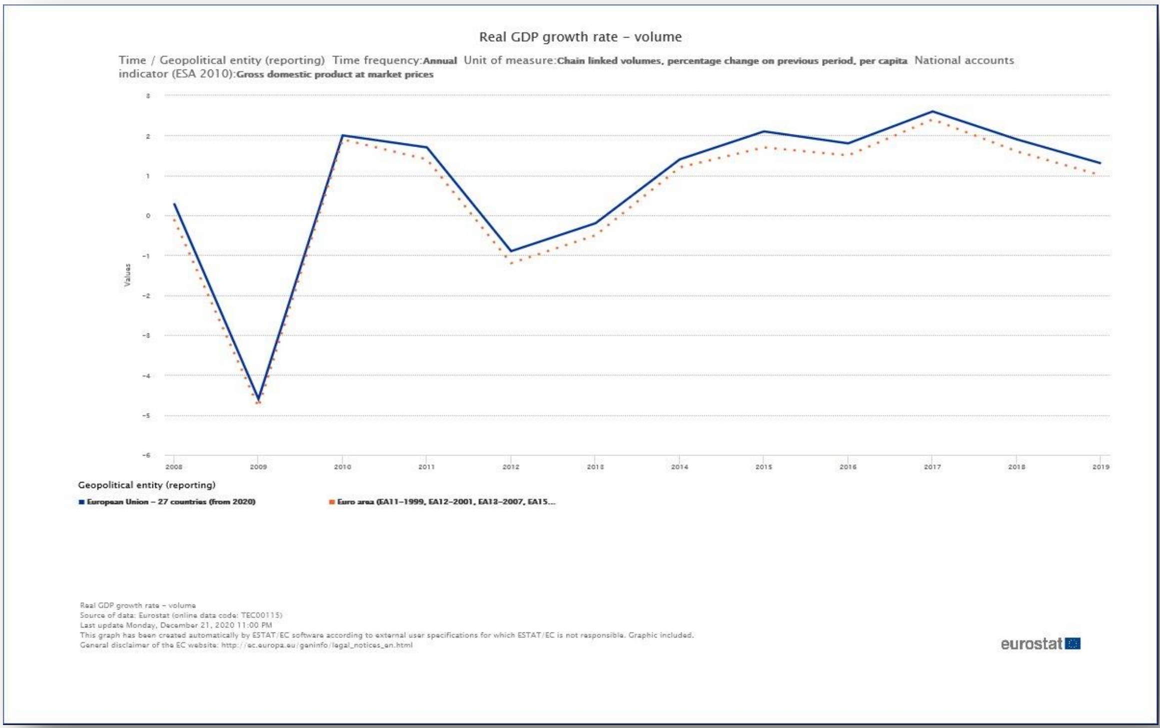
ECFIN played a leading role in economic policy discussions in the G20 and G7 fora as well as the IMF and other IFIs to coordinate the international policy response to the pandemic.

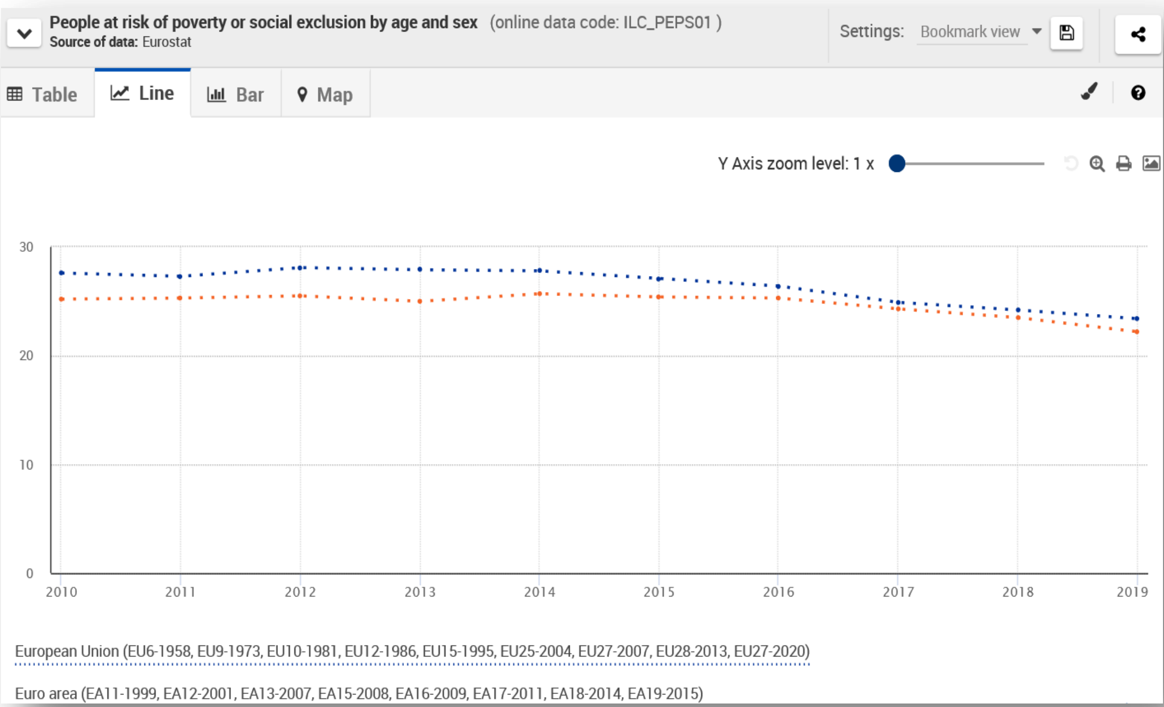
A major result was the adoption (in April) and update (October) in the G20 of an Action Plan Supporting the Global Economy through the COVID-19 Pandemic. Another was the IMF crisis response package, agreed in the April 2020 Spring Meetings.

Alongside policy work, ECFIN adjusted its communication activities to the new circumstances. DG ECFIN's key annual event, the 2020 Brussels Economic Forum, in its new digital format debated the new European economy after the pandemic as well as the green and digital reboot. With excellent support from DG COMM, ECFIN broadcast the event including on the corporate YouTube and LinkedIn accounts, reaching a record audience.

B. Key Performance Indicators (KPIs)

DG ECFIN's Strategic Plan 2020-2024 selected the real GDP per capital growth rate and people at risk of poverty or social exclusion as its 2 key performance indicators. Increasing GDP growth and reducing people at risk of poverty reflect DG ECFIN's ultimate goal: raising living standards fairly. The graphs below give the latest known situation:





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

In accordance with the governance arrangements of the European Commission, DG ECFIN conducts its operations in compliance with the applicable laws and regulations, working in an open and transparent manner and meeting the expected high level of professional and ethical standards.

To ensure the achievement of policy and management objectives, the Commission has adopted a set of internal control principles, based on international good practice. The financial regulation requires that the organisational structure and the internal control systems used to implement the budget be set up in accordance with these principles. DG 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 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 (ECA). 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; 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.

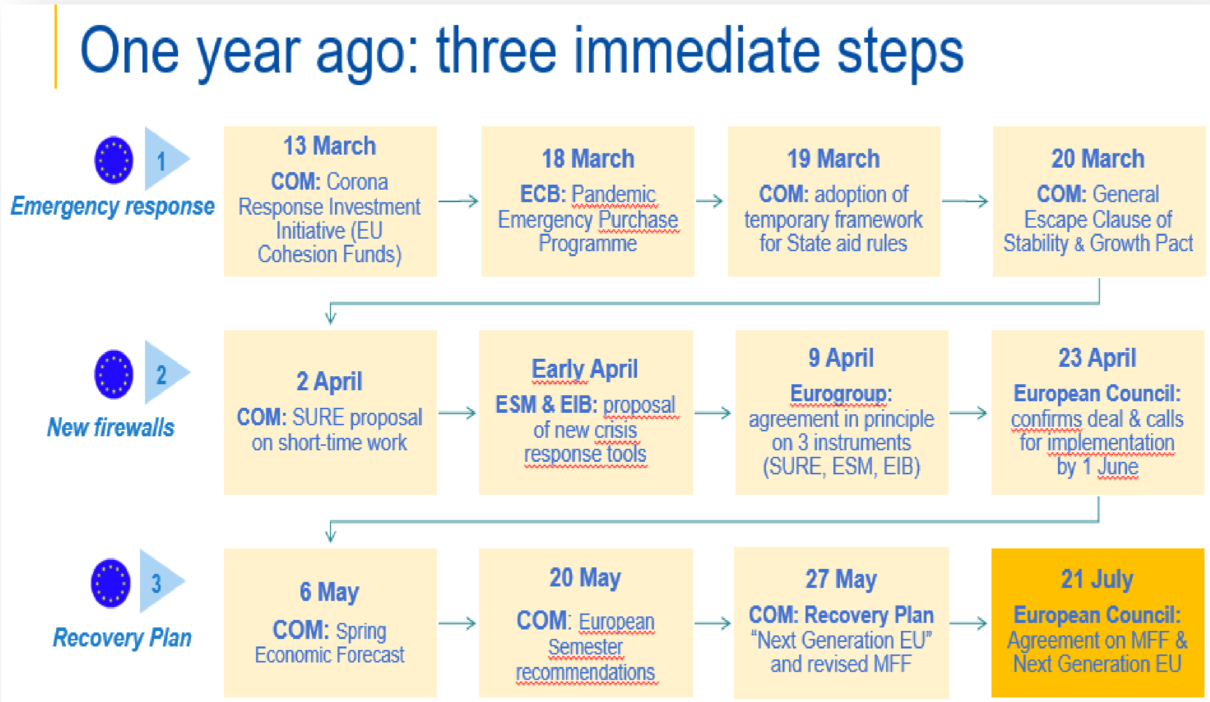
D. Provision of information to the Commissioner(s)

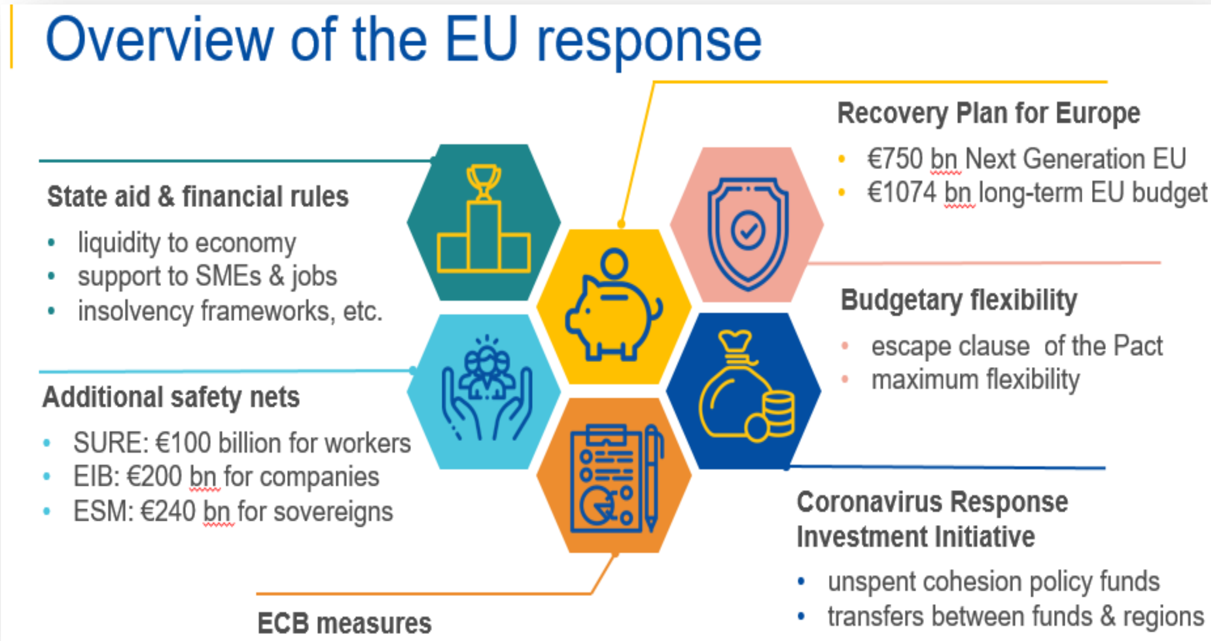
In the context of the regular meetings during the year between the DG and the Commissioner on management matters, the main elements of this report and the assurance declaration have been brought to the attention of Commissioner Gentiloni, responsible for Economy.

E. Specific actions on COVID-19

In 2020, Europe was strongly impacted by the COVID-19 pandemic. The Commission has proposed a strong and coordinated response to the health crisis as well as to the impact on Europe's economy and society. COVID-19 has also posed challenges as regards performance, control, audit and assurance in relation to the 2020 EU budget. In an exercise coordinated at corporate level, all Commission services have promoted the consistent and rigorous protection of the EU budget ensuring that appropriate mitigating measures were put in place.

Summarising part A, ECFIN work in 2020 changed to address the economic impact of the pandemic. Recognising the need for fiscal support to the economy, it adjusted its fiscal surveillance by activating the General Escape Clause of the Stability and Growth Pact. The economic effects of the pandemic drove its analysis and surveillance work, and the country specific recommendations proposed under the European Semester reflect the support needs created by the pandemic. DG ECFIN was instrumental in the proposal and adoption of the SURE mechanism on short-term work, and worked closely with its partners to make the ESM's new Pandemic Crisis Support instrument possible. It was central to the proposal and later negotiation of the Recovery and Resilience Facility and worked closely inside the Commission and with Member States to prepare the Facility's implementation, which will provide Member States with up to € 672,5 billion in grants and loans.





