



European
Commission

Annual Activity Report 2022

DG ECFIN

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DG ECFIN IN BRIEF

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

Member States (MS) are required to regard their economic policies as a matter of common concern and coordinate them in the Council of the EU. DG ECFIN facilitates these requirements and has presented orientations to reform the **EU economic governance framework**, which seek to define a simpler and integrated architecture for economic surveillance of EU Member States. The aftermath of the COVID-19 pandemic, and Russia's war of aggression against Ukraine in 2022 have deeply impacted the European economy and, in turn, the activities and responsibilities of DG ECFIN. DG ECFIN has been at the forefront of the Union economic recovery strategy. In particular, DG ECFIN focuses effort and resources on rolling out the EU's **Recovery and Resilience Facility** (RRF) to support the economic recovery and reforms in the Member States. Additionally, the RRF is at the heart of the proposed **REPowerEU Plan**, which aims to rapidly reduce the EU's dependence on Russian fossil fuels by fast forwarding the clean energy transition. DG ECFIN is also responsible for the implementation of **Macro-Financial Assistance** (MFA) operations to Ukraine and to other enlargement and neighbourhood countries that have been particularly hard-hit by the economic fallout of the COVID-19 pandemic and the economic implications triggered by Russia's war of aggression against Ukraine.

Furthermore, DG ECFIN manages the **InvestEU Programme** that supports investment in core Union priorities. MS economies weathered the pandemic, in particular through the implementation of the RRF and the instrument for temporary Support to mitigate Unemployment Risks in an Emergency (**SURE**). In parallel, traditional areas of DG ECFIN work continued to be carried out, such as DG ECFIN's efforts to support the Commission's contribution to global economic policy coordination, by conducting economic surveillance of EU enlargement countries, 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.

DG ECFIN is financially responsible for the implementation of the RRF on behalf of the Commission. Considering the scale of the RRF funds, which makes available up to EUR 723.8 billion (in current prices) in loans and grants, DG ECFIN activities are backed by budget expenditures, achieved mainly through direct management with Member States as beneficiaries. Besides, and like in previous years, ECFIN's other activities are achieved through grants and purchases or through indirect management with entrusted entities and budgetary guarantees. As Authorising Officer by Delegation, DG ECFIN has to give reasonable assurance on all expenditures under its responsibility, including on the RRF funds paid to the MS during the year, and as well for other programmes relying on entrusted entities.

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 and their sub-committees is based in DG ECFIN.

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

2022 was the first full year in which DG ECFIN worked under its new structures and complementary resources allowing for the implementation of the RRF. These changes concerned in particular country desks, responsible for the assessment of the national recovery and resilience plans and the monitoring of implementation, as well as a certain number of horizontal units, responsible notably for audit and control, legal affairs, and coordination. Human resource management proved to be very challenging as ECFIN's work on highly political priorities, e.g. new policy priorities linked to the consequences of the war in Ukraine (e.g., MFA to Ukraine; REPowerEU initiative) as well as the highly sensitive policy work on the EU economic governance framework, the on-going implementation of the RRF and of InvestEU resulted in a very high workload of staff.

DG ECFIN continued to apply the flexible methods set up at the end of the COVID-19 period and carried out a staff survey in order to check and adapt their functioning in the Directorate-General. Most of DG ECFIN's staff work in Brussels, 65 colleagues work in Luxembourg and 12 in other countries, inside and outside the EU.

As part of the Commission's commitment to mainstream equality internally and across all policy areas, DG ECFIN adopted an Equality work plan in October 2021. The mid-term evaluation in 2022 showed significant progress along most of its dimensions.

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 achieving the Commission's general objectives and department's specific objectives

2022 was marked by major geopolitical and socio-economic tensions. The aftermath of the COVID-19 pandemic and Russia's war of aggression against Ukraine shaped and directed the work of DG ECFIN. **DG ECFIN has been at the forefront of the Union economic recovery strategy** and continued to focus its resources on supporting the economy, in particular through developing and implementing measures to respond to these two crises throughout 2022. In parallel, DG ECFIN continued to play a central role in the multilateral surveillance of Member States economic developments and on ensuring the proper functioning of the Economic and Monetary Union. DG ECFIN also contributed to international economic cooperation and, in the context of its **Macro-Financial Assistance** instrument, it provided financial support to EU neighbourhood countries.

As originally set out in the Management Plan 2022, DG ECFIN's focus was bound to the evolution of the COVID-19 pandemic and the Union's response. ECFIN focused on rolling out the **EU's Recovery and Resilience Facility (RRF)** to support economic recovery and reforms in the Member States until 31 December 2026. By the end of 2022, all 27 Recovery and Resilience Plans (RRPs) have been submitted by Member States and approved by both the Commission and the Council of the EU. Additionally, under the joint assessment of DG ECFIN and SG.RECOVER, the Commission adopted a positive assessment for 13 payment requests of Member States, which led to the disbursement of EUR 46.9 billion in grants and EUR 25.2 billion in loans to 10 Member States. Combined with the prefinancing and disbursement made in 2021 and the prefinancing paid to Finland and Romania in January 2022, the Commission had disbursed a total EUR 138.7 billion in grant and loan support by the end of 2022.

DG ECFIN also continued with the implementation of the **SURE initiative** ⁽²⁾. With the latest and final disbursement on 14 December 2022, the EU has provided EUR 98.4 billion in loans to Member States.

The implementation of the **InvestEU Programmes** has progressed considerably to promote public and private investment in Union priorities. The investment mobilised by the

⁽¹⁾ Article 17(1) of the Treaty on European Union.

⁽²⁾ Instrument for temporary support to mitigate unemployment risks in an emergency.

programme will support objectives under the Sustainable Europe Investment Plan (climate target of at least 30% of the overall financial envelope and a 60% target of the investment under the Sustainable Infrastructure Window). The InvestEU Fund will also support investments for the digital transformation. In 2022, the Guarantee Agreement with the EIB and the EIF was signed early March, thereby ensuring the delivery to the market of 75% of the InvestEU guarantee. Additional Agreements were signed with other stakeholders, such as with the European Bank for Reconstruction and Development (EBRD) and the Council of Europe Development Bank (CEB). Further advancements with regards to the InvestEU Advisory Hub (a one stop shop for advisory support for project development and capacity building) and the InvestEU Portal (the online matchmaking tool providing investment opportunities within the EU) were also important achievements in 2022.

Through the **European Semester for economic policy coordination**, DG ECFIN conducted multilateral surveillance to ensure that national economic policies are conducive of a strong and sustainable recovery. The 2022 European Semester cycle reintroduced the country reports and proposed country-specific recommendations (CSRs) for all 27 Member States. The CSRs took into account the rapidly evolving circumstances resulting from Russia's war of aggression in Ukraine and the ensuing energy crisis, and thus included guidance to reduce the dependency on fossil fuels through reforms and investments. Meanwhile, DG ECFIN engaged in substantial economic analysis, including through its regular economic forecast exercise, and supported policy making with analytical input on the economic challenges posed by the new environment, which included, among many others, analysis of the design and efficiency of the energy support measures provided by Member States in the context of the energy crisis, and analysis on the fiscal implications of higher inflation. Furthermore, the 2022 analysis in the Alert Mechanism Report (AMR) under the Macroeconomic Imbalances Procedure (MIP) took stock of the evolution of imbalances and identified seven new countries for which In-Depth Reviews would be prepared in Spring 2023.

With a view to improve the **EU economic governance**, DG ECFIN prepared orientations for a reform of the framework, which were adopted by the Commission on 9 November 2022. The aim of the review is to strengthen debt sustainability and enhance sustainable and inclusive growth through investment and reforms. DG ECFIN held several discussions with Member States on the future of the EU fiscal rules, with the aim to reach a consensus ahead of the Member States' budgetary processes for 2024.

DG ECFIN continued to ensure the good functioning of the **Economic Monetary Union**. Besides specific surveillance of the euro area economic developments, in particular through the euro area policy recommendations, DG ECFIN continued to work with the competent national authorities of Bulgaria and Croatia to monitor and report on the implementation of their post Exchange Rate Mechanism II (ERMII) entry commitments and to help Croatia prepare for the changeover to the euro. Full implementation of Croatia's post-entry ERM II commitments was reported and with the adoption of the proper legal acts, Croatia's was able to introduce the euro on 1 January 2023. Within the digital euro work stream, DG ECFIN contributed to the preparation of the Impact Assessment for the Proposal for a

Regulation establishing the digital euro and regulating its essential aspects, with a particular reference to its implications on the legal tender for cash.

In addition to these expected responsibilities, DG ECFIN had to take up other tasks in 2022 that were and could not have been foreseen. Notably, DG ECFIN worked jointly with SG.RECOVER and other DGs on the **REPowerEU plan**, whose objective is to rapidly reduce the EU's dependence on Russian fossil fuels by fast forwarding the clean energy transition. ECFIN led the work towards the adoption of the Commission proposal for a Regulation amending the RRF Regulation as regards the inclusion of REPowerEU chapters in Recovery and Resilience Plans (RRPs) and the provision for additional funding for this purpose. A political agreement by the co-legislators was reached on 13 December.

Furthermore, in 2022 additional **macro-financial assistance (MFA) for Ukraine** in the form of loans was prepared and disbursed. An emergency MFA of EUR 1.2 billion, aiming at strengthening the resilience of the country, was disbursed in March and May. Ukraine received also exceptional MFA of EUR 6 billion in the second half of the year, in support of macro-financial stability and to ensure the continuous operation of the most critical functions of the state. Besides these new MFA operations, all of the ten COVID-19 MFA operations were concluded by the end of June 2022, with a total disbursement of EUR 2.8 billion in loans.

Regarding the geopolitical agenda of the Commission, DG ECFIN played an important role in **strengthening Europe's role as a global player** by having engaged in numerous multilateral and bilateral relationships. DG ECFIN played a leading role in economic policy discussion in the G20 and G7 fora, and in the IMF and other IFIs to coordinate the international policy response to the pandemic. A notable result of ECFIN's work was reaching an agreement on a joint Declaration of the G20 Leaders, which sent an overall strong message condemning the war in Ukraine. Furthermore, in the context of the global food crisis, DG ECFIN also actively supported the IMF launch of the Food-Shock Window providing additional access to emergency financing for countries facing balance-of-payment need.