Given the volume and importance of the EU response to the COVID-19 crisis through Next Generation EU and RRF in particular, DG ECFIN devoted resources to assessing the developing risk landscape and preparing an adequate control of the future management of the funds.

A specific working group was put in place that worked the better part of the second half of the year to develop a control strategy for the RRF with guidance to Member States.

Due to its size and new type of work for DG ECFIN, management of the RRF as of 2021 was identified as a critical risk for DG ECFIN. Mitigating measures and an action plan were established to reduce the risk. These include establishing a new unit in DG ECFIN for audit and control with additional qualified staff, extending the Internal Control Management Group (ICMG) to include representatives from all directorates involved in RRF, providing training on ethics, RRP assessment and financial circuits to all involved staff and, finally, coordinating intensively with SG-RECOVER, BUDG, OLAF and the structural funds DGs.

1. Key results and progress towards the achievement of the Commission’s general objectives and DG's specific objectives

General objective 3: An economy that works for people

Delivering on an economy that works for people is a primary DG ECFIN objective, achieved using surveillance, analysis, coordination and legislative actions to deliver economic conditions that help Europeans thrive and prosper with social fairness. To that end, DG ECFIN worked in 2020 to support Member States implementing growth-enhancing reforms and with EU financing to support their economies in the face of the COVID-19 pandemic.

In 2020, the impact of COVID-19 on the EU and euro area economy was unprecedented and severe. The EU set out an ambitious recovery plan through “Next Generation EU”, and amended its plans under the MFF in order to provide support to governments, firms and people. The scale of the crisis called for a coordinated fiscal stimulus to mitigate the economic downturn and support the recovery. Fiscal policy is all the more important in a context where monetary policy support faces constraints. Several important steps were taken in that direction.

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

Temporary Support to mitigate Unemployment Risks in Emergency (SURE)

SURE is one safety net swiftly adopted to tackle the socio-economic impact of the pandemic[3]. It provides Union financial assistance in the form of temporary loans to support Member States’ significant increase in public expenditure due to short-time work schemes and similar measures. Helped by DGs BUDG, EMPL and the LS, ECFIN operationalised this instrument in summer 2020. The Council has already approved EUR 90.3 billion of financial support to 18 Member States under SURE, out of the maximum permitted EUR 100 billion.

By mid March 2021, loans worth EUR 62.5 billion (of which 39.5 billion by 31.12.2020) had already been disbursed to help 15 Member States protect jobs and loss of income. Following the pandemic’s second wave, further requests are expected for financial assistance under SURE, mostly as top-up.

The Commission will produce its first bi-annual report on the use of financial assistance to the Council, the Parliament, the Economic and Financial Committee and the Employment

[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.

Committee in 2021 presenting the experience with SURE, these reports could feed into future reflections on a permanent European unemployment reinsurance scheme.

Delivering and implementing a Recovery and Resilience Facility (RRF)

On 27 May 2020, the Commission presented a comprehensive plan to protect lives and livelihoods, repair the single market and build a lasting recovery. The plan included a revamped Multiannual Financial Framework (MFF) for 2021-2027 and a new instrument, Next Generation EU (NGEU). As part of that, the Commission proposed a regulation establishing the Recovery and Resilience Facility (RRF). The EU's Heads of State and Government agreed in July on the key features of the MFF and the NGEU. DG ECFIN was made responsible for passing the regulation through the legislative process to ensure it is in place by the 30th April 2021, the deadline for Member States to submit their Recovery and Resilience Plans and has been working to that end.

On 5 October, the Council agreed a negotiation mandate for the RRF. On 18 December, after 5 weeks of trilogue negotiations, co-legislators reached a political agreement. The agreement reflects a balanced compromise between the concerns expressed by the Council and the EP, and is in line with the European Council Conclusions of July 2020. This paved the way for a final vote in the EP and adoption by the Council. This allowed the RRF Regulation to enter into force in February 2021[4].

Intense preparations to implement the RRF started before summer 2020, in close collaboration with SG RECOVER and often with input from many other line DGs. A first extensive set of questions and answers were shared with Member States at the end of July, just after the European Council. In September, the Commission published a guidance note and template, along with the Annual Sustainable Growth Strategy 2021 (ASGS), to help Member States prepare their recovery and resilience plans. In parallel, DG ECFIN and SG RECOVER set up a Q&A system, allowing Member States to submit questions to a functional mailbox and obtain a validated reply within a short period of time. By the end of the year more than 400 questions had been sent to that mailbox and replies of general interest made available to all Member States and Commission staff via a dedicated wiki page. DG ECFIN also helped prepare the seven example components published on the RRF website, one in each of the flagship areas outlined in the ASGS.

Internal preparations also took place, notably developing internal assessment guidelines to ensure consistency in the assessment of plans, providing over 20 internal trainings and info sessions and preparing templates for the main documents required for the implementation.

To aid implementation of the Green Deal and foster the twin transitions, work was done together with SG RECOVER to operationalise the green and digital dimensions of the plan. This focused on the development of the climate tracking methodology and digital tagging in order to account for the fact that 37% of the funding should be allocated to climate action and 20% to digital.

[4] REGULATION (EU) 2021/241 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 12 February 2021 establishing the Recovery and Resilience Facility published on 18 February 2021

An additional work stream was to operationalise the “Do not significant harm” concept as laid down in the Regulation, in relation to the environmental objectives.

In addition to the legislative work, DG ECFIN and the SG RECOVER are jointly tasked with preparing and ensuring the adequate implementation of the RRF. This involves providing guidance to Member States (MS) on their RRF plan preparations, assessing their plans, including their draft versions in Autumn 2020, all in close cooperation with Member States. We will also monitor the future implementation of the Plans.

Discussions with the MS on their policy intentions and draft Recovery and Resilience Plans started straight after the Summer and have gradually intensified. The rythm of the negotiations depends greatly on the Member States’ readiness to come forward with concrete plans but most geographical desks engaging in several technical and high-level meetings a week with their counter-parts in the national administrations. In most cases, the Commission has a good overall view of the policy intentions of the Member States although the specifics of the various plans are still being negotiated. We expect most Member States to submit their formal plans in line with the deadline indicated in the Regulation.

Meanwhile, the necessary preparatory work is being carried out to allow for a swift assessment and adoption of Commission proposals for Council Implementing Decisions on the Member States’ Recovery and Resilience Plans. This also includes the assessment of the progress in implementing past CSRs to establish a baseline for the RRP assessment.

Working with the European Stability Mechanism (ESM) on the Pandemic Crisis Support (PCS)

The Pandemic Crisis Support is a precautionary credit line made available by the ESM to all euro area Member States to respond to the pandemic. Around €240 billion of financing is available to support direct and indirect healthcare, as well as cure and prevention related to the pandemic. With the European Central Bank (ECB), DG ECFIN worked closely with the ESM to finalise the modalities and prepare any use of the PCS instrument. In particular, an assessment of eligibility criteria (including an assessment of public debt sustainability and pandemic financing needs of euro area Member States), was published on 7 May 2020. ECFIN also prepared a Delegated Regulation (adopted 19 June 2020) to streamline the economic policy surveillance of Member States drawing on funds provided under the PCS.

Economic service function

In 2020, DG ECFIN continued providing its economic service function, contributing actively to interservice working groups and consultations, working with other services, organising ECFIN Economic Seminar series, trainings and conferences open to other Services, and holding regular meetings with chief economists across the Commission. ECFIN also organised a conference on “Policy Toolkit for a Better Europe” exploring policies and tools to improve policy making and regularly contributes to discussions in the OECD working parties. ECFIN is a member of the OECD’s Global Forum on Productivity and the Competitiveness Network (CompNet). Our economic forecasts underpin many surveillance processes conducted by the Commission, including the European Semester. They are also used for the annual adjustment exercise of EU officials' remuneration and pensions (art 64-65 of the Staff Regulation).

External communication

On the basis of DG ECFIN's multiannual communication strategy 2019-24, "Using Communication as an Integral Part of Policy Delivery, external communication activities pro-actively promoted, explained and debated how the European Commission and DG ECFIN put this key objective for an economy that works for people into tangible outcomes.

To that end, ECFIN cooperated closely with DG COMM on the corporate Communication Network indicators, based on a Service level agreement (SLA) and a budget transfer of EUR 400 000 to DG COMM to cofinance the campaign on Next Generation EU as the EU response to the pandemic. The cooperation was much closer than in the past as the pandemic led to a readjustment of our previous plans so as to redirect resources and budget towards communicating this unprecedented challenge. This enabled us to highlight, explain and present with tangible results the economic and financial aspects and ECFIN's contribution to all steps of the European Semester process and overall EU response.

To exploit synergies, ECFIN external communication co-chaired with DG COMM the economy cluster of the Coronavirus Communication Taskforce. That allowed us to coordinate and ensure the coherence of the wide range of communication actions on economic anspects of the EU response. A main output was the communication plan of the economy cluster to identify key priorities, objectives and deliverables to communicate to the general public and stakeholders alike. This was key to ensuring highly convergent common communication actions to maximise impact and cost-efficiency.

ECFIN's own communication actions included press materials and visually attractive and informative social media content (visuals and gifs on SURE and the RRF). In cooperation with DG COMM, ECFIN overhauled its web presence by restructuring the website "Business, Economy and the Euro" and launching new RRF and SURE webpages. The unit also produced a video on the InvestEU programme and steered the production of Euronews episodes on coronavirus related aspects of EU economic policy. Tangible InvestEU success stories have been highlighted, the fortnightly external ECFIN newsletter produced, selected ECFIN publications promoted and the annual stakeholder and journalist outreach programme tailored to prominently feature investment and how funding supports the real economy.

DG ECFIN's key annual event, the 2020 Brussels Economic Forum, in its new digital format debated the new European economy after the pandemic as well as the green and digital reboot. ECFIN arranged excellent support with DG COMM to broadcast the event from the Commission's TV studio and curtain-raise it on the corporate YouTube and LinkedIn accounts. More generally, efficient and effective communication was ensured throughout the year with planning and coordinating activities on key policy milestones closely with the Cabinet's communication adviser and the SPP and by making full use of the European Semester Officers (ESO) network. Moreover, the Communication unit's Interinstitutional Relations team provided intelligence gathering, reporting and networking service to support negotiations on major ECFIN files, while the unit's briefing coordination team coordinated with ECFIN units their timely and high-quality assignments.

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 integrate the new economic narrative and the UN Sustainable Development Goals.

During the 2019-2020 Semester cycle, steps were taken to adapt the European Semester process and its main outputs (the Country Reports and the country-specific recommendations) to the new economic narrative centred on the four dimensions of competitive sustainability. Initial steps were also taken to better integrate the United Nations' SDGs into the Semester cycle (An event on this was planned with the Council Presidency, which could not go ahead due to the pandemic. However, the annual flagship event Brussels Economic Forum on 29 June 2021 will now dedicate a specific side event to this) with work initiated to develop indicators monitoring the transition to an environmentally sustainable economy, including a first discussion with Member States.

As a result of the pandemic, however, the European Semester of economic policy coordination was refocused on the immediate reform and investment priorities to mitigate the impact of the shock and support the recovery. This required intense coordination between the various concerned services within ECFIN as well as Commission-wide to agree on a common set of policy recommendations which takes into account the specific economic, political and institutional context in each Member State.

In the second half of 2020, work started on integrating the Recovery and Resilience Facility in the European Semester. This required some temporary adjustments to the usual Semester timeline and outputs: dedicated Country Reports will not be published in Winter 2021; instead, analysis of the economic and social situation in Member States will be integrated in the assessment of Member States' Recovery and Resilience Plans and published as Commission proposals for Council Implementing Decisions for each Member State with an accompanying Staff Working Document. This work continues in 2021. The European Court of Auditors concluded a performance audit[5] with 2 Important recommendations to improve the implementation and monitoring of country specific recommendations. They were accepted and should be implemented by mid-2022.

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

Against the background of the pandemic, on the operation of monetary policy under the constraint of the effective lower bound and high debt-to-GDP ratios in some Member

[5] SPECIAL REPORT No 16 2020 The European Semester – Country Specific Recommendations address important issues but need better implementation

States, DG ECFIN supported policy making with analytical input on the optimal policy mix in the European Monetary Union (EMU). These included analyses on the possible interactions between fiscal and monetary policy under large uncertainty, the transmission of the ECB's unconventional monetary measures in response to the crisis, of governments' expected financing needs and Eurosystem bond purchases, the interaction between public health issues and the economy, and the implications of high government debt and financing needs with low interest rates for the conduct of monetary and fiscal policy.

External communication

As for specific objective 1 above, ECFIN communication pro-actively promoted, explained and debated European Semester milestones integrating the SDGs to deliver on the priorities for a green, grey and digital economic transformation under the new circumstances of the post-COVID-19 economic recovery.

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 based on more transparency and more coordination in the euro area

A communication on an Economic Governance Review – looking to 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. It aimed to provide background work to launch an open debate, but the Review's follow-up was delayed by the pandemic. Consultations with stakeholders need to be resumed to foster a common understanding of the shortcomings (and stronger points) of the current framework, discuss Member States', the European Parliament's and other stakeholders' preferences about the way forward, and ideally build a consensus on the outline of a reform, be it via legislative changes or improvements in implementation. The debate will have to bear in mind the different challenges resulting from the impact of the COVID-19 crisis, for example on fiscal sustainability, macroeconomic stability and the need to enhance the economic and social resilience of Member States' economies, including the substantial public investments needed to support the green and digital transitions. Circumstances allowing, this includes discussions in committees with dedicated notes, presentations at think tanks and in national capitals.

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

In 2020, DG ECFIN implemented the surveillance framework taking into account the extraordinary economic conditions. DG ECFIN elaborated a qualitative policy guidance for 2021, allowing for the need to continue implementing emergency measures to mitigate the economic and social impact of the pandemic and progressively moving towards supporting a durable recovery. This implied recommending an expansionary fiscal stance, including by boosting public investment, while safeguarding fiscal sustainability. On the macroeconomic front, the Macroeconomic Imbalances Procedure was implemented and imbalances identified highlighting macro stability risks also taking into account the very high uncertainty in the context of the on-going pandemic. MIP relevant policy guidance was integrated in the CSRs which also reflected the special circumstamces with the pandemic and the need to support the econmy.

In 2020, ECFIN focused on monitoring Member States' implementation of short-term fiscal measures deployed to deal with the health crisis and to mitigate the economic impact of COVID-19, thanks to the application of the General Escape Clause of the Stability and Growth Pact (SGP). The latter was activated due to the severe economic downturn in the EU caused by the impact of the COVID-19 pandemic and by the exceptional uncertainty surrounding the economic growth outlook. Fiscal surveillance also focused on the need for Member States to avoid unfinanced non-temporary measures, which can undermine fiscal sustainability in post-pandemic period.

DG ECFIN provided input in the policy coordination and surveillance processes and debates to underpin an adequate policy mix, ensuring an appropriate balance between sustainability and stabilisation considerations. The Recovery and Resilience Facility will help avoid withdrawing the fiscal stimulus too early. Subsequent exit strategies while ensuring support for a rebound will require delicate balancing also taking into account macro economic risks.

The review of the economic governance framework was published in February 2020 but the public debate that should have followed to inform possible reform proposals for the framework has been postponed due to the challenges posed by the pandemic.

DG ECFIN prepares various outputs to ensure effective fiscal surveillance and support economic stability in the euro area and the EU. These include regular economic forecasts for the EU and national economies published throughout the year, as well as the regular tracking of economic sentiment amongst consumers and businesses. It also includes: (i) monitoring, technical and methodological notes to the ECOFIN and ECOFIN Committees (i.e. the Economic and Financial Committee (EFC), Eurogroup Working Group (EWG), Economic Policy Committee (EPC) and their subcommittees and working groups); (ii) legal documents and, where relevant, accompanying Staff Working Documents (SWDs) as envisaged under the Stability and Growth Pact (SGP); (iii) country-specific Commission Opinions on the Draft Budgetary Plans (DBPs), as required by the Two Pack; (iv) Commission Communications in case of the overall assessment of Draft Budgetary Plans in the euro area or in particular circumstances like the Communication on the activation of the General Escape Clause of the SGP; and (v) Commission reports such as the Alert Mechanism Report (AMR) and the Debt Sustainability Monitor (DSM).

In response to the extremely uncertain economic outlook in spring 2020, ECFIN streamlined the template for the 2020 Stability and Convergence Programmes, limiting the data Member States are normally required to report just to data focused on emergency measures adopted to respond to the health crisis and its economic impact.. The extreme uncertainty also meant no proposals to open Excessive Deficit Procedures (EDP) based on planned deficits exceeding 3% of GDP in 2020. An EDP was opened for Romania on the basis of its 2019 deficit outturn. Assessment of Draft Budgetary Plans (DBP) for the following year submitted in autumn also accommodated the crisis. The regular publication of the Vade Mecum on the Stability and Growth Pact was suspended as activation of the General Escape Clause made irrelevant much of the document's information.

As part of EU regular fiscal surveillance, DG ECFIN also provides on an annual basis an assessment of fiscal sustainability challenges in EU Member States. The latest Debt Sustainability Monitor was published on 24 January 2020 analysing in a comprehensive manner risks to fiscal sustainability using a multi-dimensional approach covering, short-, medium and long-term fiscal challenges. It notably incorporates a module on banking sector risks and a conceptual framework for the development for covering climate change related risks. An updated fiscal sustainability analysis was aslo prepared in the spring 2020, and used in the context of the SGP (for the assessment of medium-term government debt positions in Article 126(3) reports published on 20 May 2020).

DG ECFIN also monitors risks from macroeconomic imbalances under the Macroeconomic Imbalance Procedure (MIP). Based on analysis in the Alert Mechanism Report, general imbalance and macro economic risks and trends are monitored and several countries selected for an in-depth review integrated in the Country Reports. In February 2020, 9 countries were identified with imbalances, 3 with excessive imbalances. The assessment and analysis was discussed in Council Committees. Policy follow up to identified imbalances was integrated in the European Semester country specific recommendations. In November 2020, the Alert Mechanism Report 2021 selected the same 12 countries for a new IDR in 2021. Given the context of the RRF and the European Semester in the new cycle, this year's specific monitoring to follow up on policy implementation to address imbalances, was suspended. Extensive methodological work was also conducted in collaboration with Council Committees (EPC and LIME[6]).

To underpin economic surveillance, DG ECFIN provided specific analyses to help identify key investment and structural reform priorities and define an appropriate policy mix to address households' and firms' needs for support to combat the pandemic's impact, while also facilitating resource flows into more productive activities and new opportunities offered by the digital and green transitions. To that end, DG ECFIN provided analysis on the pandemic's financial impact on the corporate sector using firm-level data. Results were included in the Staff Working Document accompanying the Communication on Next Generation EU (May). Other horizontal inputs supported surveillance of productivity developments, inequality and taxation. DG ECFIN hosts the network of National Productivity Boards and organised a series of online events with them in 2020 to discuss the economic impact of the Covid-19 crisis and policy responses to mitigate the consequences for households and firms.

The work on developing frameworks for economic surveillance continued and DG ECFIN developed benchmarking frameworks in the areas of public administration and the business environment, which were discussed in the LIME and EPC. Closely linked to the economic surveillance, ECFIN contributed to the assessment of the economic dimensions of the National Energy and Climate Plans (NECPs), in which the Member States set out their energy and climate policy ambitions up until 2030.

[6] Lisbon Methodology (LIME) attached to the Economic Policy Committee

The assessment concerns the investment needs and the assessments of the economic impacts. The NECPs, and the related work, has been an important input to the economic surveillance and the work on the national recovery and resilience plans.

Strengthen national fiscal frameworks and public finance management

As part of the follow-up of the suitability review for the Budgetary Frameworks Directive and the broader 6/2 pack review as well as in accordance with the ECA recommendations stemming from the 2019 performance audit on requirements for national fiscal frameworks, internal discussions were undertaken with the aim of improving the design and functioning of national fiscal frameworks in the EU and their articulation with the EU fiscal framework. The discussions led to some proposals on the revision of existing EU requirements on national fiscal frameworks as contained in the 6/2 pack; which will be subject to consultation within the Commission and with stakeholders in 2021.

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 2020, major steps forward were made in verifying the transposition of the EU requirements for national budgetary frameworks entailing checks and discussions with some ten Member States.

To extend the scope of analysis beyond transposition checks, DG ECFIN developed a strategy for the conduct of implementation checks of the Directive provisions. With some delays due to the current circumstances, the Fiscal Governance database was updated and developed to include a module for the indpendent fiscal institutions; work has progressed for the development of a medium-term budgetary framework module. A discussion paper was published using the database information, particularly in relation to expenditure rules.

Cooperation with independent fiscal institutions has been successfully maintained with the organization of two meetings of the EU Network of Independent Fiscal Institutions. Steps have been made to strengthen such cooperation in line with the ECA recommendation.

To promote the quality of public spending and public financial management, DG ECFIN has continued to examine developments with spending reviews in the Member States, and has initiated to explore public investment management frameworks.

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

Projections of the economic and budgetary impact of ageing: in 2020, work on the preparation of the 2021 Ageing Report continued, deepening the analysis of the impacts of demographic change. Outputs include discussion and agreement with the AWG/EPC on the underlying assumptions for the 2021 Ageing Report focusing on the macroeconomic assumptions. *'The 2021 Ageing Report - underlying assumptions and projection methodologies'* was published in November 2020. Monthly meetings with the EPC-AWG took place, based on notes on the underlying macroeconomic assumptions incorporating Eurostat's latest population projections, released in April 2020, specifically: i) labour force developments and projections, ii) labour productivity (total factor productivity and capital deepening) development and projections; iii) unemployment development and projections; iv) potential GDP developments and projections; iv) assumptions on interest rate developments and projections; v) specifying sensitivity tests and alternative scenarios.

Moreover, in preparation of the 2nd volume of the Ageing Report, notes were prepared on the projection methodologies for the age-related expenditure items, specifically: i) pension expenditure projections; ii) healthcare expenditure projections; iii) long-term care expenditure projections; and, iv) education expenditure projections. The AWG peer reviews of the new pension projections were carried out in the period September-December 2020.

To support the ecological transition, DG ECFIN further developed its green budgeting work stream. This entailed three discussions at the EFC-A meetings to report on progress and present the way forward on green budgeting. DG ECFIN – jointly with the OECD – conducted the first ever green budgeting survey across Member States (both EU and OECD countries), which provided crucial information on existing and planned green budgeting practices. The information gathered was presented at the OECD-Paris Collaborative conference on green budgeting and will be featured in the 2021 Report on Public Finances in the EMU.

A second green budgeting note was also produced proposing a green budget framework. This was discussed at length with Member States, including in expert meetings. It was then considered as a major analytical underpinning of DG REFORM green budgeting training offered to the Member States for 2021. Finally, DG ECFIN, jointly with DG CLIMA, FISMA and ECHO initiated work aimed at strengthening Member States' disaster risk management, particulary in the context of climate-related disasters. Within this, an ECFIN fellow was commissioned a study on the fiscal response to disasters, for delivery in May 2021.

External communication

External communication pro-actively supported preparing the debate on possible improvements of the fiscal surveillance framework. Debate on the review of the Stability and Growth Pact as a key component of the surveillance system will continue to feed outreach seminars and ESO events. In addition, external communication provided further support and material as under the general objective 1 (a European Green deal).

Specific objective 4: A deeper and more resilient Economic and Monetary Union (EMU) in both the economic and financial dimensions

Progress toward a deeper and more resilient EMU was interrupted by the COVID crisis. EU Member States took decisive action, both nationally and collectively, to address the economic fallout from the COVID crisis. These policies, supported by strong action by the ECB, have helped to minimize the impact of the shock on households and businesses, and have thus safeguarded the euro area and the EU.

With a view to its adoption in January 2021, the last steps to finalise the ESM reform were made in 2020. The ESM reform will allow for to the creation a facility for bank resolution, hence marking further progress in completing the Banking Union.

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

DG ECFIN developed analysis underpinning the policy response to the COVID-19 economic downturn. It included an assessment of funding needs to support the economic recovery and the necessary interactions between macroeconomic coordination carried out within the EU legal framework and activation of the ESM instruments.

DG ECFIN participated in discussions on the future of Banking Union held in the High Level Working Group (HLWG) on the European Deposit Insurance Scheme (EDIS). In 2019, the HLWG had worked on defining a transitional path to the steady state of the Banking Union, including a possible sequencing of measures; that work resumed in September 2020 after interruption by the pandemic. The HLWG has improved our collective understanding of interlinkages between different banking union files, though some issues remain unresolved.

In 2020, DG ECFIN carried out further analysis on how sovereign bond markets can work more efficiently and how to create the right incentives for both banks and governments, also to address the so-called bank-sovereign nexus. This is particularly important in the context of addressing the economic effects of the COVID-19 pandemic, as common funding by the EU to fund the Next Generation EU and SURE will translate into higher issuance of safe assets by European institutions.

Current geopolitical developments mean Europe must position itself on the global stage and stand ready to use all the available tools to protect its economy, defend its geopolitical interests, and affirm its economic and financial sovereignty. To deliver that, a stronger role internationally needs to be supported by a stronger architecture internally and a strengthened EMU. In 2020, DG ECFIN was thus a key contributor to the Communication on "The European economic and financial system: fostering openness, strength and resilience".

In 2020, ECFIN started studying how the single currency could stay fit in the digital age, initiating cooperation with other services and the ECB that will be reinforced in 2021.

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 Centre (ETSC) and coordination among relevant stakeholders within the established cooperation fora with the Member States, the ECB and Europol.

The Pericles 2020 programme contributes to the protection of the euro by preventing and combatting of counterfeiting and related fraud, enhancing the competitiveness of the EU's economy and securing the sustainability of public finances. It is one of the programmes of the proposed list of instruments for the next Multiannual Financial Framework, post-2020.

Implementation and management of Commission actions and grants co-financed under the Pericles 2020 programme helped establish a close, regular cooperation and exchange of information among all relevant stakeholders, as defined by Regulation (EU) No 331/2014.

Trilogue negotiations with Council and the European Parliament reached a technical agreement on the Commission's proposal for a Regulation of the European Parliament and of the Council for the period 2021-2027, the 'Pericles IV' programme (COM(2018) 369 final of 31.5.2018). Pericles negotiations will be finalized in 2021 based on the higher political agreement on horizontal issues reached at the end of 2020 and will also include the Commission proposal for a Council Regulation extending the application of 'Pericles IV' to the Member States that do not have the euro as their official currency (COM(2018) 371 final, 31.5.2018) in continuity with the current programme.