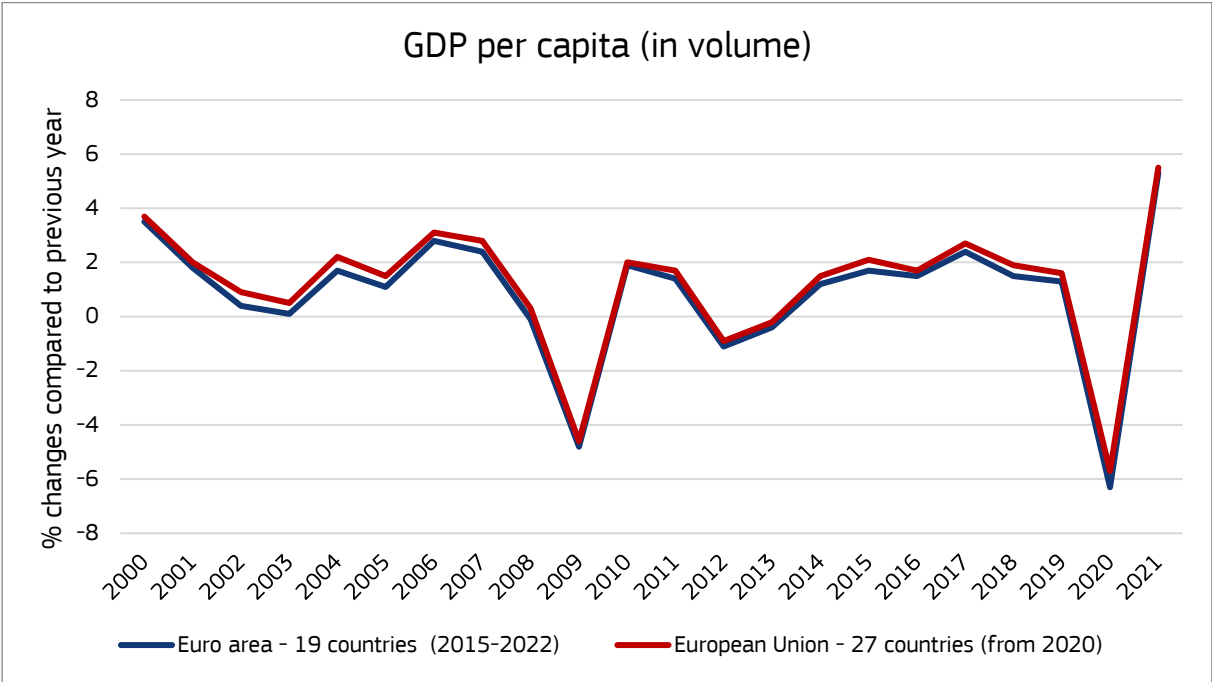
DG ECFIN continued **economic dialogues with enlargement and neighbourhood countries** throughout 2022 and pursued their analytical and monitoring work on enlargement countries. Besides quarterly reports and analytical contributions, DG ECFIN also evaluated the level of preparedness and progress made by enlargement countries towards meeting the economic criteria for joining the EU.

Alongside policy work, ECFIN strategically used its **communication tools** to explain, promote and engage with a diversity of audiences on numerous ECFIN activities. In 2022, DG ECFIN specifically focused on (i) the implementation of the national Recovery and Resilience Plans, (ii) the economic governance review and its potential to better coordinate economic and fiscal policies within the EU, (iii) the economic response to Russia's war of aggression against Ukraine, particularly the REPowerEU plan and MFA to Ukraine, and (iv) other initiatives such as the SURE and InvestEU Programme. Furthermore, at the occasion of the 20th anniversary of the introduction of euro banknotes and coins, and the

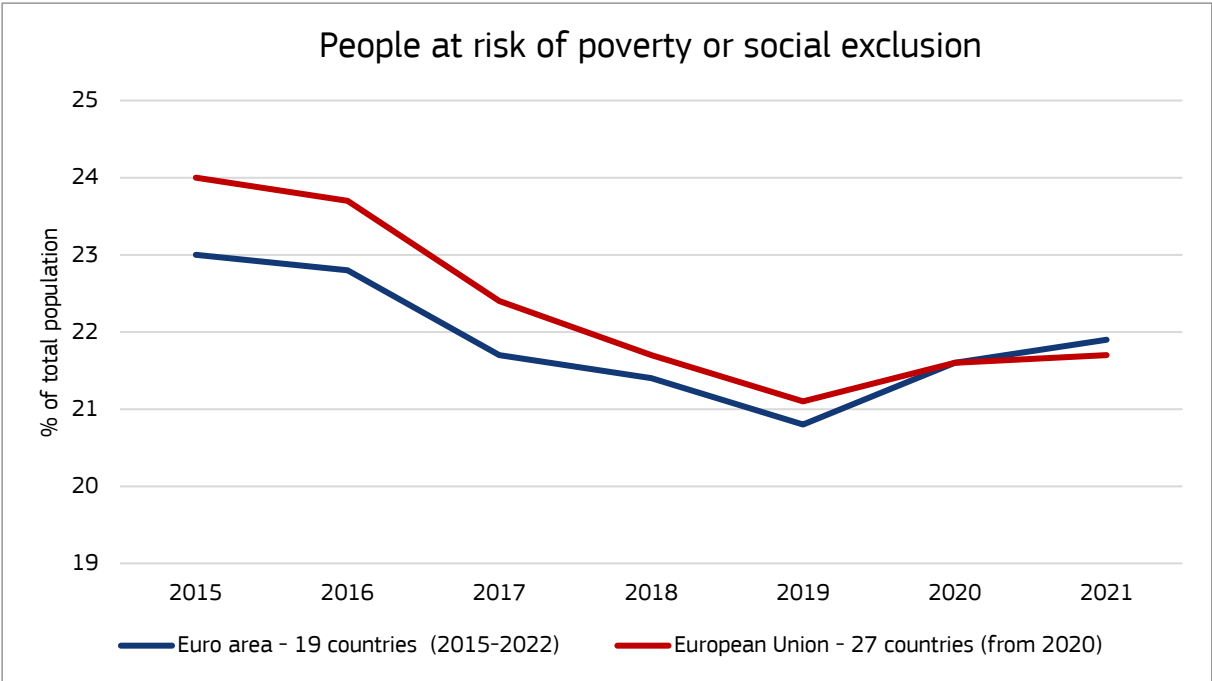
introduction of the euro in Croatia, DG ECFIN successfully rolled out numerous communication campaigns in cooperation with other stakeholders.

B. Key performance indicators

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



Source: Eurostat



Source: Eurostat

C. Key conclusions on financial management and internal control

In line with the Commission's Internal Control Framework DG ECFIN has assessed its internal control systems during the reporting year and has concluded that it is effective and the components and principles are present and functioning well overall, but some improvements are needed as minor deficiencies were identified. Please refer to annual activity report section 2.1.3 for further details.

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

In conclusion, management has reasonable assurance that, overall, suitable controls are in place and working as intended; risks are being appropriately monitored and mitigated. Improvements are necessary concerning first to making sure that staff knows what is expected of them and second, in order to implement the two very important recommendations from the IAS's Limited Review of the RRF control and audit strategies. These recommendations pertain to "measures for prevention, detection and follow up of any serious irregularities, double funding and serious breaches of the Financing Agreement", and "Suspension of payments and reduction of support due to not satisfactorily fulfilled milestones and targets". The following actions have or will be taken in this respect: The improvements and remedial measures implemented regarding the first point were a survey to find out underlying reasons as well as internal trainings and further developments of internal guidance documents. Regarding the RRF control and audit strategies DG ECFIN implements the two recommendations by the IAS and has already addressed one of them by its communication from the Commission to the European Parliament and the Council³ which includes a *Framework for assessing milestones and targets under the RRF Regulation* and a *Payment suspension methodology*. DG ECFIN will address the other recommendation by July 2023. Mitigating actions have been put in place by DG ECFIN. 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 ECFIN and the Commissioner(s) on management matters, the main elements of this report and assurance

⁽³⁾ COM(2023) 99 final of 21.2.2023: COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL - Recovery and Resilience Facility: Two years on – A unique instrument at the heart of the EU's green and digital transformation.

declaration, have been brought to the attention of Commissioner Gentiloni, responsible for economy.

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

This section provides detailed information on the key results and progress towards the achievement of the general and specific objectives set in the 2020-2024 strategic plans and towards the achievements of the outputs set in the 2022 management plan. The section is organised according to the four general objectives of the von der Leyen Commission that are most relevant for the activities of DG ECFIN: (i) an Economy that Works for People, (ii) a European Green Deal, (iii) a Europe Fit for the Digital Age, and (iv) a Stronger Europe in the World.



The Specific Objectives and activities that DG ECFIN has pursued in 2022 contributed to the achievement of these general objectives and policy priorities of the von der Leyen Commission. DG ECFIN's activities helped address the socio-economic consequences of the COVID-19 pandemic and Russia's war of aggression against Ukraine. Programmes managed by DG ECFIN -and in particular the RRF, Macro-Financial Assistance programmes- and InvestEU strongly supported the EU's recovery and helped kickstart reforms and

investments towards an inclusive green and digital economic transformation. The roll-out of these programmes bring strong European added value. Performance tables covering progress towards all objectives set in DG ECFIN's Strategic Plan for 2020-2024 and the outputs identified in the Management Plan for 2022 are presented in Annex 2.

An economy that works for people

Delivering on an economy that works for people is the primary objective for DG ECFIN over the years 2020-2024. It does this through surveillance, analysis, coordination, legislative actions – all of which aim to deliver economic conditions under which Europeans can thrive, by marrying social fairness and prosperity – and through the provision of EU financing to governments that will provide them with the ability to support their economies and enact growth-enhancing reforms to support the recovery.

The central economic policy challenge for ECFIN in 2022 was the implementation of the RRF, which provides up to EUR 723.8 billion (in current prices) in loans and grants to Member States. In 2022 DG ECFIN monitored progress in the implementation of national Recovery and Resilience Plans (RRP) across Member States, in particular with the assessment of several payment requests. DG ECFIN worked in close cooperation with the Commission's Recovery and Resilience Task Force (SG.RECOVER) for the coordination of the Facility's implementation.

The promotion of investment for recovery, employment and well-being across Europe is also supported by the InvestEU Programme, which is principally set out under **specific objective 5** ⁽⁴⁾. InvestEU remains one of the key Commission tools to stimulate jobs, growth and investment in Europe.

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 EUR 672.5bn in grants and loans under the Recovery and Resilience Facility.