DG ECFIN continued monitoring the application of the Regulation (EU) No 1210/2010 concerning authentication of euro coins and handling of euro coins unfit for circulation.

DG ECFIN was also committed to ensuring proper transposition and application of Directive 2014/62/EU of the euro and other currencies against counterfeiting by criminal law. In this framework, based on the report to the European Parliament and to the Council (COM(2019)311 final), the Commission prepared infringement procedures for those Member States not having taken the necessary measures to comply with this Directive.

DG ECFIN started preparing an impact assessment on uniform rounding rules for cash payments and launched an Open Public Consultation. The Commission contributed to the Council's approval of new national euro coin designs under the euro coin regulation (Council Regulation (EU) No 729/2014), being in charge of checking the technical aspects of the coin design (of regular coins, commemorative and common commemorative coins).

DG ECFIN started preparing with the Member States the issuance of a common commemorative coin celebrating the 35th anniversary of Erasmus programme in 2022. The Commission monitored application of Regulation (EU) No 1214/2011 on professional cross-border transportation of euro cash by road between euro area Member States.

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

This activity covers all work relating to the euro area dimension of economic policy – in contrast to work that relates to individual Member States. The Recommendation for a Council Recommendation on the economic policy of the euro area euro area (EARs) and the accompanying Staff Working Document (SWD) for the euro area were important elements of this work. The 2021 euro area recommendations were published in November 2020.

Under this activity, DG ECFIN undertook analytical work, particularly that of a cross-cutting nature, to provide the intellectual underpinning for policy development and policy recommendations. This analytical work focused on the economic impact of the COVID-19 pandemic in order to support policy that will promote as short and as limited an impact as possible, to avoid permanent damage to our economies and to the sustainability of public finances in the medium term. The analysis aimed to provide basis for supporting the euro area economy during the pandemic and the subsequent recovery, promoting macroeconomic and fiscal stability, and growth and employment-enhancing policies in the euro area, including with the view that the reforms improve economic resilience of Member States and the euro area as a whole.

Widen ERM II participation and expand euro area membership if possible

Bulgaria and Croatia joined the Exchange Rate Mechanism (ERM) II in July 2020, following the implementation of a package of policy commitments (prior-commitments). Together with the ECB, DG ECFIN monitored implementation progress and reported regularly on this issue to ERM II parties. In July 2020, the Commission and the ECB provided positive assessments of the fulfilment of these prior commitments, opening the door to the two countries's ERM II entry. DG ECFIN also contributed to the euro area enlargement work by preparing the 2020 Convergence Report which was adopted in June.

External communication

Communication focused on recalling how the new tools and instruments for a stable EMU architecture help stabilise the economic cycle in the COVID-19 emergency. The channels detailed in the section on specific objective 1 were used to promote the bigger picture of EMU deepening to permanently strengthen its architecture. Results from the Eurobarometer survey in the seven non-euro area Member States provided communication opportunities.

General objective 1: A European Green Deal

Climate change and environmental degradation are defining challenges for our generation. As a response, the European Union has launched the European Green Deal, which is the roadmap to making the EU's economy sustainable. This strategy aims at a transformation that will result in a modern, resource-efficient and competitive economy where i) there are no net emissions of greenhouse gases by 2050, ii) economic growth is decoupled from resource use and iii) no person and no place is left behind.

DG ECFIN activities relating to the European Green Deal are principally set out under specific objective 5 (Mobilise around €300 billion of investment funding to finance the green and digital transitions of the EU economy), which relates to financing activities that will support the economy from the fallout of the COVID-19 crisis and provide funds for much needed investments to support the green and digital transformations.

The implementation of the RRF, which belongs to the actions under specific objective 1 will make a significant contribution to the green transition. Actions foreseen under the specific objectives 2 (Integrate the Sustainable Developments Goals (SDGs) into the European Semester, supporting inclusive, green and digital economic transformations in the post-COVID-19 recovery) and 3 (Implement an economic and fiscal surveillance framework to deliver conditions for sustainable economic growth) will also contribute to the attainment of this objective and are described later in this section. Strengthening Europe's role as a global player on economic issues and increase the international role of the euro (specific objective 6) is also important to the success of the European Green Deal: it will be less effective if implemented in isolation from the rest of the world.

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 a Communication on the "Sustainable Europe Investment Plan" also referred to as the European Green Deal Investment Plan (EGDIP), which is the investment pillar of the European Green Deal. The EGDIP was the first policy initiative adopted by the College following publication of the European Green Deal in December 2019. The Investment Plan combines funding under EU budgetary programmes with private investment leveraged through EU instruments such as InvestEU to support the climate transition. Beyond that, InvestEU enables a wide range of other investments, including in support of the digital transition. The Commission has estimated that reaching the current 2030 climate and energy targets will require additional investments of €260 billion a year by 2030[7]. The Commission also proposed a new EU ambition to reduce greenhouse gas emissions by 2030 in view of COP 26 in Glasgow. Additional investments and a solid funding plan will be necessary to meet such increased ambition.

The EGDIP builds on three dimensions of investments: funding, enabling and executing. While public finance will lead the way in delivering investment, it will be down to the private sector to provide the scale. DG ECFIN, in the context of the preparation of the InvestEU programme, is in the process of negotiating financial products with potential InvestEU implementing partners with a view to redirect private investors towards sustainable investments. The public sector also needs guidance and the appropriate means for making sustainable investments, especially in areas like infrastructure and public services where public actors are the main investors. In 2020, the Commission has provided such guidance through the European Semester and the Country Reports and by launching a debate on how to improve EU fiscal governance.

The green transition will only work if it is fair and works for everyone. This is why the Just Transition Mechanism is a core element of the EGDIP. The Just Transition Mechanism will be a combination of public and private money to support workers, citizens and companies of the territories most impacted by the transition. It is composed of three pillars, the Just Transition Fund, the Just Transition Scheme deployed under InvestEU and a new public sector loan facility. In 2020, co-legislators reached a common agreement on the Just Transition Fund Regulation and the Just Transiton Scheme under InvestEU. The Just transition Platform was launched in June and eighteen Member States requested DG REFORM's support for the preparation of their Territorial Just Transition Plans.

DG ECFIN was actively engaged with the EIB Group and other International and National Financial Institutions, with the aim of aligning their activities more closely with the European Green Deal objectives. DG ECFIN, in cooperation with all other relevant DGs in the Commission, contributed to the EIB Group Climate Roadmap 2021-2025 and the EBRD Green Economy Transition Approach 2021-2025 with a view to align the financing activities

[7] Compared to a baseline scenario – United in delivering the Energy Union and Climate Action - Setting the foundations for a successful clean energy transition (COM(2019)285) and including the UK estimated share.

of these institutions with the Paris Agreement. In addition, in the context of the preparation of the InvestEU programme, DG ECFIN prepared in consultation with the EIB Group and other potential implementing partners like the EBRD, the Council of Europe Development Bank and several national promotional banks and institutions, two guidance documents on sustainability proofing and climate and environmental tracking under InvestEU. To improve the functioning of the related InvestEU Advisory Hub, the European Court of Auditors made 13 Important recommendations in a performance audit[8], all accepted. Six have already been completed and the remaining 7 will be completed by the end of 2021.

Delivering and implementing the InvestEU Programme

The InvestEU Programme was proposed in June 2018 as part of the future long-term EU budget. A proposal for an enhanced InvestEU Programme was put forward by the Commission on 27 May 2020 to better respond to the current economic crisis by providing crucial support to companies and the recovery of the European economy.

Co-legislators reached a political agreement on the InvestEU Regulation in December 2020 which paved the way for a swift implementation of the programme.

The InvestEU Fund will grant an EU budget guarantee of around EUR 26 billion to allow the EIB Group and other implementing partners to generate higher volumes of investment and focus on higher-risk projects, crowding in private investors. InvestEU is an important element of the Green Deal Investment Plan, which enables significant investment in the climate transition over the next decade.

It 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. The Just Transition scheme was anchored into the InvestEU Regulation to mobilise private investments for projects in and benefitting to the territories most affected by the transition challenges.

The Recovery and Resilience Facility

The Recovery and Resilience Facility will provide up to €672.5bn in grants and loans to investment and reforms to support the recovery and enhance the resilience of the European economy. It focuses on the twin transitions. The regulation requires 37% of its funds to be allocated to climate action and 20% to the digital transformation. It also supports environmental sustainability more broadly, in particular biodiversity. The ‘do not significant harm’ provision ensures that all activities supported by the Facility will not do harm to the environmental objectives, as covered by the Green Deal. As mentioned previously, methodologies for the climate and digital tracking have been defined to track the share of climate and digital funding, and guidances have been developed to operationalise the ‘do not significant harm’ provisions. The Commission has in the Annual Sustainable Growth Strategy for 2020 defined seven flagships where it sees opportunities for the Member States to focus its investment and reforms in the national Reform and Resilicence Plans.

[8] SPECIAL REPORT No 12 2020 The European Investment Advisory Hub — Launched to boost investment in the EU, the Hub’s impact remains limited

The flagships cover notably renewable energy, energy efficiency in buildings, sustainable transport charging/fuelling, connectivity, digitalising public administrations, data capacity and digital skills.

Analytical underpinning to the work on the Green Deal

Analytical work, including modelling work, is carried out to assess the various economic consequences of the policies constituting the Green Deal. This concerns the overall macro-economic impact both in the short and long term, covering e.g. consequences on growth, income inequality, investment, consumption and employment, structural changes as well as the fiscal impact. It also concerns policy design, both in terms of the choice between different policy instruments, but also a more granular analysis of the policy design in specific areas, policies. In 2020, work has in particularly focused on the support to renewable energy, including solar and wind power production, and on the impacts of the transition to low emission vehicles.

External communication

Communication supported explaining how the Sustainable Europe Investment Plan, the European Green Deal and the digital transformation all link to InvestEU. For the InvestEU programme itself, ECFIN built the new InvestEU website in all EU languages to be ready for its launch in 2021 to inform on the progress of the InvestEU programme. The communication campaign's first phase is ready for the 2021 launch. ECFIN communication provided material on tangible success stories of InvestEU and supported the expert desk in the production of videos on European Investment Project Portal[9] beneficiaries. Similarly, DG ECFIN provided material for the Green Deal corporate campaign. Further communication actions followed the same rationale as explained under specific objective 1.

General objective 2: A Europe fit for the digital age

In 2020, DG ECFIN delivered on this objective through activities under both specific objective 1 (Support the Member States' economies to become economically and socially more resilient and minimise the lasting impact of the COVID-19 pandemic on the EU, by delivering up to €672.5bn in grant and loans under the Recovery and Resilience Facility), and under specific objective 5 (Mobilise around €300 billion of investment funding to finance the green and digital transitions of the EU economy) and 2 (Integrate the Sustainable Developments Goals (SDGs) into the European Semester, supporting inclusive, green and digital economic transformations in the post-COVID-19 recovery).

As part of its economic function, DG ECFIN analytically supported the policy initiatives aiming at promoting the development and deployment of digital technologies, the proper use of data, the diffusion of innovation, equipping the population with skills for the future, and making sure that the digitalisation benefits are shared in an inclusive manner.

[9] https://ec.europa.eu/eipp/desktop/en/index.html

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

Delivering and implementing the InvestEU Programme

InvestEU will give public-private investors the opportunity to take part in the green and digital transformation by providing a public guarantee that will de-risk investments. The InvestEU programme is expected to mobilise around €370 billion of additional public and private investment in key EU policy areas. This shall include investments in digital connectivity infrastructure that increases the capacity and resilience of EU networks. It shall also support digitalisation of transport and promote more energy efficient networks, digital connectivity services and data centres. Through its Research, Innovation and Digitisation window, InvestEU shall also support research as well as innovative entities that contribute to the digital transformation of businesses, markets and Member States.

DG ECFIN is currently negotiating the various financial products that will be included in the guarantee agreements with potential implementing partners. DG ECFIN has been organising seminars and working group meetings to involve potential implementing partners in the preparation phase of InvestEU.

Other

The InvestEU Fund is a market-based, demand-led, but also policy-driven instrument. It will support investments for the digital transformation mainly under the research, innovation and digitisation window. Moreover, digitalisation aspects are also present under the sustainable infrastructure (roll-out of digital technologies), SME (better conditions for portfolios of SMEs wishing to obtain loans for digitalisation purposes) or social (through support of digital skills) windows. In relation to the economic service function, the various economic consequences of the economy's digitalisation are analysed and assessed - both in the short and the long term, focused on investment needs and technology developments.

External communication

DG ECFIN's communication activities under this general objective were as under general objective 1 (a European Green deal) and specific objective 5 .

General objective 4: A stronger Europe in the world

In 2020, DG ECFIN pursued the Commission's geopolitical agenda through its conduct of economic policy and interactions with global partners. DG ECFIN has set up Macro Financial Assistance programmes for enlargement and neighbourhood countries helping them weather the pandemic's impact on their economies. It has also helped make the EU a global player in international and multilateral organisations – especially the G7, G20 and IMF.

In addition to the activities under specific objective 6 (Strengthen Europe's role as a global player on economic issues and increase the international role of the euro), the pursuit of specific objective 3 (A deeper and more resilient EMU in both the economic and financial dimensions) will increase the economic sovereignty of the European Union, enabling it to be self-reliant and to pursue its economic and political objectives with fewer constraints.

Strengthening Europe's role as a global player on economic issues and increase the international role of the euro (specific objective 6) should help ensure the European Green Deal's success by building cooperation with the rest of the world. A stronger role for the EU in international fora and international institutions will permit it to better defend the EU's socio-economic model and achieve General objective 3 (an economy that works for people).

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

In 2020, DG ECFIN continued implementing its regular Macro Financial Assistance (MFA), concluding 3 operations: Ukraine MFA IV (last disbursement approved in May), Georgia MFA III (last disbursement approved in November), and Moldova MFA (second disbursement approved in July; the third disbursement was cancelled because not all related policy conditions were fulfilled before the programme's end in July.) In November, ECFIN disbursed the 1st installment of Jordan MFA III (adopted by the EU in January).

On 22 April 2020, the Commission adopted a proposal for a €3 billion MFA package to ten enlargement and neighbourhood partners to help them limit the economic fallout of the COVID-19 pandemic. The proposal was adopted by the European Parliament and Council on 25 May 2020. By end-2020, the EU had disbursed the first instalments of the MFA programmes to seven partners: Kosovo, Montenegro and North Macedonia in the Western Balkans; Georgia, Moldova and Ukraine in the Eastern Partnership, and Jordan in the southern neighbourhood. These steps follow the agreement and ratification of the Memoranda of Understanding (MoUs) over the second half of the year. DG ECFIN envisages to disburse the first remaining instalments in the first half of 2021, and the second instalments later in 2021, provided that all relevant conditions are met.

- The €3bn MFA "Covid" package is on top of existing MFA programmes.
- First funding transaction for this "Covid 19" MFA package on 29/9/2020 (€160 million private placement) to finance disbursements to three countries: Kosovo, Montenegro and North Macedonia.
- Second transaction (€395 million tap on EU 6/2035) in November for Jordan, Georgia and Moldova.
- Third disbursement (€600 million for Ukraine) in December 2020.
- €2.35 billion are remaining under current MFA programmes.

DG ECFIN received two requests for new MFAs in 2020. ECFIN assessed the eligibility and economic rationale of these requests and found that the Commission is currently not in a position to propose EU macro-financial assistance for these cases.

In general, the EU stands ready to intervene with additional MFA when all conditions are met. DG ECFIN also participated in the discussions on the revised 2021-2027 MFF, and later in the programming phase of funds going into MFA.

DG ECFIN continued working to ensure the proper use of MFA funds by i.a. carrying out evaluations of the programmes. In this respect, there was ongoing work on the evaluations on Tunisia (MFA I) and Ukraine (MFA III), which are expected to be published in early-2021. Furthermore, in 2020, the Commission launched a meta-evaluation to draw lessons learned of all the MFA operations implemented during the 2010-2020 period.

Finally, DG ECFIN continued with its annual analytical work, including:

i) Published in July 2020 the annual "Report from the Commission to the European Parliament and the Council on the Implementation of MFA to third countries",

ii) In Spring and Autumn 2020, circulated intra-Commission, the bi-annual Economic Overviews of the EU Neighbourhood Countries, one devoted to the Eastern Neighbourhood countries and the other to the Southern Neighbourhood countries, which consist of a regional overview and concise country fiches.

Macroeconomic dialogues took place throughout 2020 in both Neighbourhood countries[10], enlargement countries[11] and non-EU G20 economies[12].

May's Economic and Financial Dialogue of the EU with the Western Balkans and Turkey adopted Joint Conclusions specifying policy guidance for enlargement countries.

Due to COVID-19 fallout, the 2020 policy guidance focussed on measures providing immediate fiscal, economic and social policy responses to mitigate the pandemic's impact as well as on the transition from these short-term to more structural measures fostering medium-term recovery. Dialogue began on the basis of enlargement countries' Economic Reform Programmes (ERP) submitted end-January and assessed by the Commission.

In October, the Commission adopted country reports for seven enlargement countries: Albania, Bosnia and Herzegovina, Kosovo*[13], Montenegro, North Macedonia, Serbia and Turkey plus the Investment Plan for the Western Balkan. DG ECFIN prepared the economic chapters of the reports, assessed each country's progress on the two Copenhagen criteria: (1) existence of a functioning market economy; and (2) capacity to cope with competitive pressure and market forces within the EU. Turkey is well advanced with the first criterion. No country complies yet with the competitiveness criterion.

[10] Moldova (February), Azerbaijan (February), Armenia (September), Jordan (October), Israel (November), Egypt (November), Palestine (November), Tunisia (December)

[11] Kosovo (September), North Macedonia (October), Montenegro (October), Serbia (October), Albania (November), Bosnia and Herzegovina (November)

[12] Canada (January), Australia (February), China (July), Argentina (October), Mexico (November), South Africa (November), Japan (December)

[13] This designation is without prejudice to positions on status, and in line with UNSCR 1244/1999 and the ICJ Opinion on the Kosovo declaration of independence.

Increase the international role of the euro

A stronger economic and monetary union and enhancing the international role of the euro are two mutually reinforcing elements of a single strategy needed to strengthen Europe's 'economic and financial sovereignty', make the global financial system less vulnerable to shocks, and bring concrete (political and economic) benefits for the euro and the EU.

The work to strengthen the international role of the euro as part of the Communication "The European economic and financial system: fostering openness, strength and resilience" relied first and foremost on completing EMU, including Banking Union and Capital Markets Union. Work was thus linked to the other objectives to which DG ECFIN contributed in 2020 and notably to specific objective 3 (Implement an economic and fiscal surveillance framework, to deliver conditions for sustainable economic growth). Moreover, the EU's support package to fight the pandemic's economic fallout, Next Generation EU, including the Recovery and Resilience Facility, will boost over the coming years the issuance of euro-denominated safe assets.

Develop economic aspects of external policy and support Europe´s role in the world through strategic cooperation with key partner countries

The COVID-19 crisis presents an unprecedented challenge to the global economy, by triggering a global recession with potentially long-lasting consequences, by exacerbating pre-existing vulnerabilities and fragilities, and by reinforcing tendencies to pursue unilateral and protectionist policy responses. DG ECFIN helped shape the global crisis response not only through coordinating the EU position in international and multilateral fora but also through its bilateral macroeconomic dialogues and exchanges with key non-EU partner countries. These exchanges were supported by providing relevant analyses on key macroeconomic trends and policy challenges at global, regional and country level, in particular:

(i) Analysis and forecast of global economic impact of the Covid-19 crisis and of policy support in key partner countries
(ii) Analysis of the macroeconomic and policy developments in China, including impact of the Covid crisis and spillovers to the EU, developments in the real estate sector, long-term economic strategy and challenges
(iii) Analysis of key macroeconomic developments and challenges in emerging market economies, with a particular focus on South Africa, Ethiopia, Nigeria and Argentina

ECFIN also promoted the European Green Deal and the green dimension of EU recovery policies in international fora as and bilateral exchanges with key partner countries and international organisations, looking to develop a shared analysis of the global macroeconomic implications of climate change and climate change policies.

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

A key challenge in 2020 was to ensure a well-coordinated international policy response to the COVID-19 crisis and the recovery phase.

This was achieved through ECFIN's leading role in economic policy discussions that take place in the finance track of the G20 and G7 fora, and by striving to achieve common positions on issues of key interest for the EU/euro area in the IMF and other IFIs.

We strengthened the EU's role in global economic governance. This work was accelerated by the pandemic and the need for strong international cooperation to address it and its consequences. The EU worked for a better policy mix at the global level, and strengthen policy response to the health and economic crisis as well as facilitating the way for a green and digital recovery. We focused on the need to maintain policy support until recovery is firmly underway, and not to withdraw fiscal support measures prematurely while at the same time insisted on the importance of better quality and composition of public finance, and fostering inclusiveness and equality of opportunities. A main result of these efforts was the adoption (in April) and update (October) together with international partners in the G20 of an Action Plan Supporting the Global Economy through the COVID-19 Pandemic.

We ensured an efficient and effective EU representation during the Saudi Arabia G20 Presidency. Among the main achievements, this year has been the G20/Paris Club Debt Service Suspension Initiative, the G20 Common Framework for Debt Treatment Beyond the DSSI. This work included coordination of a common position with EU Member States.

ECFIN represented the Commission in the G7 Finance Track during the US G7 Presidency and provided international partners with substantial inputs on the topic of debt and digital payments in close cooperation with other services across the European Commission. On the topics related to digital taxation and on the issue of stable coins, ECFIN liaised efficiently with DG TAXUD and DG FISMA to ensure effective EU representation in the G20 and G7 fora. In the work in G7, G20, and IMF ECFIN promoted the Next Generation EU as well as the European Green Deal to international partners as main instruments to support the EU recovery hit by the COVID-19 pandemic and build-back-better the EU economies.

ECFIN continued to work on a concerted European approach to implement the agreement reached in October 2019 on IMF resources and governance reform. Given the IMF's important role in global financial stability, setting out a coordinated approach on IMF resources and governance reform is critical, as done in the past.

ECFIN also worked to follow-up recommendations by the G20 Eminent Persons Group on global financial governance; contributing to global efforts to strengthen public debt transparency and sustainability.

Work continued in ECFIN on discussions triggered by the High-Level Group of Wise Persons report on improving and rationalising European financial architecture for development and possible scenarios for its evolution, respecting the role of the EIB and EBRD. ECFIN worked closely with the EU Executive Director's office at the EBRD to facilitate the coordination of EU Member State positions at the EBRD Board.

On IMF issues, ECFIN prepared the virtual IMF 2020 Spring and Annual meetings and ensured effective EU representation at those meetings. An important 2020 milestone was the IMF crisis response package, agreed in the Spring Meetings. On that, several discussions took place in EFC and the EFC Subcommittee on IMF Issues (SCIMF).

ECFIN prepared notes and inputs for discussions, to ensure a common view among EU Member States, and actively participated in these meetings. Further work in ECFIN focused on the coordination of common EU positions on IMF policy issues, such as the Comprehensive Surveillance Review, the Review of the Financial Sector Assessment Program, both expected to be concluded in the first half of 2021, the Integrated Policy Framework and the Debt Sustainability Analysis for Market-Access Countries. On the basis of an analytical contribution, ECFIN also started regular dialogues between COM and IMF staff to discuss issues related to climate change and environmental issues with the aim to find areas for cooperation.

The exchanges focused on the respective work streams in the two institutions and on the progress made to integrate climate change in their economic surveillance and policy guidance. One of the main outcome of these exchanges so far is the IMF decision to join the Commission-led International Platform for Sustainable Finance as observer. A continuation of these dialogues is foreseen for 2021, e.g. on the introduction of climate topics in Debt Sustainability Analysis, green budgeting, and the carbon border adjustment mechanism. Furthermore, ECFIN prepared analytical work and discussion notes on the several IMF policy topics, like the IMF resources during COVID-19, Bilateral Borrowing Arrangements, as well as on the effectiveness of EU coordination of IMF issues.

External communication

External communication actions supported the narrative of how a stronger international role of the euro can contribute to a stronger Europe in the world. DG ECFIN's outreach to key stakeholders and journalists offered opportunities to regularly remind the general public of the clear benefits of the common currency beyond the euro area and the EU.

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 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(s) 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 observations and recommendations by the European Court of Auditors (ECA).

These reports result from a systematic analysis of the evidence available. 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 (a) Control results, (b) Audit observations and recommendations, (c) Effectiveness of internal control systems, and resulting in (d) 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[14]. The DG's assurance building and materiality criteria are outlined in AAR Annex 5. Annex 6 outlines the main risks together with the control processes to mitigate them and the indicators used to measure the performance of the relevant control systems (RCS).

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

In € million	Expense – Table 2 in Annex 3	Revenue – Table 7 in Annex 3	Financial assets & cash – Table 4 in Annex 3 (AI3 AI4 AII1 AII6)	Financial income (-) and costs (+) – Table 5 in Annex 3 (II121 II28)	Guarantees received (+) or given (-) – Table 5bis in Annex 3 (OB1 OB2)
Grants (Business Consumer Surveys (BCS), Pericles, European Investment Advisory Hub (EIAH) (RCS 1)), procurement and administrative expenses[15]	21.27	0.00	-	-	-
Financial instruments managed via IFIs (RCS 2)	13.44	135.56 (CIP MAP ETF TTP)	651.07	-21.60 +3.65	-
Grants Entrusted Entities - Indirect Management (ELENA) (RCS 3)	21.45	2.16			-
Equity Investments (EBRD, Marguerite Fund (RCS 4))	0.23	11.94	230.53	-	-
European Fund for Strategic Investments (EFSI) Guarantee (RCS 5a) and Guarantee Fund provisioning[16] (RCS 5b)	1,248.87 (provi-sioning)	128.74	8,192.21 (EFSI GF)	-346.80 +16.37	-18,589.57
Macro-financial assistance (MFA (RCS 6))	15.29		-	-	-
Outstanding loans (incl. ECSC loans)		1.63[17] (BOP MFA EURATOM, EFSM)	-	-	-
EIF capital and dividends	0.0	0.00	587.90	-	-
Enforced budgetary surveillance[18]	0.00	0.00			
Total	**1,320.55**	**280.03**	**9,661.71**	**-368.40** **+20.02**	**-18,589.57**

[14] 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.

[15] Only EIAH is part of RCS 1, i.e. BCS and Pericles grants are not part of RCS 1.

[16] RCS 5a for the EU Guarantee under EFSI and RCS 5b for the EFSI GF provisioning in the AAR 2020 are different from the RCS for the EFSI GF in the AAR 2019.