Implement the Recovery and Resilience Facility (RRF)

DG ECFIN continued, in joint leadership with the Recovery and Resilience task force set up in the Secretariat-General (SG Recover), to ensure the appropriate implementation of the RRF. ECFIN staff works, as part of dedicated country teams for each Member State, on assessing

⁽⁴⁾ Mobilise around EUR 300 billion of investment funding to finance the green and digital transition of the EU economy.

the Recovery and Resilience Plans (RRPs) and payment requests submitted by Member States.

As of 31 December 2022, the Recovery and Resilience Plans of all 27 Member States had been endorsed by the Commission and the Council, as the RRP of Sweden, Bulgaria, Poland, the Netherlands and Hungary were endorsed over the course of 2022. ECFIN, jointly with SG.RECOVER, successfully agreed 19 operational arrangements signed by Member States, 14 of which in 2022, leading to the submission of 27 payment requests, of which 23 in 2022. Under the joint leadership of ECFIN and SG.RECOVER, the Commission adopted in 2022 a positive assessment for 13 requests, which led to the disbursement of EUR 46.9 billion in grants and EUR 25.2 billion in loans to 10 Member States. Combined with the prefinancing and disbursement made in 2021 and the prefinancing paid to Finland and Romania in January 2022, the Commission had disbursed a total EUR 138.7 billion in grant and loan support by the end of 2022.

As foreseen by article 11 of the RRF Regulation, ECFIN, jointly with SG.RECOVER, also prepared the update of the calculation of the RRF maximum financial contribution which was published on 30 June 2022. ECFIN, jointly with SG.RECOVER, also led the assessment of the updated RRP submitted by Luxembourg to take into account this calculation. This updated RRP was endorsed by the Commission on 9 December 2022.

DG ECFIN, together with SG.RECOVER, also prepared the annual RRF Report which was published on 1 March 2022 and the RRF Review report, published on 29 July 2022. ECFIN continued to build up and enrich the reporting related to the RRF through the Recovery and Resilience Scoreboard, including through the publication of the reporting on RRF common indicators, and further developed the FENIX IT infrastructure to allow Member States to provide all the necessary implementation data.

Deliver on the REPowerEU Plan

In the context of the unprecedented geopolitical developments linked to Russia's invasion of Ukraine, ECFIN, jointly with SG.RECOVER and other DGs, led the work towards the adoption of the Commission proposal (COM(2022) 231 final) for a Regulation amending the RRF Regulation as regards the inclusion of REPowerEU chapters in Recovery and Resilience Plans and the provision for additional funding for this purpose.

This proposal is part of a broader Commission communication on the REPowerEU plan, the objective of which is to rapidly reduce the EU's dependence on Russian fossil fuels by accelerating the clean energy transition and joining forces to achieve a more resilient energy system and a true Energy Union. ECFIN actively participated to the Inter Services Group dedicated to the preparation of the REPowerEU plan.

To guide MS in adjusting their RRP in relation to both the update of the Maximum Financial Contribution and the prospect of the inclusion of a REPowerEU chapter, ECFIN, jointly with SG.RECOVER, prepared the guidance on RRP in the context of REPowerEU, adopted on 18 May 2022.

ECFIN, jointly with SG.RECOVER, engaged closely with co-legislators to facilitate their work. A political agreement was reached on 13 December on the Regulation on REPowerEU chapters in the recovery and resilience plans, making the RRF better equipped to effectively address the objectives of the REPowerEU plan. The Regulation provides the necessary framework to ensure that investments and reforms strengthening the EU energy resilience are mobilised as soon as possible. It defines a specific set of REPowerEU objectives that should underpin the investments and reforms to be included in the existing recovery and resilience plans ('RRPs') as part of dedicated REPowerEU chapters. In addition, the Regulation provides for dedicated funding sources to finance the relevant measures.

Implement the instrument for temporary Support to mitigate Unemployment Risks in an Emergency (SURE)

Throughout 2022, DG ECFIN continued to monitor SURE, including its absorption across Member States, and assessed new requests, with a view to adopting possible further proposals for Council Implementing Decisions granting additional financial assistance before the sunset of 31 December 2022. The Commission issued a Council Implementing Decision to substantially reduce the sizeable absorption gap in Romania. The Commission disbursed EUR 2.17 billion of financial support under the SURE instrument to Hungary, Poland and Portugal in March 2022, and over EUR 6.5 billion in the final transaction under SURE in mid-December 2022 which provided additional financial support to Bulgaria, Cyprus, Czechia, Greece, Croatia, Lithuania, Latvia, Poland and Portugal. The third and fourth bi-annual reports were issued in March and September 2022, showing continued success in protecting jobs and supporting recovery. Overall, SURE has provided a total of EUR 98.4 billion of financial assistance to 19 Member States.

Monitor Balance of Payment needs

DG ECFIN continued to monitor Balance of Payment developments in Member States. During 2022, no Member State required Balance of Payment support and no Member State requested the ESM Pandemic Crisis Support.

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

The European Semester is the framework for integrated multilateral economic surveillance and related policy recommendations to EU countries. It takes place throughout the year, starting in the autumn with the publication of the Annual Sustainable Growth Survey – which sets out the Union level economic priorities for the year to come – and ending with the adoption of country-specific recommendations by the Council in July.

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

The 2022 European Semester cycle took place in a challenging socio-economic and geopolitical context. It preserved its main purpose of broad economic and employment policy coordination, while evolving in line with the implementation requirements of the RRF. The implementation of the RRF made it necessary to continue adapting the European Semester to take into account overlaps and ensure that joint efforts can focus on the delivery of high-quality and ambitious RRFs.

The European Semester Spring Package was published on 23 May 2022, reintroducing country reports and proposing country-specific recommendations (CSRs) for all 27 Member States. The country reports provide a snapshot of the existing and newly emerging challenges along the four dimensions of competitive sustainability, including through dedicated Annexes, as well as an analysis of individual Member States' resilience. The CSRs provide guidance to Member States to adequately respond to persisting and new challenges and deliver on their shared key policy objectives. This year, they also included guidance to reduce the dependency on fossil fuels through reforms and investments in line with the REPowerEU objectives.

The 2022 European Semester cycle also provided updated and consistent reporting on progress towards the achievement of the United Nations' Sustainable Development Goals (SDGs) across Member States. Specifically, for an integrated approach, the country reports narrate the key challenges and policy response in relation to relevant SDGs, and summarise the progress of each Member State towards implementation of the SDGs, also in a dedicated Annex.

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

In view of the uncertain economic environment and large supply shock stemming from the geopolitical situation, DG ECFIN supported policy making with analytical input on the economic challenges posed by the new environment and the policy mix in EMU, discussing possible interactions between fiscal and monetary policy. In 2022, this included a range of actions, such as:

- Compiled estimates of the fiscal measures taken in response to the COVID-19 pandemic and the energy crisis, including notes on the quality of those measures.
- Model-based scenario analysis complementing the baseline European Economic forecasts for alternative economic and policy paths, and work on the fiscal implications of higher inflation.
- Continued work on adapting the methodology for estimating output gaps in view of the impact of COVID-19 and the RRF.

- A range of notes on the ECB's monetary policy, financial and credit market developments as well as on inflation and exchange rate issues. Two issues of the Quarterly Report on the Euro Area were produced covering analytical topics relevant for macroeconomic policy making.
- Publishing, as part of the Fiscal Sustainability Report, an analysis of contingent liabilities risks linked to the banking sector with a special focus / treatment of loans during the pandemic.
- ECFIN's quarterly macroeconomic forecasts (please also see under **specific objective 3**).

Strengthen resilience and productivity by promoting national structural reforms

In addition to the RRF and the European Semester, both important tools for fostering national structural reforms, DG ECFIN has facilitated the functioning of National Productivity Boards (NPBs) in 2022. Three meetings were held, the first one in March on the effects of the green transition on productivity, the second one in June, which was co-organised with the French EU Presidency and the OECD, and the third one in December. The second meeting featured interventions by ECFIN on the institutional set-up and functioning of NPBs and their impact on policy making. The third meeting, in December 2022, consisted of a joint NPB–EPC session followed by a workshop on productivity developments in the post-pandemic EU, including the impact on production and productivity of geopolitical tensions and high energy prices, as well as new data on productivity indicators. Moreover, ECFIN co-organised with the OECD the 2022 Annual Meeting of the OECD's Global Forum on Productivity, which took place in July 2022.

DG ECFIN has developed and updated frameworks for productivity, for the business environment and public sector benchmarking as screening devices to identify differences across Member States and important areas for reform.

Additionally, DG ECFIN's analyses on the COVID-19 shock, firm vulnerability and support policies was published as ECFIN Discussion paper and in the Quarterly Report on the Euro Area. ECFIN analysis on productivity effects of the energy price shock was presented at the December NPB meeting. ECFIN's work on post-COVID labour market and wage developments and on the macroeconomic benefits of gender equality shed light on labour market policies that can contribute to growth and resilience. Furthermore, ECFIN produced analytical notes on productivity and labour market effects of the green transition (decarbonisation policies).

Analyse the macroeconomic aspects of the climate transition

The decarbonisation of our economies as set out in the Climate Law ⁽⁵⁾, i.e. to reach climate neutrality by 2050, will have wide-reaching repercussions throughout the economy, touching on all aspects of production and consumption. Economic policy, including structural reforms and efficient policy instruments (e.g. cost efficient and market-based support systems for renewables, efficiently allocated grants etc.), will need to support and drive the decarbonisation process, while making the transition just and inclusive. These challenges have become even more pressing in a context of historical highs in the price of energy.

During 2022, DG ECFIN provided analysis on the size and nature of the investment needs related to the climate transition for several publications, including the European Growth Model Communication and the Annual Single Market Report.

Following Russia's invasion of Ukraine, ECFIN provided analysis on Member States' dependence on Russian energy supply. This analysis was central to the Commission forecast, contributed to discussions on how to attribute structural energy CSRs to Member States and fed into the analyses in recitals of CSRs and country reports.

In preparation for DG ENER's 'Save Gas for a Safe Winter' package of July, ECFIN provided analysis on the economic impacts of potential gas disruption by Russia including the overall impacts on the euro area economy, fiscal vulnerabilities and possible industry curtailment. Analysis was also carried out in relation to the design and efficiency of the energy support measures provided by Member States in the context of the energy crisis.

Economic service function

In 2022, analytical work, including modelling work, was carried out to assess the economic context and consequences of the policies supporting inclusive and sustainable growth, focusing particularly on digital and green transitions, and the current challenges, notably rising energy prices. In the context of the European Semester, horizontal assessment frameworks have been developed and maintained for labour markets, tax policy, public administration, the business environment, and productivity developments.