[17] Allocation of 2018 retained earnings. On 01/01/2020 treasury, assets management and borrowing and lending activities has been transferred to DG BUDG. Future recoveries as from 2019 will be done at DG BUDG.

[18] No transactions in 2020

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 as well as the provisioning of the EFSI guarantee fund. Indirect management grants spending programmes entrusted to other entities and Financial Instruments managed via IFIs. On 01/01/2020, assets management, treasury and borrowing and lending activities have been transferred to DG BUDG responsibility.

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.

No cases are to be reported concerning:

- “confirmation of instructions” (FR art 92.3)
- financing not linked to costs (FR art. 125.3)
- flat rates > 7% for indirect costs (FR art. 181.6)
- derogation from the principle of non-retroactivity (new FR ART 193.2)
- Financial Framework Partnerships > 4 years (new FR art 130.4) signed in 2020

Conclusion table

In € Million	Expenditures under direct management	Expenditures under indirect management	Financial assets and cash (managed and supervised)	Revenue
Grants (Business Consumer Surveys (BCS), Pericles, European Investment Advisory Hub (EIAH) (RCS 1)), procurement and administrative expenses	21.27			0.00
Financial Instruments managed via IFIs (RCS 2)		13.44	651.07	135.56
Grants Entrusted Entities - Indirect Management (ELENA) (RCS 3)		21.45		2.16
Equity investments (EBRD, Marguerite Fund) (RCS 4)	0.23		230.53	11.94
European Fund for Strategic Investments (EFSI) Guarantee (RCS 5a) and Guarantee Fund provisioning(RCS 5b)	1,248.87 (provisioning)		8,192.21 (EFSI GF)	128.74
MFA (RCS 6)	15.29			
Outstanding loans				1.63
EIF capital and dividends	0.0		587.90	0.00
Enforced budgetary surveillance[19]	0.00			0.0
Total	**1,285.66**	**34.89**	**9,661.71**	**280.03**
Internal Control Objectives-Indicators	Residual Error Rate / Cost effectiveness / Anti-Fraud Strategy	Residual Error Rate / Cost effectiveness / Anti-Fraud Strategy	Safeguarding of assets / Reliability of Reporting[20]	Residual Error Rate / Cost effectiveness / Anti-Fraud Strategy
Internal Control Objectives – conclusions	Positive	Positive	Positive	Positive
Negative opinion from auditors	No	No	No	No
Reservation	No	No	No	No

Management's factual conclusion on the control results, their completeness and reliability.

1. *Effectiveness = the control results and benefits*

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

- **Legality and regularity of the transactions**

DG ECFIN is using internal control processes to ensure the adequate management of the 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.

[19] No transactions in 2020

[20] These internal control objectives apply to financial income and costs and off-balance sheet disclosures as well.

- **Error rates**

According to our materiality criteria (Annex 5), the target error rate is 0% for expenditures under direct management with low inherent risks (MFA (RCS 6), provisioning of funds (EFSI GF provisioning in RCS 5b), enforced budgetary surveillance (no transactions in 2020), Marguerite fund (RCS 4)), 0.5% for expenses of an administrative nature & procurement and maximum 2% for grants with the reimbursed cost mechanism (BCS and PERICLES (both not part of any RCS because of the small volume) as well as EIAH (RCS 1) and entrusted entities (ELENA (RCS 3) and Financial Instruments managed via IFIs (RCS 2). Error rates achieved are measured by exceptions and non-compliance events (ex-ante controls) for direct management (complemented, if necessary, by ex-post controls) and third-party assurance for indirect management.

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, so cannot be extrapolated over total overall expenditure. Following this approach, an ex-post control programme was planned for 2020, but none of the 3 planned ex-post controls in the programme could be performed as 2020 payment claims (2019 actions) from the contractors were received with delay. These controls will thus be performed in 2021.

Still, based on our control results 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, the error rates for each key segment (or sub-segment) are:

For MFA grants: 0% - MFA grants are not grants in the usual sense with eligible costs, but a budget support mechanism to the countries included in basic acts.

For BCS, PERICLES and EIAH grants: 0%-2% - The range shows the minimum and maximum values of the estimated error rate.

For procurement and other administrative expenses: 0.5% - Controls aim at systematically detecting and preventing breaches of legality and regularity; the first measure of the error rate is therefore the one resulting from the analysis of the recording of exceptions: control overrides and non-compliant events. Analysis of those exceptions shows that the pre-set target of 0 % or close to 0% was complied with. As a conservative estimate, 0.5% is used.

EFSI Guarantee Fund provisioning: 0% - This percentage refers to the replenishment of the fund.

Marguerite Fund (direct management): 0% - The percentage refers to the payments from the budget to the Fund for already signed commitments.

Enforced budgetary surveillance: 0% - The percentage refers to the payment to the European Stability Mechanism of fines already recovered and cashed.

Entrusted entities for financial instruments: 0%-2% - These percentages refer to payments at the level of the final beneficiaries. The range shows the minimum and maximum values of the estimated error rate.

Entrusted entities for grants under indirect management: 0%-2% - These percentages refer to payments at the level of the final beneficiaries. These entrusted entities are financial institutes/bank that strive for risk/loss below 1% to maintain access to financial market at the most favourable conditions. The range therefore shows the minimum and maximum values of the estimated error rate.

The calculated weighted overall Average Error Rate for DG ECFIN is 0% - 0.033%.

Overrides and non-compliance events

Analysis of the registry of overrides and non-compliance events in 2020 revealed 2 non-compliance events in 2020 and 2 exceptions. All relate to the budget for procurement and administrative expenses. The non-compliances were due to late budgetary commitment for expenses linked to event and training organisation. One exception was related to the reimbursement of experts; the second to grants management: the duration of a framework partnership agreement was extended by one additional year to cover a similar action.

As mitigating measures to limit the risk of repeating similar mistakes in the future, the finance unit continues to support operational units in the management of their contracts and grant agreements and in the monitoring of meetings related expenses in the AGM (Advanced Gateway to your Meetings) system[21].

Negotiated procedures

In 2020, no negotiated procedures above € 60.000 were awarded.

Benefits of controls

No recovery orders were issued in 2020. Ex-ante controls caught 24 irregularities worth €37,021.58. Five of those irregularities concerned non-eligible cost claims worth €5,491.31 and 19 covered credit notes worth €31,530.27. None of the irregularities pertained to any of the Relevant Control Systems (RCS). The total of recoveries and corrections sum up to less than 0.003% of the DG's expenditure under direct and indirect management combined.

Unquantifiable benefits of DG ECFIN's controls by RCS follow below. Furthermore, as the numbering and content of the RCS differs from the 2019 AAR please note the following:

As from 1st January 2020, the activities of assets management, treasury and borrowing and lending activities, as well as the Guarantee Fund for external actions and the asset management of the EFSI Guarantee Fund previously under DG ECFIN's responsibility were transferred to DG BUDG. Consequently the 2019 relevant RCSs, respectively RCS 1, RCS 6 and RCS 7 have been removed from DG ECFIN AAR and a new numbering was allocated to the remaining RCSs. This includes the newly created RCS 5.a "EU Guarantee under the EFSI" and RCS 5.b "EFSI Guarantee Fund" which remained in ECFIN.

RCS 1: Grants under the European Investment Advisory Hub / Grants direct management

The purpose of these controls is to avoid overlaps with other existing advisory initiatives and assess the value of costs claimed by the beneficiary. The error rate is estimated to be 0% as the payment requests were duly supported by appropriate documentation. The reporting, compliance reviews, internal and external controls and audits did not identify possible or confirmed fraud cases, corruption or illegal activity.

[21] An online tool for expert meetings organisation in the European Commission.

RCS 2: Financial Instruments managed via international financial institutions (period 2007-2013) / indirect entrusted management

No material limit breaches were identified in the information reported by EIF. Third party audit certificates were issued in accordance with contractual arrangements in place. In 2021, the EIF provided a Statement of Assurance for the year 2019 for GIF and SMEG. The March 2020 first Covid-19 rush measures might have led to the delays in producing the Statement of Assurance within the usual deadline. The 2020 Statement of Assurance letter for GIF, received in March 2021, states that it has not identified any matter that could harm the European Union's financial interest. The 2020 Declaration of Assurance (DAS) letter for SMEG is not yet received at the time of drafting of this Annual Activity Report (will be received in April 2021 under the normal usual deadline). There has been no exception reporting so far.

There were no operations outside official procedures, no erroneous operations, no return to Trust Account linked to errors and no errors/discrepancies following the checks on the balance of the Trust Account. Monitoring and supervision work revealed no material control issue. The SMEG 07 2020 monitoring plan was fully cancelled due to restrictions in travel and mission policies under COVID-19. The planned missions were included in the 2021 monitoring plan. The GIF monitoring framework has been closed as from 2019, so no visit to GIF intermediaries was planned in 2020.

There were no known fraud cases in 2020 reported to OLAF.

RCS 3: Grants under the European Local ENergy Assistance (ELENA) / Grants indirect entrusted management

No material limit breaches were identified in the information reported by EIB. There was no exception reporting. There were no operations outside official procedures, no erroneous operation, and no return to trust account linked to errors. The evaluation, supervision work, and desk reviews and monitoring activities performed internally in 2020 on operations and accounting practices found nothing to report. Finally, there were no known fraud cases in 2020. The 2020 Management Declaration of Assurance and the financial statements, audited by the external independent auditor, were received in February 2021. The external auditor reported that no further control enhancement is deemed necessary.

RCS 4: Marguerite Fund / direct management

Regular quarterly reporting in 2020 confirmed that the fund performs as expected. No material breach of the investment guidelines was observed and payments from the budget to the Fund for already signed commitments actions were done in line with the legal base.

The external auditor confirmed the accuracy and fair view of the financial statements of the Fund for 2019. The audited financial statements of the Marguerite Fund for the year 2020 will be submitted to the Commission in Q2 2021. In 2020, DG ECFIN did not identify any events, issues or problems that could have a material impact on assurance.

RCS 5: European Fund for Strategic Investments (EFSI)

RCS 5.a: EU Guarantee under the EFSI / indirect management

The reporting, monitoring, internal and external controls and audits did not identify possible or confirmed fraud cases, corruption or illegal activity. In addition, an external auditor performs annually an agreed-upon procedure on the EFSI financial reporting provided by the EIB Group. No findings were reported in the report for Infrastructure and Innovation Window provided on 15 March 2021. The 2020 audited statement will be submitted by end-March 2021.

RCS 5.b: EFSI Guarantee Fund / direct management

In 2020 all financial operations complied with regulatory and contractual provisions and there were no errors during the financial process. The reporting, monitoring, internal and external controls and audits did not identify possible or confirmed fraud cases, corruption or illegal activity. Assurance given by the EFSI Guarantee Fund external auditors comprises further assurance on the proper safeguarding of assets and information.

RCS 6: Macro-Financial Assistance

The control systems in place, such as the ex-ante operational assessments, ensured an effective error rate for MFA payments of 0%. There are no known cases of fraud, corruption or illegal activity. In addition, MFA operations have a clear intervention logic, allowing the Commission to evaluate their impact. The controls enable the confirmation of assurance and attainment of policy objectives and priorities.

Conclusion

DG ECFIN’s internal control strategy foresees increase of controls aimed at detecting and correcting errors only if cost-effective. The error rate has been consistently low over years, so financial corrections from large-scale audit missions would be low; hence, management has decided not to invest significantly in ex-post controls. It is adequate, reliable and prudent to consider that there is no adjusted corrective capacity for 2020 payments.

Given DG ECFIN’s 2% materiality target threshold, management concludes no reservation is needed and that the DG’s internal controls systems provide sufficient assurance to adequately manage the risks relating to the legality and regularity of the underlying transactions.

In the context of protecting the EU budget, the DGs' estimated overall risk at payment, estimated future corrections and risk at closure are consolidated at Commission level. DG ECFIN’s relevant expenditure, estimated overall risk at payment, estimated future corrections and risk at closure are disclosed in Table X on the next page.

The estimated overall risk at payment for 2020 expenditure is 0.03 to 0.43 M€. This is the AOD's best, conservative estimation of the amount of relevant expenditure during the year (1,290.53 M€) 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 2020 expenditure amount to 0 M€. This is the amount of errors that the DG conservatively estimates will be identified and corrected by controls planned to be carried out in subsequent years.

The difference between those two amounts results in the estimated overall risk at closure of 0.03 to 0.43 M€, representing 0.002% to 0.033% of the DG's total relevant expenditure for 2020.

In the context of the protection of the EU budget, the DGs' estimated overall risk at payment, estimated future corrections and risk at closure are consolidated at Commission level in the Annual Management and Performance Report (AMPR).