DG ECFIN provided several notes and papers, including:

- An analysis on EU labour markets post-COVID, notably on the question of labour market slack or tightness, which has implications for wage setting and inflation, and an assessment of the impact of migration of people escaping the war in Ukraine on the EU labour market.
- Two analytical notes on the (likely) impact of the green transition (decarbonisation policies) on productivity and labour markets in the EU.

⁽⁵⁾ Regulation (EU) 2021/1119 of the European Parliament and of the Council of 30 June 2021 establishing the framework for achieving climate neutrality and amending Regulations (EC) No 401/2009 and (EU) 2018/1999 ('European Climate Law').

- The annual Tax Assessment Framework was extended to new topics, and improved in the methodology, and includes an analysis on the taxation of immovable property and, more specifically, the effects of mortgage interest tax relief on income inequality.
- An analytical note on the increasing systemic potential of cyber risks, their monetary cost and the role of the public sector in covering them. Also, an analytical note on the environmental and resource cost of crypto mining which fed into the inter-service work on relevant files such as the Markets in Crypto-Assets Regulation and the Digitalisation of Energy Action Plan.

The ECFIN Economic Seminars, with approximately 2-3 seminars per month and attendance from both ECFIN and other Commission services, have been a way of disseminating new relevant research and connecting staff to researchers from academia and other policy institutions. ECFIN also co-organised the JRC-ECFIN Annual research conference in Autumn 2022, aimed at promoting evidence-based discussions on topics of high policy priority (green transition).

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

Economic and fiscal surveillance are at the core of DG ECFIN's work. DG ECFIN delivers on articles 121, 126, 136 of the Treaty and is tasked with implementing surveillance based on those articles and the related secondary legislation. Within the more encompassing framework of the European Semester – which is covered under **specific objective 2** ⁽⁶⁾ – this includes fiscal surveillance under the Stability and Growth Pact (SGP), the surveillance of macroeconomic imbalances under the Macroeconomic Imbalances Procedure (MIP), a range of procedures specifically introduced to address euro area countries facing difficult circumstances, including economic adjustment programmes, as well as minimum standards for the Member States' fiscal frameworks. This specific objective has two angles: working on the legal and procedural framework that determines how surveillance is designed and organised, and the implementation of surveillance, including all analytical and preparatory activities that support a meaningful approach, centred on the economic needs of the Member States, the euro area and the Union. Fiscal policy guidance to Member States is currently provided in a context of exceptional uncertainty, related to both economic environment and the institutional framework.

Design an improved economic governance framework

The review of the European Union's economic governance framework looked into 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 with a view to propose an updated governance framework. The public debate on the review was relaunched in

⁽⁶⁾ Integrate the Sustainable Development Goals (SDGs) into the European Semester, supporting inclusive, green and digital economic transformations in the post-COVID-19 recovery.

October 2021 ⁽⁷⁾ and the Commission called for a wide-ranging debate with stakeholders through various means, including through dedicated meetings, workshops and an online public survey. In March 2022, DG ECFIN published a summary report of the online public consultation ⁽⁸⁾. Following extensive debates with stakeholders, on 9 November 2022, the Commission published a Communication setting out orientations for a reformed EU economic governance framework. Taking into account the key concerns over the current framework, the orientations aim to strengthen debt sustainability and enhance sustainable and inclusive growth through investment and reforms. The objective is to table legislative proposals and reach an agreement with the co-legislators ahead of the European Parliament elections in 2024.

Throughout 2022, DG ECFIN participated in numerous discussions on the future of the EU fiscal rules and of the Macroeconomic Imbalance Procedure (MIP): with Member States bilaterally, with the European Parliament as well as with other institutions. Discussions were also held in the ECOFIN filière throughout the year, and with higher intensity following the publication of the Commission's Communication of November 2022. DG ECFIN organised a conference on national fiscal frameworks and their role in an improved economic governance framework on 13 December 2022.

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

DG ECFIN continues implementing its fiscal and macroeconomic surveillance framework in line with the changing economic conditions. On 2 March 2022, DG ECFIN provided the Commission Communication on fiscal policy guidance for 2023 with a view to help Member States preparing their stability and convergence programmes in a context of exceptional uncertainty, related to both the economic environment and the institutional framework. Fiscal recommendations were issued as part of the 2022 European Semester spring package of 23 May 2022. At the same time, DG ECFIN prepared a Commission report under Article 126(3) to assess Member States' compliance with the deficit and debt criteria of the Treaty and continued to monitor the progress made by Romania towards its targets under the excessive deficit procedure (EDP). As part of the 2023 European Semester Autumn Package of 22 November 2022, DG ECFIN prepared the Commission's assessment of the 2023 Draft Budgetary Plans submitted by euro area Member States as well as Croatia, and the overall budgetary situation in the euro area, including the aggregate fiscal stance. It also published estimates on the cost and quality of the measures taken by the Member States in response to the increase in energy prices.

ECFIN's macroeconomic and fiscal surveillance continued to be firmly underpinned by the four European Economic Forecasts produced in-house. The Winter interim Economic Forecast was released shortly before Russia's invasion of Ukraine on 24 February, which

⁽⁷⁾ The public consultation on the EGR was initially launched in February 2020 and was interrupted due to the COVID-19 crisis.

⁽⁸⁾ https://economy-finance.ec.europa.eu/system/files/2022-03/swd_2022_104_2_en.pdf

posed new challenges just as the Union had recovered from the economic impacts of the pandemic. This led the Commission to revise the EU's growth outlook downwards, and the forecast for inflation upwards in its Spring Economic Forecast of 16 May. The forecast for 2023 and to a lesser extent 2022 was downgraded again and the inflation outlook lifted in the Summer interim Forecast of 14 July, on account of a deepening energy crisis. The Autumn Forecast of November 11 lifted the growth outlook for 2022, on the back of a more buoyant than expected summer season. Inflation was nevertheless revised up again over the whole forecast horizon. Importantly, the Autumn Forecast expected the EU economy to enter a short-lived and shallow recession in the last quarter of 2022. Growth was set to remain subdued thereafter, and pick up only in 2024 as inflation loosens its grip on the EU economy.

DG ECFIN also conducted regular (monthly) Business and Consumer surveys for different sectors of the economies in the EU and in the candidate countries. They are addressed to representatives of the industry (manufacturing), services, retail trade and construction sectors, as well as to consumers. These surveys have become an indispensable tool for monitoring the evolution of the EU and the euro area economies, as well as monitoring developments in the candidate countries. Particularly useful elements of the comprehensive survey program in the aftermath of the COVID-19 crisis and Russia's invasion of Ukraine have been the questions enquiring factors limiting production and selling price expectations among businesses, allowing for analysis of supply side constraints. On the consumer side, the survey data was inter alia used for analysis of the impact of inflation on EU consumers' financial situation by income bracket.

As part of the European Spring package, DG ECFIN:

- prepared 12 In-Depth Reviews under the Macroeconomic Imbalance Procedure that were published on 23 May 2022, as part of the European Semester spring package.
- drafted the omnibus report under Article 126(3) of the Treaty on the Functioning of the EU for 18 Member States, which assessed compliance with the deficit and debt criteria ⁽⁹⁾.
- provided input in the production of the Commission Recommendations for Council Recommendations on the 2022 National Reform Programmes and Council Opinions on the 2022 Stability and Convergence Programmes of Member States.

As part of EU regular fiscal surveillance, a new edition of the Fiscal Sustainability Report was published in April 2022, analysing risks to fiscal sustainability using a multi-dimensional approach covering short-, medium- and long-term fiscal sustainability challenges, in a comprehensive manner.

A number of additional outputs have been prepared by DG ECFIN to ensure an effective economic and fiscal surveillance and support fiscal and macroeconomic stability in the euro area and the EU. These also include Post Programme Surveillance and Enhanced Surveillance reports. For each of the countries under post-programme surveillance (Ireland,

⁽⁹⁾ DG ECFIN also continued to monitor Romania's compliance with the budgetary target under the excessive deficit procedure as per the Council Decision of 3 April 2020.

Spain, Cyprus and Portugal), reports were published on 23 May 2022 and 22 November 2022. For Greece, in the context of enhanced surveillance, the 13th and 14th quarterly reports were published on 23 February and 23 May respectively, whilst, after Greece exited enhanced surveillance, the first post-programme surveillance report was published on 22 November 2022.

The Alert Mechanism Report (AMR) under the MIP was published on 22 November 2022, and identified seven new countries for which In-Depth Reviews would be prepared in Spring 2023. These are Estonia, Czechia, Hungary, Latvia, Lithuania, Luxembourg and Slovakia.

Strengthen national fiscal frameworks and public finance management, explore and promote adoption of green budgeting

Strong fiscal policy coordination, including through the EU and at national levels continues to be essential and the Commission supports the efforts by Member States to increase the quality of public expenditure. The reform of national fiscal frameworks can contribute to the green and digital transition and be conducive to resilience-enhancing public investment. In that respect, in 2022, DG ECFIN pushed forward the workstream on public investment management, by establishing a network of national experts; conducting in-depth interviews; conducting an EU-wide survey on national practices; and drafting a note for the EFC. Furthermore, on green budgeting, DG ECFIN organised a 2nd annual Green Budgeting conference on 16 June and completed work on the training with Member States (with DG REFORM). Finally, DG ECFIN provided a novel quantitative assessment of fiscal risks linked to extreme weather and climate-related events for most vulnerable EU countries. Results on all these work streams were published as ECFIN Discussion Papers.

Deepen analysis of economic, fiscal and social aspects of demographic change and ageing

DG ECFIN prepared a work programme in view of the 2024 Ageing Report. This work programme was endorsed by the Ageing Working Group (AWG) / Economic Policy Committee (EPC) mid-2022. Moreover, technical seminars with the Ageing Working Group (AWG) (with participants from Ministries of Finance and National Statistical Institutes) dedicated to improving data collection and methodologies for health care and long-term care projections took place.

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

Twenty years after its launch, the single currency is an important driver of growth for the euro area. Since the start of the COVID-19 outbreak, the euro area has been an anchor of stability globally and risks of divergences have been more limited than initially feared. This owes much to the steps done to reinforce the integrity of the Economic and Monetary Union (EMU) since the global financial crisis. Still, the EMU's architecture remains incomplete and

further progress is warranted to reinforce the resilience of the euro area and promote growth over time. The forceful collective policy action in the EU has contributed to the stability of the euro area throughout the crisis. Still, three important files relative to the further deepening of the EMU are particularly high on the agenda of the Commission, namely: the Banking Union, the Capital Markets Union and the international role of the euro. Actions to avoid counterfeiting and to improve policy coordination among Member States also contribute to the well-functioning EMU.

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

In 2022, DG ECFIN completed an analysis on corporate sector viability post-COVID, paired with an overview of national insolvency systems, the alterations they underwent during the pandemic, and possible policy avenues to improve their efficiency.

DG ECFIN took an active role in the discussion on relevant legislative changes related to further the Banking Union ⁽¹⁰⁾. DG ECFIN also continuously followed and reported on the work of the Euro group Working Group meeting on the Banking Union and High Level Working Group on the European Deposit Insurance Scheme (EDIS). The Banks' sovereign exposures remained in particular an analytical focus.

Moreover, DG ECFIN's role in crisis management banking cases and its role in resolution procedures and legal obligations based on recent case law was reviewed during 2022, looking into recent ECB case law related to the immunities awarded to the EU institutions. In addition, DG ECFIN participated in two resolution cases that happened over the course of 2022. ⁽¹¹⁾ The above-mentioned activities feed directly into Commission-wide work on a core aspect of the EMU, namely the single rules and supervision of financial Institutions within the euro area.

As regards analyses pertaining to the current economic and geopolitical environment, ECFIN looked into the institutional implications of a higher inflationary environment as well as the impact of the war in Ukraine on the financial sector. Moreover, ECFIN analyzed the implications of ERM II and euro area accession, notably through the effects on convergence criteria.

Furthermore, DG ECFIN, together with DG FISMA, DG CNECT and the Legal Service, is preparing the Impact Assessment for the Proposal for a Regulation establishing the digital euro and regulating its essential aspects. This included a Targeted Consultation that ran from 5 April to 16 June 2022. Together with the relevant services, DG ECFIN is preparing

⁽¹⁰⁾ DG ECFIN took an active role in the discussion on relevant legislative changes to the Bank Recovery and Resolution Directive (BRRD), the Single Resolution Mechanism Regulation (SRMR) and the Deposit Guarantee Schemes Directive (DGSD), as well as the accompanying Banking Union communication (as part of the Crisis Management and Deposit Insurance (CMDI) review package).

⁽¹¹⁾ These cases and more broad considerations for State Aid in the banking sector are discussed in regular Extended Co-ordination Meetings with colleagues from relevant DGs.

the Regulation proposal. Within the digital euro work stream, DG ECFIN is invested in the work on the legal tender, the impact on financial stability, the international use of the digital euro, whilst contributing significantly to discussions on technical features, fees and distribution, anti-money laundering (AML) / combating the financing of terrorism (CFT), and the overall legal framework including the division of competencies between the co-legislators and the ECB. ECFIN participated in joint ECB-Commission work streams (e.g. implications of digital euro on financial stability and macroeconomic implications; use of a digital euro outside of the euro area; distribution channels, interoperability and integration with existing payment systems; etc.) and presented on different aspects of the digital euro at various ECB-Commission contact group meetings, in EWG technical seminars and meetings of the Expert Group on Banking, Payments and Insurance (EGBPI), as well as at the EESC public hearing on the digital euro. This work, which will result in a Commission proposal for a regulation establishing the digital euro, sets the basis for the use of the digital euro, a major development for the EMU.

Protect 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 programme, 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 annual Pericles IV report for 2021 was adopted on 30 June 2022 and confirmed the success of the programme: 9 actions were financed and 100% of the budget committed.

Following the publication of the 2022 Pericles IV Call for Proposals, seven applications originating from Member States' Competent National Authorities were submitted and five positively evaluated for granting.

Coordination with Member States, the ECB and Europol profited by three meetings of the Euro Counterfeiting Experts Group, two meeting of the Counterfeit Coins Experts Group and three meetings of the European Technical Scientific Centre (ETSC)-Work Team that took place in 2022.

DG ECFIN also contributed to the preparation of the impact assessment on the digital euro with particular reference to its implications on the legal tender for cash. The definition of legal tender was also discussed at the Euro Legal Tender Expert Group. ECFIN published the report on the activity of this group that also dealt with acceptance and availability of cash.

The Erasmus common commemorative coin was issued on 1 July 2022 by all euro area Member States, the design of the coin was selected by public voting following a competition organised by DG ECFIN.

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

In addition to economic surveillance of Member States' economic policy, DG ECFIN monitors the economic challenges faced by the euro area, taking into account the implementation of the RRF. It proposes every year a set of recommendation on the economic policy of the euro area. The 2022 euro area recommendations were adopted by the Council on 5 April 2022.

Over the first semester, DG ECFIN prepared several notes and articles to monitor developments in the euro area. Work focused in particular on inflation developments and the related emergency measures taken by Member States on investment, economic convergence and on current account developments. This analytical work conducted over the first semester supported thematic discussions held in the Eurogroup and its preparatory committees.

On 22 November, the Commission published its 2023 Recommendation for a Council Recommendation on the economic policy of the euro area. The Recommendation is accompanied by a staff working document which provides the analytical underpinning for the policy recommendations. The staff working documents focuses on the impact of the energy crisis and the high increase in inflation on the functioning of the euro area. It also analyses the policy response, with a specific attention to the policy mix. On the basis of this analysis, the Commission proposed recommendations related to fiscal policy, investment, wage and social policy, corporate support and financial stability.

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

In 2022, DG ECFIN monitored the implementation of the ERM II post-entry commitments in Bulgaria and Croatia. Reports detailing progress on both countries' post-entry commitments were informally corroborated by ECFIN in the EWG in February 2022. Full implementation of Croatia's post-entry ERM II commitments was reported and informally confirmed by ECFIN at the EWG in May.

The Convergence Report was prepared by ECFIN and published by the Commission on 1 June, concluding that Croatia was the only MS with a derogation that fulfilled all of the convergence criteria. Consequently, the Convergence Report was accompanied by the Commission's Proposal for a Council decision on the adoption by Croatia of the euro on 1 January 2023 as well as its Proposal for a Council regulation amending Regulation (EC) No 974/98 as regards the introduction of the euro in Croatia. The Commission's proposal for a Council Regulation (EC) No 2866/98 amending the regulation on the conversion rate to the euro for Croatia was adopted later, on 29 June. This paved the way for the subsequent adoption in the Council on 12 July, after endorsement by the European Council and positive opinions by the European Parliament and the ECB, of the three legal acts that enabled Croatia to introduce the euro on 1 January 2023. ECFIN services supported the Croatian authorities on the technical preparations for the changeover, as well as the communication campaign and related activities. A Memorandum of Understanding on the start of euro coin

production and on the preparatory tasks prior to the start of production was signed with Bulgaria at the end of 2022.

External communication

In 2022, DG ECFIN carried out external communication activities to promote, explain, and engage on its main policy initiatives and activities, in particular: (i) the implementation of national RRP and their contribution to the green and digital transitions, as well as their interlinkage with the European Semester; (ii) the economic governance review and its potential to better coordinate economic and fiscal policies within the EU; (iii) the economic response to Russia's war of aggression against Ukraine, in particular the REPowerEU plan and the macro-financial assistance to Ukraine and (iv) other initiatives aimed at supporting job holders and businesses, such as the SURE and InvestEU Programme.

For this purpose, DG ECFIN used a broad range of communication tools, including (i) press releases, memos and replies to journalists; (ii) innovative web and social media content; (iii) major events, such as the Brussels Economic Forum, which took place on 17 May 2022 and the second edition of the EU Sustainable Investment Summit; (iv) academic publications by DG ECFIN experts; and (v) the external DG ECFIN newsletter and eight episodes of the Euronews Real Economy programme.

Special consideration was given to DG ECFIN's website, as all ECFIN content was migrated to an autonomous 'Economy and Finance' website ⁽¹²⁾, with an improved presentation. The summer 2022 economic forecast ⁽¹³⁾ also benefited from an improved web presentation. In addition, the RRF Scoreboard website was further developed to add complementary national data in an interactive way.

A successful communication campaign, coordinated with the ECB and other institutions, took place at the occasion of the 20th anniversary of the introduction of euro banknotes and coins, in particular on social media. DG ECFIN also worked closely with Croatian authorities on a communication campaign ahead of the country's euro changeover on 1 January 2023. Both campaigns offered the opportunity to raise awareness of the general public on the benefits of the euro and a well-functioning EMU. Eurobarometer surveys allowed to gauge sentiments, both in non-euro and in euro countries.

DG ECFIN continued to strengthen its ties with key stakeholders, through its stakeholders and journalists outreach programme, and building on the cooperation with the European Semester Officials in the Member States. It cooperated closely with the SG, DG COMM, partner DGs and other EU institutions. In particular, DG ECFIN continued to reinforce its intelligence gathering and networking activities with the European Parliament with a view to smoothen inter-institutional cooperation on economic files.

⁽¹²⁾ https://economy-finance.ec.europa.eu/index_en

⁽¹³⁾ https://economy-finance.ec.europa.eu/economic-forecast-and-surveys/economic-forecasts/summer-2022-economic-forecast-russias-war-worsens-outlook_en

A European Green Deal

Climate change and environmental degradation are the defining challenge for our generation for both Europe and the world. To respond to these challenges, the European Green Deal will transform the EU's economy into 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.

In 2022, DG ECFIN will continue its activities relating to the European Green Deal, principally set out under **specific objective 5** ⁽¹⁴⁾, 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 Recovery and Resilience Facility (RRF), which belongs to the actions under **specific objective 1** ⁽¹⁵⁾ will contribute to the green transition, thus supporting and complementing the European Green Deal. Indeed, in each national Recovery and Resilience Plan, at least 37% of the financial support should be dedicated to climate-related investments and reforms. Actions foreseen under the **specific objective 2** ⁽¹⁶⁾ and **specific objective 3** ⁽¹⁷⁾ will also contribute to the attainment of this objective.

The promotion and implementation of ambitious environment, climate and energy policies will be more effective, if not implemented in isolation from the rest of the world. Strengthening Europe's role as a global player on economic issues and increase the international role of the euro (**specific objective 6** ⁽¹⁸⁾) is also important to the success of the European Green Deal.

⁽¹⁴⁾ Mobilise around EUR 300 billion of investment funding to finance the green and digital transition of the EU economy.

⁽¹⁵⁾ 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 EUR 672.5 bn in grants and loans under the Recovery and Resilience Facility.

⁽¹⁶⁾ Integrate the Sustainable Developments Goals (SDGs) into the European Semester, supporting inclusive, green and digital economic transformations in the post-COVID-19 recovery.