Table X - Estimated risk at closure

DG ECFIN	"payments made" (FY; m€)	*minus* new prefinancing [*plus* retentions made*] (in FY; m€)	*plus* cleared prefinancing [*minus* retentions released* and deductions of expenditure made by MS] (in FY; m€)	**= "relevant expenditure" (for the FY; m€)**	Average Error Rate (*weighted* **AER**; %)	estimated overall amount at risk *at payment* (FY; m€)	Average Recoveries and Corrections (***adjusted* ARC**; %)	estimated future corrections [and deductions] (for FY; m€)	**estimated overall amount at risk *at closure* (m€)**
(1)	*(2)*	*(3)*	*(4)*	*(5)*	*(6)*	*(7)*	*(8)*	*(9)*	*(10)*
Programme, Budget Line(s), or other relevant level	as per AAR annex 3, table 2	as per ABAC DWH BO report on prefinancing	as per ABAC DWH BO report on prefinancing	= (2) –/+ (3) +/- (4)	Detected error rates, or equivalent estimates	= (5) x (6)	*H-ARC* (as per ABAC DWH BO report on corrective capacity), but *adjusted*	= (5) x (8)	= (7) – (9)
BCS PERICLES EIAH Grants (only EIAH under RCS 1)	15.08*	11.91**	2.45***	5.62	0% - 2%	0.00 - 0.11	0%	0.00	0.00 - 0.11
Entrusted entities for financial instruments (RCS 2)	13.44	0.00	0.00	13.44	0% - 2%	0.00 – 0.27	0%	0.00	0.00 - 0.27
Entrusted entities for grants (RCS 3)	21.45	20.47	0.00	0.98	0% - 2%	0.00 – 0.02	0%	0.00	0.00 - 0.02
Marguerite Fund (RCS 4)	0.23	0.00	0.00	0.23	0%	0.00	0%	0.00	0;00
EFSI Guarantee Fund (provisioning) (RCS 5b)	1248.87	0.00	0.00	1248.87	0%	0.00	0%	0.00	0.00

MFA (RCS 6)	15.29	0.00	0.00	15.29	0%	0.00	0%	0.00	0.00
Procurement and other administrative expenses (RCS N/A)	6.19	0.35	0.26	6.10	0.5%	0.03	0%	0.00	0.03
Enforced budgetary surveillance (no transactions in 2020) (RCS N/A)	0.00	0.00	0.00	0.00	0%	0.00	0%	0.00	0.00
Overall, total	1320.55 mEUR	32.73 mEUR	2.71 mEUR	1290.53 mEUR	0% - 0.033%	= 0.03 - 0.43 mEUR; and a 0.002% - 0.033% of (5)	0%	= 0 mEUR; and 0% of (5)	= 0.03 - 0.43 mEUR; and 0.002% - 0.033% of (5)

** BCS (4.9) PERICLES (0.78) EIAH (9.4)*

*** BCS (2.01) PERICLES (0.5) EIAH (9.4)*

**** BCS (2.08) PERICLES (0.37) EIAH (0.00)*

<u>Notes to the table X</u>

(1) differentiated for the relevant portfolio segments at a level which is lower than the DG total

(2) Payments made or equivalent, e.g. expenditure registered in the Commission's accounting system, accepted expenditure or cleared pre-financing. In any case, this means after the preventive (ex-ante) control measures have already been implemented earlier in the cycle.
In all cases of Co-Delegations (Internal Rules Article 3), "payments made" are covered by the Delegated DGs. For Cross-SubDelegations (Internal Rules Article 12), they remain with the Delegating DGs.

(3) New pre-financing actually paid by out the department itself during the financial year (i.e. excluding any pre-financing received as a transfer from another department). "Pre-financing" is covered as in the context of note 2.5.1 to the Commission annual accounts (i.e. excluding "Other advances to Member States" (note 2.5.2) which is covered on a purely payment-made basis). "Pre-financing paid/cleared" are always covered by the Delegated DGs, even for Cross-SubDelegations.

(4) Pre-financing actually cleared during the financial year (i.e. their 'delta' in the Financial Year 'actuals', not their 'cut-off' based estimated 'consumption').

(5) For the purpose of equivalence with the ECA's scope of the EC funds with potential exposure to legality & regularity errors (*see the ECA's Annual Report methodological Annex 1.1*), our concept of "relevant expenditure" includes the payments made, subtracts the new pre-financing paid out , and adds the previous pre-financing actually cleared during the FY. This is a separate and 'hybrid' concept, intentionally combining elements from the budgetary accounting and from the general ledger accounting.

(6) In order to calculate the weighted Average Error Rate (AER) for the total relevant expenditure in the reporting year, the detected error rates have been used – or an equivalent. For administrative expenditure,DG ECFIN has followed the Commission's recommendation to nevertheless use 0.5% as a conservative estimate.

(8) Even though to some extent based on the 7 years historic Average of Recoveries and financial Corrections (ARC), which is the best available indication of the corrective capacity of the ex-post control systems implemented by the DG over the past years, the AOD *has adjusted* this historic average [*from 0.014% to 0%*. Any ex-ante elements, one-off events, (partially) cancelled or waived Recovery Orders, and other factors from the past years that would no longer be relevant for current programmes *have been adjusted* in order to come to the best and most conservative estimate of the ex-post future corrections to be applied to the reporting year's relevant expenditure for the current programmes.

(9) DG ECFIN considers that future corrections (and therefore adjusted ARC value) should be zero as DG ECFIN normally has a very limited range of ex-post controls each year. This is fully supported by the ARC tables where recovered amounts are minimal (credit notes and non-eligible expenses are processed when processing the payment and their impact is therefore already shown at the level of the paid amount). While one could argue that zero would only be accurate if no recovery order were ever issued against these expenses, zero is the best estimate. Zero is thus the best and most conservative estimate;

(10) For some programmes with no set *closure* point (e.g. EAGF) and for some multiannual programmes for which corrections are still possible afterwards (e.g. EAFRD and ESIF), all corrections that remain possible are considered for this estimate.

- **Fraud prevention, detection and correction**

DG ECFIN has developed and implemented its own anti-fraud strategy since January 2014 based on the methodology provided by OLAF. It is updated every 3 years and was last updated in October 2017. The preparatory analysis for the establishment of the DG ECFIN Anti Fraud Strategy for the 2021-2023 period was discussed in the quarterly meeting of the Internal Control Management Group (ICMG) of ECFIN in November 2020 but has been delayed to take into account the new requirements brought about by the Recovery and Resilience Facility (RRF).

The strategy has a concrete action plan whose one-off actions are now all implemented. Annual actions are still followed up (e.g. trainings on ethics and integrity in March 2020).

DG ECFIN also contributed to the Commission anti-fraud strategy and followed up on two open OLAF *financial* recommendations (100% of the open recommendations). These 2 are open cases from 2015 that are still in Court bankruptcy procedures and will probably remain open for some time. Hence, 2 cases (100% of all cases) remain open as since then no new recommendations were opened by OLAF.

In 2020, DG ECFIN once again reviewed its list of sensitive functions to deter fraud. AOD and AOSD functions are considered sensitive functions in DG ECFIN if the associated mandates include sensitive budget lines. A handful of other functions are considered sensitive due to the accompanying access to sensitive information or processes. The review ensures that DG ECFIN has no jobholder of a sensitive function performing the function for more than 5 years without a derogation by the director-general or more than 7 years even if a derogation has been granted.

In the 2020 annual middle-management assessment of the state of ECFIN's internal control, DG ECFIN's middle managers assessed the DG's fraud risk as low, but likely to increase with the introduction of the RRF. OLAF has addressed no financial recommendations to ECFIN.

The results achieved during the year thanks to the anti-fraud measures in place can be summarised as follows: DG ECFIN's rigorous ex-ante (and ex-post controls that were planned but in 2020 not performed due to COVID-19 and due to 2019 payment requests coming in with delay) and ongoing activities under the existing anti-fraud strategy give the DG a low estimated residual fraud risk, hence our current anti-fraud controls and actions are adequate. The benefits of these controls are unquantifiable as we had no known fraud cases in 2020.

On the basis of the available information, DG ECFIN has reasonable assurance that the anti-fraud measures in place are effective.

However, additional measures will be taken in 2021, in order to adjust for the changing risk environment from the implementation of the RRF.

- A mandatory ethics training will be conducted for the colleagues working on the assessment of the Recovery and Resilience Plans (RRPs) and a few other horizontal units concerned with the RRF.
- The Anti-Fraud strategy will be updated, also to take into account the changing environment from NextGeneration EU.
- Other control objectives: safeguarding of assets and information, reliability of reporting

Other control objectives: safeguarding of assets and information, reliability of reporting

European Fund for Strategic Investments (EFSI)

EU Guarantee under the EFSI

EFSI is one of the three pillars of the Investment Plan for Europe that aims to revive investment in strategic projects around the continent to ensure that money reaches the real economy. With EFSI support, the EIB Group is providing funding for economically viable projects, especially for projects with a higher risk profile than usually taken on by the EIB.

EFSI is a EUR 26 billion guarantee from the EU budget, complemented by a EUR 7.5 billion allocation of the EIB's own capital. The total amount of EUR 33.5 billion aims to unlock additional investment of at least EUR 500 billion by end-2020. As of 31 December 2020, EFSI triggered EUR 545.3 billion in cumulative investment across all Member States, thus exceeding the target by 9%.

The objective of the controls is to ensure that the legal framework for the management of the EFSI is fully compliant and regular and appropriate monitoring and supervision of the implementation of the EFSI Programme is in place.

The benefits expected from these controls are to ensure compliance of the implementation with the provisions foreseen in the legal basis and to identify and prevent possible or confirmed fraud cases, corruption or illegal activity.

EFSI Guarantee Fund

The EFSI Guarantee Fund constitutes a liquidity cushion from which the EIB is to be paid in the event of a call on the EU Guarantee. The EFSI Guarantee Fund is maintained at a certain percentage (35%) of the total amount of the obligations under the EU Guarantee. Given that the EU guarantee under EFSI amounts to EUR 26 billion, the EFSI Guarantee Fund will reach EUR 9.1 billion.

As from January 2020, the Commission transferred the activities of DG ECFIN in dealing with the asset management of the EFSI Guarantee Fund to DG BUDG. DG ECFIN continues to monitor implementation of the EFSI Programme including the guarantee calls as well as to manage the budget lines related to the provisioning of the EFSI Guarantee Fund.

The objective of the controls is to ensure that financial operations comply with regulatory and contractual provisions and avoids errors that may occur during the financial process.

To this effect the validation of the contribution of the budget to the EFSI Guarantee Fund follows the circuit for budgetary transactions.

The benefits expected from these controls are to ensure that all financial operations complied with regulatory and contractual provisions and to minimize the likelihood of errors during the financial process and to identify and prevent fraud cases, corruption or illegal activity.

The absence of negative results flowing from the implemented control procedures under RCS 5.a and 5.b, and 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 5.a and 5.b (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 = the Time-to-… indicators and other efficiency indicators

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 2020 was 17.9 days (16.6 days in 2019). 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 26,3 days for 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 11,9 days for SGA. This fully 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 DG took no new initiatives to improve control efficiency in 2020 as our results indicated no particular control issues.

Indicator	Timely Payments
Category	**Efficiency of Controls / Timeliness**
Objective	**Ensure efficient processing of payments within the legal deadlines**
Result	DG ECFIN achieved **100%** compared to the EC result of **99%** 
Comment	In 2020 DG ECFIN efficiently managed to execute 100% of payments within the legal deadline which is above Commission average of 99%.
Definition	*Indicator = Value A / Value B* *Value A : Payment Accepted Amount in time (EUR)* *Value B : Payment Accepted Amount (EUR)*

3. Economy = the estimated cost of controls

Please note the change of the numbering of the RCS due to the reorganisation on 01.01.2020, and hence also the removal of existing and introduction of new RCS as described above in the paragraph on benefits of controls in more detail.

In particular it should be noted, that in 2019 the total funds managed under RCS 7 “Management of the EFSI Guarantee Fund” was the value of assets of the EFSI Guarantee Fund under Treasury management, totalling EUR 6,687 million. As a result of the transfer of this activity in 2020 to DG BUDG, DG ECFIN has created two new RCSs – RCS 5.a “EU Guarantee under the EFSI” and RCS 5.b “EFSI Guarantee Fund”. The denominator for the cost of control calculation of RCS 5.a is the total EU budgetary guarantee under EFSI of EUR 26 billion, as the new controls apply to the overall EU budgetary guarantee towards which the Commission is liable. On the other hand, the respective denominator for RCS 5.b is the overall payments to the EFSI Guarantee Fund in 2020 (the provisioning).

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 0,0106% (down from 0,019% in 2019). 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 € 3.071.932 divided by the total amount of funds managed in the relevant control systems, which was € 28.873.127.498 [22]. This means a cost of €106 (down from €188) 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).

RCS 1 - Grants under the European Investment Advisory Hub / Grants direct management

The total cost of control for the Grants under the European Investment Advisory Hub was €373.810 for the €68.255.568,44 funds managed, a ratio of 0,54%. All the costs were ex-ante control related. The ratio is lower than the previous year's value of 1,93% and considered quite low.

RCS 2 - Financial Instruments managed via international financial institutions (period 2007-2013) / indirect entrusted management

The total cost of control for the Financial Instruments managed via international financial institutions (IFIs) was €214.755 for the €1.097.301.224 funds managed, a ratio of 0,02%. All costs were ex-ante related The ratio is lower than last year's value of 0,049%, since those are legacy closed instruments. The ratio is considered very low.

RCS 3 - Grants under the European Local ENergy Assistance (ELENA) / Grants indirect entrusted management

The total cost of control for the Grants under the European Local ENergy Assistance (ELENA) was € 495.120 (€2.607.541 if calculated incl. management fees) for the €373.091.975 funds managed, a ratio of 0,13%. € 442.820 (€2.555.241 if calculated incl. management fees) were ex-ante related costs, while the remaining €52.300 were ex-post related. The ratio is lower than last year's value of 0,77% mostly due to the removal of control costs at entrusted entitiy from the calculation.[23] The ratio is considered sufficiently low.