⁽¹⁷⁾ Implement an economic and fiscal surveillance framework to deliver conditions for sustainable economic growth.

⁽¹⁸⁾ Strengthen Europe's role as a global leader on economic issues and increase the international role of the euro.

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

Implement the Sustainable Europe Investment Plan

The Sustainable Europe Investment Plan, also referred to as the European Green Deal Investment Plan (EGDIP), is the investment pillar of the European Green Deal. The Investment Plan combines funding under the EU budget as well as private investment leveraged through EU budget instruments such as InvestEU to support the climate transition ⁽¹⁹⁾.

On 28 October 2022, DG ECFIN held the second EU Sustainable Investment Summit on the state of play of the Sustainable Europe Investment Plan and international cooperation to foster sustainability. The Summit gathering high-level representatives, including the Commission President and several Prime Ministers, took stock of the developments in the EU and globally and discussed the challenges of climate change, taking into account the particular circumstances imposed by Russia's invasion of Ukraine. Priorities of the Summit were global transparency, energy supply and security, mobilising financing for the green transition, skills and education as well as fostering international cooperation. The next (third) EU Summit in autumn 2023 will follow-up on pledges made at the second EU Summit.

Deliver and implement the InvestEU Programme

The InvestEU Fund provides a EUR 26 billion EU guarantee 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. In total, the InvestEU Programme is expected to mobilise around EUR 370 billion of additional public and private investment. It finances economically viable projects in key EU policy areas, including the green and digital transitions.

The implementation of the InvestEU Programme has progressed considerably in 2022 and is advancing steadily to promote public and private investment in Union priorities like REPowerEU. The governance is fully set up and functioning and the statutory documents have all been adopted.

InvestEU Fund

The Guarantee Agreement with the EIB and the EIF was signed in March, thereby ensuring the delivery to the market of 75% of the InvestEU guarantee. The Partnership Agreement with the EIB in order for the Technical Assessment Unit to support the Commission

⁽¹⁹⁾ 30% of the Programme envelope is expected to contribute to climate objectives and 60% of sustainable infrastructure investments are expected to contribute to both climate and environmental objectives.

regarding the risk/remuneration parameters of the Guarantee Agreements under negotiation was signed in May 2022.

The guarantee allocated to the EIB Group amounts to EUR 19.6 billion, split between the EIB (EUR 8.56 billion) and EIF (EUR 11.06 billion). Financing under all windows is already available. All calls for expression of interest for financial intermediaries were published by the EIF and resulted in a strong demand.

By the end of 2022, the Commission had also signed the Guarantee Agreements with CDP Equity, Council of Europe Development Bank (CEB), Nordic Investment Bank, European Bank for Reconstruction and Development (EBRD) and Caisse des Dépôts et Consignations. The reserved guarantee amount committed through these Guarantee Agreements totals EUR 1.33 billion. Negotiations with other implementing partners are ongoing and further Guarantee Agreements will be signed in early 2023.

In 2022 the InvestEU Investment Committee had approved the EU guarantee for 67 operations from the EIB and the EIF under the EU compartment. For these operations, a maximum EU guarantee amount of EUR 9.1 billion has been assigned. Further, four framework operations under the Member State Compartment for Romania have been approved. 50% of the supported projects were in sustainable energy (solar, wind and energy efficiency), others provided finance to SMEs, water management, transport, telecom, education infrastructure, skills development and digital technologies.

A large size of the InvestEU guarantee needs to be deployed in accordance with NextGenerationEU (NGEU) deadlines. Operations corresponding to 57% of the InvestEU guarantee must be approved by the end of 2023, 60% of which by the end of 2022. The target for 2022 has been achieved, as EUR 9.1 billion EU guarantee was approved by the InvestEU Investment Committee and by the EIB and EIF governing bodies, which exceed the 2022 EUR 8.9 billion NGEU target for all Implementing Partners.

Additional resources to the InvestEU guarantee come from top-ups from other Union Programmes as well as from Member State and Third Country contributions. At this stage, more than EUR 3 billion have been pledged or already committed.

In particular, following the signature in November 2021 of the EU-Catalyst Partnership ⁽²⁰⁾ between the Commission, EIB and Breakthrough Energy Catalyst (BEC), large-scale deep green tech projects can be supported by the Green Transition facility implemented by the EIB, with top-ups and grant contributions worth EUR 420 million from Horizon Europe and the Innovation Fund. As regards the Member State Compartment, the Contribution Agreements with Romania, the Czech Republic, Finland, the Hellenic Republic and the Republic of Bulgaria were signed.

InvestEU Advisory Hub

⁽²⁰⁾ https://ec.europa.eu/commission/presscorner/detail/en/IP_21_5586

The InvestEU Advisory Hub provides a one stop shop for advisory support for project development and capacity building. By the end of 2022, a total of four Advisory Agreements under the Hub were signed, including with the EIB Group, Cassa depositi e prestiti, Bpifrance and with Caisse des Dépôts et Consignations. Two further advisory agreements with the EBRD and CEB are expected to be signed early 2023.

The InvestEU Advisory Hub Central Entry Point serving to receive all the advisory requests from external stakeholders was launched at the end of March 2022 and received almost 200 advisory requests as of the end of December 2022.

InvestEU Portal

In 2022, 434 projects were published, and as of the end of 2022, the InvestEU Portal provided a total of 1503 investment opportunities from 27 Member States. Most of the published projects are from the digital economy and social infrastructure/tourism areas. Total investment proposed of the published projects amounts to EUR 20.39 billion. Over 100 promoters have received financing in the form of debt or equity after having been published on the InvestEU Portal.

External communication

DG ECFIN supported the implementation of InvestEU through a number of communication activities, in particular (i) regular press releases, memos and replies to journalists; (ii) social media posts and the InvestEU website ⁽²¹⁾, which has been continuously updated and developed further; (iii) InvestEU ‘roadshow’ events organised virtually and/or physically in each Member State, in collaboration with the EIB Group and policy DGs. 23 of these roadshow events took place in 2022.

A Europe fit for the digital age

The digital transformation of our economy and our society brings many opportunities, it also brings many challenges on both an economic and a social level. The COVID-19 crisis has resulted in accelerated adoption of digital technology, putting the digital transition at the core of the economic recovery strategy. In 2022, DG ECFIN directly contributed to the Commission’s digitalisation agenda, through the specific instruments that have been put in place to provide financing for the recovery. DG ECFIN policy agenda also focused strongly on the digital transformation.

⁽²¹⁾ https://investeu.europa.eu/index_fr

More specifically, in 2022, DG ECFIN continued delivering on this objective through activities under **specific objective 1** ⁽²²⁾, as each RRP includes a minimum of 20% of expenditure to foster the digital transition, under **specific objective 5** ⁽²³⁾ and under **specific objective 2** ⁽²⁴⁾. As part of its economic service function, DG ECFIN analytically supported the policy initiatives aimed at promoting the development and deployment of digital technologies while ensuring that the digitalisation benefits are shared in an inclusive manner. DG ECFIN also continued assessing the short- and long-term macroeconomic and fiscal impacts of digitalisation. It also worked on the development of a digital euro, including legal issues, legal tender aspects, economic analysis and monetary policy and financial stability considerations, as described under **general objective 3 - specific objective 4**.

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

As part of the planned roll-out of InvestEU, the financial products established by the EIB Group under InvestEU allow specific support for investment in the digital transition. Additional resources to InvestEU, in the form of top ups from other Union Programmes to implement blending operations in the area of digital transition, were committed, and the related agreements are being negotiated between the relevant Commission services and DG ECFIN and the EIB and the EIF.

Up to EUR 680 million are planned to be made available under the Digital Europe, the European Space and the Horizon Europe programmes to top up an EIF intermediate equity finance product to support investments in areas of strategic digital technologies, space and semiconductors technologies and chips.

The Investment Committee has assessed and approved the EU guarantee for 67 operations under the four policy windows of InvestEU (see details in above section under **General objective 1: A European Green Deal**). Projects include supporting digital transition, such as the network expansion to provide fibre connectivity in Ireland and Poland, investments into funds targeting on digital economy or financing schemes to support medium-sized enterprises (SMEs) and small mid-caps to help with their digital and environmental changeover.

⁽²²⁾ 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 EUR 672.5 billion in grant and loans under the Recovery and Resilience Facility.

⁽²³⁾ Mobilise around EUR 300 billion of investment funding to finance the green and digital transitions of the EU economy.

⁽²⁴⁾ Integrate the Sustainable Developments Goals (SDGs) into the European Semester, supporting inclusive, green and digital economic transformations in the post-COVID-19 recovery.

A stronger Europe in the world

DG ECFIN contributed to the geopolitical agenda of the Commission, through its conduct of economic policy and through its interactions with global partners. The European Union is a strong global power and is economically the second largest market in the world. DG ECFIN contributed to increasing Europe's strength in the world, by harnessing the economic power of the European Union, to reach geopolitical and political aims.

DG ECFIN has set up Macro Financial Assistance programmes for enlargement and neighbourhood countries to help them weather the deep economic impact of the COVID-19 pandemic and the economic implications following Russia's invasion of Ukraine. DG ECFIN also contributed to the coordination of Member States' strategies on an international level. DG ECFIN contributed to EU's role as a global leader in international and multilateral organisations – and in particular in the G7, G20 and IMF.

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

Provide support to neighbourhood countries and enlargement partners

In 2022, economic developments in the EU's neighbourhood were shaped by Russia's war of aggression in Ukraine. Among the Eastern neighbours, there was strong heterogeneity. On the one hand, economic output collapsed or moderated sharply in Ukraine, Belarus and Moldova. These countries were affected either directly (in addition to the human tragedy, Ukraine suffered a massive loss of physical capital and critical infrastructure as well as a considerable exodus of people) or through spillover effects that dented consumer and investor confidence. On the other hand, economic activity in Armenia and Georgia gained strong pace thanks to an inflow of Russian citizens/businesses and the accompanying surge in financial transfers. Prospects for growth are held back also for the Southern Neighbourhood, the Western Balkans and Türkiye, due to several factors, most significantly the impact of higher prices for energy, food and transport on disposable income and consumption. Helped by the rebound in tourism and remittances, growth was still robust in the first half of the year in the Western Balkans and the Southern neighbourhood, but high inflation, tightening financial conditions and increased uncertainty led to a slowdown in economic activity in the second half of the year. In Türkiye growth was boosted by an overly loose monetary policy stance and was accompanied by rising internal and external imbalances, as well as unconventional macroprudential policies in an effort to contain some of the side-effects. Several Southern neighbours used to import a large share of their cereals from Ukraine and Russia, and food security concerns have increased in the region, but a full-blown food-security crisis has so far been successfully averted, also because alternative cereal suppliers were found – even though at higher prices.

By the end of June 2022, all of the ten COVID-19 MFA operations had been concluded, with a total disbursement of EUR 2.8 billion in loans. Among these, eight operations were successfully completed, including the disbursement of the final tranche of the MFA to Tunisia in May 2022. For two operations, the second instalment was not disbursed, namely

Georgia in October 2021 and Bosnia and Herzegovina in July 2022. In the case of the MFA to Georgia (EUR 150 million), the Commission decided to cancel the disbursement of the final tranche (EUR 50 million) due to the non-fulfilment of the policy condition related to the judicial system. For Bosnia and Herzegovina, the disbursement was cancelled as seven out of nine policy conditions remained unfulfilled at the end of the availability period, in a difficult political environment. Besides, the implementation of a third regular MFA programme for Jordan has been ongoing.

Moreover, in November 2021, Moldova submitted a request for a new MFA. The Commission proposed a new operation to the European Parliament and Council, which led to the adoption on 6 April 2022 of a Decision by the co-legislators to provide a new regular MFA to Moldova of up to EUR 150 million in loans and grants. The first instalment of EUR 50 million (EUR 15 million in grants and EUR 35 million in loans) was disbursed in August. In 2022, Russia's invasion of Ukraine had a severe impact on the Moldovan economy, contributing to the widening of the external financing gap. As a result, the authorities requested further support from its international partners, including the EU. The Commission is thus working on a proposal to increase the ongoing operation by EUR 145 million, of which EUR 100 million in loans and EUR 45 million grant element. The proposal is to be adopted by the Commission by the end of January 2023 and approved by the European Parliament and Council in April/May.

In November 2022, the Commission received a request for further MFA from Tunisia in the context of the negotiations for a new IMF programme, to cover part of the residual financing gap. ECFIN will assess this request once the IMF programme is adopted.

The Commission staff working document for the joint ex post evaluation of the MFA II operations to Jordan and Tunisia was adopted and published in the second half of the year. The meta-evaluation of all the macro-financial assistance operations implemented and evaluated between 2010 and 2020 was being translated at the end of 2022 to be published early 2023. The scope of the meta-evaluation was slightly extended to reflect the most recent operations to Ukraine. This extension, together with a very high workload on Ukraine operations induced a delay in finalising the report, which was previously foreseen to be published in the second half of 2022. .

Economic dialogue with enlargement and neighbourhood countries continued throughout 2022. ECFIN was (together with NEAR and EMPL) in the lead to produce Staff Working Documents (SWD) containing the assessment of the Economic Reform Programmes for 2022-2024 submitted by Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia, Serbia and Turkey. The SWDs were adopted on 20 April and served as a basis for the Economic and Financial Dialogue between the EU and the Western Balkans and Turkey, which took place on 24 May 2022. High-level participants of this dialogue adopted joint conclusions including country-specific policy guidance to steer the economic recovery and address long-standing structural weaknesses. Additional economic dialogues included: Kosovo (21 September 2022), North Macedonia (06 October 2022), Montenegro (18 October 2022), Albania (29 September 2022), Türkiye (11-12 October 2022), Bosnia and

Herzegovina (14-15 November 2022), Serbia (05 December 2022), Algeria (June 2022), Egypt (September 2022), Palestine ⁽²⁵⁾ (November 2022), Georgia (December 2022) and Jordan (December 2022). DG ECFIN also continued its analytical and monitoring work on enlargement countries. Besides quarterly reports and specific analytical contributions, DG ECFIN also evaluated the level of preparedness and progress made by enlargement countries towards meeting the economic criteria for joining the EU. ECFIN's assessments are part of the country reports, published under the Commission's annual enlargement package in October.

Finally, in March 2022, Ukraine, Georgia and Moldova officially submitted their application to join the European Union. The Commission analysed whether the preconditions for granting candidate status to the three applicant countries were met and reported its findings in a staff working document. DG ECFIN contributed to the drafting of the chapters concerning the economic criteria for the three countries. Upon completion, Ukraine and Moldova were officially granted candidate status.

Provide dedicated financial support to Ukraine

Russia's war of aggression in Ukraine also impacted the country's capacity to finance itself. Ukraine requested new macro-financial assistance at the beginning of 2022, already amid the risk of an escalation of the conflict with Russia and against the background of the loss of access to international capital markets. On 1 February 2022, the Commission submitted to the European Parliament and the Council a proposal to provide a new emergency MFA of EUR 1.2 billion in the form of loans. The Decision to provide the assistance was adopted in record speed by the co-legislators on 24 February, and the operation was fully disbursed in three tranches on 11 and 18 March and on 20 May 2022.

The war in Ukraine has caused tremendous damage to the country's physical infrastructure, as well as a massive human exodus, with more than 7 million internally displaced persons and more than 4 million refugees having sought protection outside the country. Ukraine also remains without access to the international capital markets, which resulted in an underlying balance-of-payments funding gap that the International Monetary Fund estimated at around USD 40 billion for the whole of 2022. In order to make a significant contribution toward financing this estimated funding gap, the Commission announced, in its communication "Ukraine: Relief and Reconstruction" from 18 May 2022, an exceptional MFA to the country of up to EUR 9 billion in loans. A proposal for the first part of this exceptional MFA of up to EUR 1 billion in loans, was adopted on 1 July 2022 and was fully disbursed in August. Further exceptional MFA of up to EUR 5 billion proposed by the Commission was adopted by the co-legislators on 20 September. It was disbursed in three payments of EUR 2 billion on 18 October, EUR 2.5 billion on 22 November and EUR 500 million on 14 December. Moreover, DG ECFIN contributed, together with DG BUDG, to the setting up of

⁽²⁵⁾ The designation 'Palestine' shall not be construed as recognition of a State of Palestine and is without prejudice to the individual positions of the Member States on this issue.

the innovative MFA “Plus” instrument for providing support of up to EUR 18 billion to Ukraine for 2023.

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.

In 2022, DG ECFIN continued to discuss the international role of the euro with national authorities of EU neighbours, including during regular macro-economic dialogues. In addition, DG ECFIN organised an outreach event on the international role of the euro in Mexico on 14 February 2022. This high-level seminar was a follow-up event to a study on the use of international currencies in EU-Mexican trade and investment, which was completed in 2021. The seminar focused on the use of the euro in EU-Mexico trade and investment relations, as well as on the role of the euro in debt markets and green finance globally and in Mexico. Finally, DG ECFIN published two discussion papers on the international role of the euro in June 2022. The first one focuses on the potential implications of the EU’s response to the COVID-19 crisis for the international role of the euro, in particular the new NGEU and SURE facilities and their effect on the supply of EU safe assets. The second one looks at the role of the euro in the EU’s Southern Neighbourhood.

Support coordinated positions through the IMF, G-groups and IFIs

Russia’s war of aggression against Ukraine has put the whole rules-based international economic order at risk. ECFIN has been actively working against global fragmentation and for moving forward with important G20-deliverables. DG ECFIN has intensified coordination and reach out (multiplication of G7 meetings, bilateral and constant exchanges with the G20 Indonesian Presidency) to this effect.

ECFIN used all available platforms to set the record straight as regards Russia’s responsibility for the war in Ukraine and its impact on the global economy versus the alternative narrative pushed forward by Russia in which it is the Western sanctions that are the root cause of global economic challenges. G7 discussions focused on options for securing financing for Ukraine, and on coordinating sanctions mechanisms vis-à-vis Russia and Belarus, including the very technical work on oil price caps and the seizure of Russian assets.

With the help of DG ECFIN, at the G20 Summit in November, the G20 Leaders managed to agree on a joint Declaration, which sent an overall strong message condemning the war in Ukraine, even though the text was not unanimous. Equally important was EU cooperation and outreach to many G20 emerging countries. The Summit clearly demonstrated that the G20 is still in a position to deliver and to address pressing global challenges.

As regards the specific progress made under the finance track arm of the G20, in the G20 Framework for Growth Working Group, the focus of discussions was the appropriate macroeconomic policy mix going forward. Broad consensus was reached that growth prospects have worsened mostly due to the ongoing war in Ukraine, with the last waves of COVID-19 in China also hampering the recovery of global supply chains. There was general agreement that the war was the main contributor to the rise in energy prices, and posing a genuine threat to food security. Consensus was built on the need to strike a balance between keeping inflation expectations anchored and delivering targeted and temporary fiscal support whilst ensuring sustainability of debt. DG ECFIN presented the measures taken by the EU in support of the EU and the global economy, including on how our economic policies address the energy crisis and food insecurity around the world. DG ECFIN also actively supported the IMF launch of the Food-Shock Window providing additional access to emergency financing for countries facing urgent balance-of-payment need related to the global food crisis. Furthermore, DG ECFIN underpinned its policy positions by analytical work on the impact of the war on global imbalances and on the gender inequality fallout from the pandemic across the G20. ECFIN also actively supported focusing on the macroeconomic and equity impacts of climate change and mitigation policies in this group.

DG ECFIN also remained active to ensure the close coordination between economic and health policy, taking into account the lessons from the COVID-19 crisis. A key deliverable in this area was the establishment of a Financial Intermediary Fund (FIF) for Pandemic Prevention, Preparedness and Response, that was approved by the World Bank Board of Directors on 30 June. DG ECFIN played a crucial role in coordinating a strong Commission position on the FIF and organised together with DG INTPA a donors' conference in Brussels on the modalities of the FIF. Going forward, the health-finance cooperation will continue. To ensure that, ECFIN actively contributed to focusing the work of the G20 Health-Finance Task Force on better understanding economic risks and vulnerabilities from pandemics, and how to mitigate them, and sharing best practices and experiences in order to develop joint responses to pandemics.

In addition, DG ECFIN continued promoting a coordinated approach for addressing debt vulnerabilities in low-income countries, in particular by supporting an effective implementation of the G20-Paris Club Common Framework for Debt Treatments. DG ECFIN also made a continued concerted effort to convince EU Members to make voluntary contributions towards the global ambition of USD 100 billion of Special Drawing Rights or freely usable currencies to help vulnerable countries, notably through the IMF Poverty Reduction and Growth Trust (PRGT) and the IMF Resilience and Sustainability Trust (RST). The Commission contributed 100 million to the PRGT subsidy account as part of a Team Europe approach to support low income countries and continuously encouraged the mobilisation of resources by EU Member States.