RCS 4 – Marguerite Fund / Financial instruments direct management

The total cost of control for Marguerite Fund was €43.175 for the €70.321.760 managed by the European Commission, translating into a cost of control ratio of 0,061%. All costs were ex-ante control related; the ratio is slightly lower than last year's value of 0,069% and is considered quite low.

RCS 5.a - EU Guarantee under the European Fund for Strategic Investments (EFSI) / Budgetary Guarantee under indirect management

The total cost of control for the EU Guarantee under the EFSI was €638.990 for the €26,000,000,000 managed, a ratio of 0,002%. All costs were ex-ante control related. The ratio is considered very low.

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[22] 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 contract type.

[23] Other factos were lower audit costs and higher funds under management.

RCS 5.b - European Fund for Strategic Investments (EFSI) Guarantee Fund – Provisioning of Guarantee Fund under direct management

The total cost of control for the EFSI Guarantee Fund provisioning was €103.060 for the €1.248.866.971 of payments managed, a ratio of 0,008%. All costs were ex-ante control related. The ratio is considered very low.

RCS 6 – Macro-Financial Assistance

The total cost of control for MFA was €194.220 for the €15,3M of expenditure managed, a ratio of 1,27%. All costs were ex-ante control related. The ratio is considered low and down from last year's ratio of 1,77%, which was due to considerably higher expenditures in 2020.

The following table gives an overview of costs of control at Commission and entrusted entity level for RCS covering indirect management. This is relevant, as there can be for example remuneration fees for the management of funds in indirect management, that are for activities that form part of the excerted control over the funds, which are not actually incurred in the Commission.

This is currently only the case for RCS 3 (ELENA):

ECONOMY INDICATORS – COMMISSION LEVEL			
Type of expenditure or management mode or RCS	**Stage**	**Annual Cost-Effectiveness Indicators**	**Description**
Budgetary Guarantee Indirect Management			
EU Guarantee under the EFSI (RCS 5.a)	overall indicator	overall supervision costs/ total EU budgetary guarantee managed 0,002% or €25 per €1M	staff FTE * standard staff cost + other outsourced supervision costs (possibly outsourced audits and monitoring missions by EC) / total EU budgetary guarantee managed €638.990 / €26.000.000.000
Spending programmes managed by entrusted entities Indirect Management			
Indirect entrusted management – Financial Instruments managed via IFIs (period 2007-2013) (RCS 2)	overall indicator	overall supervision costs/total budget of managed programmes 0,02% or €196 per €1M	staff FTE * standard staff cost + other outsourced supervision costs (possibly outsourced audits and monitoring missions by EC) / total budget of managed programmes[24] € 214.755 / €1.097.301.224 (SMEG 07 + GIF)
Grants managed via international financial institutions (EIB, KfW, EBRD, CEB) Indirect Management			
Grants under the European Local ENergy Assistance (ELENA) (RCS 3)	overall indicator	overall supervision costs/total budget of managed programmes 0,13% or €1.327 per €1M	staff FTE * standard staff cost + other outsourced supervision costs (possibly outsourced audits and monitoring missions by EC) / total budget of managed programmes € 495.120/ €373.091.975
ECONOMY INDICATORS – ENTRUSTED ENTITY LEVEL			
Grants managed via international financial institutions (EIB, KfW, EBRD, CEB) Indirect Management			
Grants under the European Local ENergy Assistance (ELENA) (RCS 3)	overall indicator	Remuneration fees paid to the entrusted entities/total assets of the fund 0,57% or €5.662 per €1M	All types of remuneration fees paid to entrusted entities during the year / total assets managed under supervision €2.112.421 / €373.091.975

Regarding costs incurred at entrusted entities, it should be noted, that in 2020, under RCS 5a "EU Guarantee under the EFSI" the EIF retained an amount of €52.646.864 from the EFSI revenues as remuneration fees without taking recourse to the EU budget, which is hence not included in the cost of control considerations.

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

24 Executed budget since beginning until 31/12/2015.

4. Conclusion on the cost-effectiveness of controls

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

Costs of control are overall low for DG ECFIN and actually even lower than in 2019. They decreased for all Relevant Control Systems (RCSs) that existed already in 2019 and are low for the newly created RCSs as well.

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.[25]

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.

[25] The BCS programme for example has a cost of control ratio of 9%, which is higher than last year's 7,6% due to lower expenditures and more ex-ante control. 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 29% (up from 23% in 2019 due to around 30% less expenditure), but serves an important purpose in preventing currency counterfeiting.

2.1.2 Audit observations and recommendations

DG ECFIN is audited by both internal and external independent auditors: the Internal Audit Service (IAS) and the European Court of Auditors (ECA). In 2020, DG ECFIN closed 12 audit recommendations the ECA. In 2020 the IAS confirmed the implementation of one recommendation that that DG ECFIN had implemented in 2019.

Whilst only half of our open audit recommendations due for closure over the period were successfully closed in time, the ones not closed were mostly delayed by the COVID-19 crisis because their closure relied on political decisions still pending due to the crisis response. Details on the state of play with the implementation of audit recommendations targeting ECFIN can be found at the start of Annex 7.

ECA audits: In 2020, DG ECFIN was the target of 2 Special ECA Reports, one on the The European Investment Advisory Hub, and one on the European Semester. They contained 15 recommendations; all of them were accepted, and 8 of them are already implemented or partially implemented. None of them compromise DG ECFIN's control environment. DG ECFIN also closed 10 ECA recommendations from 4 audits.

In addition, in May the Court announced a performance audit on ECFIN's post-programme surveillance which applies automatically to Member States exiting a financial assistance programme, and involves enhanced surveillance. Specifically, they wished to assess whether the Commission's surveillance was appropriate. We are still awaiting the clearing letter at this time but are not expecting any major problems.

IAS Audits: In 2020 the Internal Audit Service performed an audit on the management of the European Fund for Strategic Investments Guarantee Fund (GF) to assess the adequacy and effectiveness of the internal control systems related to the management of the EFSI GF. The IAS final audit report was issued in January 2021 with 3 Important recommendations for DG ECFIN, none critical or very important. In mid-February, DG ECFIN replied with an action plan for implementing the recommendations, all to be done by the end of the year.

By the end of Q4 2020, DG ECFIN only had one open audit IAS recommendation left stemming from their audit on "ECFIN's Performance Management". The recommendation was initially due for completion by 30 June 2020. Some elements of the recommendation have been implemented, other parts are overdue – these cover efforts to improve internal guidance and instructions to clarify what information is expected to be included in the directorate work-stream monitoring tool.

The delay reflects the delay in finalising ECFIN's 2020 management plan and 2020-24 strategic plan (finalised in November 2020) as was true for many other DGs. Work on the parts of the recommendation not yet implemented should be finished by 30 June 2021.

Limited conclusion regarding IAS audits: It is the limited conclusion of the IAS that the internal control systems in place in DG ECFIN for the audited processes are effective[26].

Conclusion regarding audits: At the time of drafting this 2020 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 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.

Assessment of the internal control systems

In 2020 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.

Based on available data, all but one measurable internal control monitoring criteria met their target values; as that one indicator only just missed the target value and reflected circumstances outside ECFIN's control, it is not considered to reflect a failing of the underlying control principle.

DG ECFIN's Risk Management exercise found one critical risk in the DG. It is a forward looking risk based on management of the Recovery and Resilience Facility (RRF) as of 2021. Lack of sufficient control over the RRF including the impact on IT developments, could lead to irregularities in the utilisation of the RRF funds, with reputational damage for the Commission. However, risk controls are in place to mitigate the risk and an action plan has been put in place to reduce the risk. There is confidence that this will lead to a sufficient risk reduction.

Two high risks were identified: one resource-related InvestEU risk and one related to the macro-economic outlook due to the pandemic. Strenuous efforts are being made to mitigate these 2 high risks as well.

DG ECFIN has assessed its internal control system during the reporting year and concludes it to be effective with all components and principles present and functioning as intended.

[26] Ares(2021)1209090 – 12/02/2021

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), 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 this chapter 2. 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.

Even though there were no direct ex-post controls in 2020, the DG has sufficient other sources of assurance and past experience to come to a well founded positive conclusion.

As regards the CIP SMEG07 and CIP GIF 2007 programmes the 2019 Statements of Assurance were received from the EIF with no reservation. The 2020 Statement of Assurance letter for GIF, received in March 2021, states that it has not identified any matter that could harm the European Union's financial interest. The 2020 Statements of Assurance for SMEG will be received only in April 2021. From the 2020 unaudited Financial Statements already received, no further control deemed necessary by the external auditor is to be reported. As regards Grants under the European Local ENergy Assistance (ELENA) entrusted management, the 2020 Management Declaration of Assurance and the financial statements, audited by the external independent auditor, were received in February 2021. The external auditor reported that no further control enhancement is deemed necessary. As regards the EU Guarantee under the EFSI, the 2020 audited financial statements will be received only in end-March 2021. These financial statements are prepared by the EIB Group and are audited by an external independent auditor.

Overall Conclusion

In conclusion, 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[27].

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

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

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

Place: Brussels, dated 31.3.2021

(signed in Ares)

Maarten VERWEY, AOD

[27] 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 2020 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 2020:

In 2020, DG ECFIN successfully managed an open procedure with fully electronic submission of tenders (eSubmission) and completed the on-boarding process to eGrants for one grants programme which will be electronically managed starting from 2021.

ECFIN successfully achieved IT synergies and efficiencies in collaboration with DG DIGIT; notably (1) shutting down all local servers and telecom lines in Brussels to be replaced by the Luxembourg Data Centre, and (2) finalising the switch to UCC/Skype and the migration towards Windows 10. Beyond the core SER projects, DG ECFIN engaged in the 2020 work towards the corporate Digital Solutions Modernisation Plan (DSMP).

2.2.1 Human resource management

In 2020, the pandemic impacted ECFIN's human resource management. ECFIN's mission was transformed as earlier sections explain even as the working environment changed dramatically. The challenge for ECFIN, as for all Commission services, was adapting to the new working conditions whilst ensuring the well-being of teams and individuals. But also, as a front-line DG in the EU's pandemic response, ensuring ECFIN was agile enough to adjust to evolving and urgent policy needs.

ECFIN's staff allocation and organisational structure prioritised supporting the DG's new political and operational priorities. Organisational changes have facilitated implementation of InvestEU and the RRF. The increased workload has been partially recognised by central services and some additional resources allocated; these have been filled despite pandemic difficulties in recruiting in Luxembourg and Brussels. In order to address the workload further efforts on cross units working arrangements have been made. Nonetheless, DG ECFIN maintained its determination to diversify its middle management team by pursing first female appointments target with two new appointments by the end of 2020.

DG ECFIN supports its highly specialised workforce with a learning programme mainly focused on core-business-related needs. This programme, comprising a wide range of on-line courses with external and internal trainers, was updated twice during the year to adapt to and anticipate new learning needs arising from DG ECFIN's evolving policy remit. In addition, several on-line sessions were organised focusing on staff well-being in cooperation with ECFIN's internal communication team. These (including all staff meetings with top management and Midday Information Sessions) have addressed the mental and physical impact of lockdown and its working conditions. Appropriate support has been offered to colleagues, including via ECFIN's AST Network. Support for managers to manage their teams include weekly messages from the Resources Director and extended interactive meetings with ECFIN's Middle Management Club. Close attention has been paid to direct feedback from staff including the local results of DG HR's pulse surveys. Finally, in line with central recommendations, DG ECFIN started to develop an HR Strategy setting out its priorities for this Commission's mandate with finalisation aimed for end of April 2021.

2.2.2 Digital transformation and information management

To comply with the Commission's Action plan to implement the Internal Data Protection Regulation (2018/1725), DG ECFIN completed its conversion of active notifications in the (old) DPO-2 to the new Data Protection Management System (DPMS) and archived the outdated processings all by the deadline set by the DPO. Key to meeting the deadline were training and working sessions provided by the ECFIN Data Protection Coordinator (DPC) with Directorates' data protection correspondents. Communication between the DPC and the Directorates' data protection correspondents intensified with regular meetings. ECFIN's first annual report to senior management on the previous year's activities (2019) in the field was drawn up by ECFIN's DPC in February. It included a protocol with instructions in case of a detected data breach. A training plan for management and all staff was agreed.

ECFIN continuously seeks to improve its document and information management. Hence, in 2020, ECFIN produced tailored instructions for all ECFIN services on document management rules. As a result, the number of unfiled documents (0.2%) and empty files (4%) are in line with our targets, whilst the number of unused files is down to 4.7%, and Ares e-Signatory is increasingly used (up from 86% in 2019 to 91% in 2020).

During 2020, DG ECFIN worked on implementing corporate principles for the governance of its key data assets as identified in the EC data catalogue and Eurostat's inventory of other statistics. Data ownership for key data assets was identified through the data inventories. Work to adapt and update data quality principles and document metadata and data processes is ready following adoption of Eurostat's Reference Quality Framework for Other Statistics at the end of 2020 and the implementation of forthcoming EC data catalogue.

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.

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 COVID-19 crisis has had, and will most likely continue to have, a strong impact on the daily activities of our colleagues, but also on the environment. As expected, the absence of staff from office buildings has had a positive impact on energy and paper consumption, as well as waste quantities and greenhouse gas emissions associated with the lack of commuting.

DG ECFIN promoted EMAS corporate campaigns on sustainable mobility organized in May, as well as on the importance of waste reduction and proper waste sorting during the European Week for Waste Reduction in November, including digital waste. However, the ban on physical meetings and gatherings prevented the formation of the ECFIN Green Team in 2020; it remains a goal, now to be reached in 2021.