ECFIN is fully engaged, with support from DG CLIMA and DG TAXUD, in the G7 working group on Climate Change Mitigation and its two workstreams: one providing policy evidence and orientation; and the other involved with more analytical work on climate mitigation. DG ECFIN ensured that international work focuses on the effectiveness of combined carbon mitigation efforts, also by working to avoid any negative spillovers. ECFIN also presented arguments in favour of the Carbon Border Adjustment Mechanism (CBAM) in order to

convince G7 partners in the general merits of this initiative. Moreover, DG ECFIN co-hosted with the G20 Indonesian Presidency a High-Level Breakfast on climate mitigation in the margins of the third G20 Finance Ministers' and Central Bank Governors' Meeting. ECFIN proved a trusted partner in the discussions on the Climate Club initiated by the German G7 Presidency, and will continue to represent the coordinated European Commission positions in its setting up.

Furthermore, DG ECFIN advanced the work of the "G20 Compact with Africa" – an initiative to promote private investment in Africa – by representing the Commission in the G20 Africa Advisory Group and suggesting ways to improve the effectiveness of this initiative going forward, with the collaboration of DG INTPA.

The coordination of the EU position in the governing bodies of the EIB, the EIF and the EBRD has progressed as expected. For the EIB, 11 Board of Directors have taken place, while the EIF Board of Directors met 9 times in 2022. Regarding the EBRD, there were 35 Board of Directors' meetings in 2022, for which DG ECFIN provided analytical support to the EU Director on horizontal matters and project-related issues. The first half of 2022 also saw the launch of the new EIB Global branch and its Advisory Group, in which DG ECFIN holds an alternate's post. ECFIN also continued working closely with the Office of EU Executive Director at the EBRD to facilitate the coordination of EU Member State' positions on the EBRD Board of Directors. Moreover, the Commission is engaging with the EIBG and the EBRD in order to coordinate the implementation of EU policy priorities, in particular in the context of the European Green Deal, the REPowerEU plan, the EIBG Climate Roadmap and the EBRD Green Economy Transition approach as well as the financial support to Ukraine channelled through those financial institutions.

Develop strategic economic cooperation with key partner countries

Against the background of Russia's war of aggression against the Ukraine and in view of the unprecedented challenges the global economy currently faces, DG ECFIN has stepped up bilateral exchanges and macroeconomic dialogues with key non-EU partner countries, with a particular focus on emerging market economies. Regular macroeconomic dialogues took place with Canada (3.2.), Mexico (15.2.), Brazil (19.5.), Australia (10.5.), Korea (7.6.), Argentina (10.11.), South Africa (30.11.), GCC countries (23.11.), China (2.12.) and Japan (6.12.).

These exchanges were supported by relevant analyses on key macroeconomic trends, risks and policies at global, regional and country level. Analytical work on global economic issues focused on post-COVID-19 recovery and the macroeconomic impact of the Russian invasion of Ukraine. DG ECFIN produced analytical notes and articles on global economic developments and outlook, on the Chinese economy and the real estate crisis, on food security situation in the Sub-Saharan region in the context of the surge in food prices, drivers of inflation in the US, impact of the Russian invasion on emerging markets, the macroeconomic challenges in Argentina and on the productivity challenge in the UK. Following the outbreak of the war, analytical work also focused on the macroeconomic impact of the war and sanctions on the Russian economy and the impact of seizure of Russian assets, with regular updates, contributions to the EFC/EWG and ECOFIN meetings.

DG ECFIN has also actively contributed to the economic analysis of the oil price cap proposal by G7.

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 / documentation have been considered:

- the reports from AOSDs;
- the reports from Authorising Officers in other DGs managing budget appropriations in cross-delegation;
- the reports on control results from entrusted entities in indirect management, as well as the results of the DG's supervisory controls on the activities of these bodies;
- the contribution by the Director in charge of Risk Management and Internal Control, including the results of internal control monitoring at DG level;
- the reports on recorded exceptions, non-compliance events and any cases of 'confirmation of instructions' (Art 92.3 FR);
- the reports on ex-post supervision and/or audit results;
- the limited conclusion of the Internal Auditor on the state of internal control, and the observations and recommendations reported by the Internal Audit Service (IAS);
- the audit opinions by the ECFIN audit unit, including ECFIN audit unit's risk assessment of the Commission's exposure to the non-respect by Member States to their obligation according to Article 22 (2) (a) RRF;
- the management opinions building on the audit opinions mentioned above, concerning the RRF by ECFIN's management on the level of assurance obtained with regards to the legality and regularity of the payments to the Member States and the implementation of article 22(5) RRF on the proportionate reduction of the support in case of fraud, corruption or conflict of interest, including cases of suspected serious irregularities;
- the observations and the recommendations reported by the European Court of Auditors (ECA).

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

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

2.1.1. Control results

This section reports and assesses the elements identified by management which support the assurance on the achievement of the internal control objectives (ICO) ⁽²⁶⁾. The DG ECFIN's assurance building and materiality criteria are outlined in annual activity report annex 5. The annual activity report 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.

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

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

Overview table (amounts in EUR million)²⁷

Risk-type / Activities	Grants (e.g. actual costs based, or lump sums, or entitlements)	Procurement (e.g. minor or major values)	Shared mngt (MS's OPs, PAs, etc) + EAC (for NAs)	Cross-delegations to other DGs (other AOXDs)	Contributions and/or funds to EE (EU Agency, EA, JU)	Delegation / Contribution agreements with EE (EIB, Int-Org, etc)	Other (describe any other expenditure not covered by the previous columns)	Total Expenditure	NEI, e.g. Revenues, Assets, OBS ((in)tangible or financial assets & liabilities)			
									Revenue ²⁸	Financial assets & cash, receivables (+) Financial liabilities (-)	Financial income (-) and costs (+)	Guarantees received (+) or given (-)
Recovery and Resilience Facility (RRF) (RCS 1) (grants)²⁹							47 168.2	47 168.2				
Financial instruments managed via IFIs (RCS 2)							4.3	4.3	138.4 CIP/GIF CIP/SMEG ESU98 MAPO1 TTP	612.28 -23.02	-82.70 +100.53	-150.04

⁽²⁷⁾ Legend for the abbreviations: OP=Operational Programme, PA=Paying Agency, NA=National Agency, AOXDs=Authorising Officer by Cross-Delegation, EA=Executive Agency, JU=Joint Undertaking, NEI=Non-Expenditure Item(s), OBS=Off-Balance Sheet, ICO=Internal Control Objective, L&R=Legality and Regularity, SFM=Sound Financial Management, AFS=Anti-Fraud Strategy measures, SAI=Safeguarding Assets and Information, TFV=True and Fair View, RER=Residual Error Rate, CEC=Cost-effectiveness of controls, Mngt=Management.

⁽²⁸⁾ AAR Annex 3 – Table 7 – Income.

⁽²⁹⁾ RRF loans (off-budget transactions) not included (see AAR Part 3, Annex 3 NGEU Loans, and Annex 14).

Grants under ELENA / Entrusted Entities (RCS 3)						35.3		35.3				
Equity Investments (EBRD, Marguerite Fund) (RCS 4)							0.5	0.5	20.7	218.58	+7.03	
EFSI EU Guarantee (RCS 5)										1 099.89 -138.62	-744.89 -160.65	-9 467.72
Provisioning of the Common Provisioning Fund³⁰ – EFSI and InvestEU compartments (RCS 6)						713.2 EFSI		713.2	301.7 ³¹ EFSI			
						1 438.9 InvestEU		1 438.9	0.5 InvestEU			
									82.5 MS Compartment Romania			
									30.0 MS Compartment Greece			
							13.7 MS Compartment Czechia		13.7			

⁽³⁰⁾ Reporting on CPF in DG BUDG AAR.

⁽³¹⁾ Following the transfer of the EFSI Guarantee and GF to the CPF on 01.01.2021, off budget transactions concerning the management of EFSI guarantee and related reflows are now recorded in LIGA – see Annex 3 LIGA. Outcome of the process are revenues assigned to the provisioning of the CPF.

							17.7	17.7				
							MS Compartment Finland					
							17.8	17.8				
							Blending compartment					
Macro-financial assistance (MFA (RCS 7))	15.0						80.9	95.9				
							Provisioning CPF					
Grants (Business Consumer Surveys (BCS), Pericles, European Investment Advisory Hub (EIAH) (RCS 8), HERO Pilot Project), procurement and administrative expenses³²³³	11.1	6.7		0.4		0.1	0.9	19.2	0.017			
InvestEU Advisory Hub (RCS 9)						9.6		9.6	5.8			
EU Guarantee under the InvestEU Fund (RCS 10)										2 325.70	-241.03	- 17 255.16
										- 2 371.96	+297.60	

⁽³²⁾ Only EIAH is part of RCS 8, i.e. BCS and Pericles grants are not part of RCS 8.

⁽³³⁾ Including RRF administrative expenses.

EIF capital and dividends							0	0	4.4	1 313.17		
Enforced budgetary surveillance³⁴								0				
Totals (coverage)	26.1	6.7	0	0.4	0	45.0	49 456.1	49 533.36	584.0	+ 5 569.62 - 2 533.60	-1 229.27 +405.16	-26 872.92
Links to AAR Annex 3	Overall total (m EUR); see Table 2 – payments made							Overall total (m EUR)	Table 7 - Income	Table 4 – Assets (AI3 AI4 AI6 AI11 AI13 AI16) Liabilities (PI3 PI13)	Table 5 P&L (II121 II28)	Table 5 bis - OBS (OB1 OB2)

⁽³⁴⁾ No transactions in 2022.

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

Residual Error Rate: DG ECFIN will come to a positive conclusion regarding the residual error rate, if it stays below 2%³⁵

Cost-Effectiveness: ratios do not increase unreasonably versus last year and are not otherwise unreasonably high without a satisfactory 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 the DG's control system uses these categories as building blocks.

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

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

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

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

No cases are to be reported concerning:

- **Cases of "confirmation of instructions" (new FR art 92.3)**
- **Cases of financing not linked to costs (new FR art 125.3)**
- **Financial Framework Partnerships >4 years (new FR art 130.4)**

⁽³⁵⁾ This does not concern the payments under the RRF, since there is no error rate in this case but a level of risk.

- **Cases of flat-rates >7% for indirect costs (new FR art 181.6)**
- **Cases of "Derogations from the principle of non-retroactivity [of grants] pursuant to Article 193 FR" (new Financial Regulation Article 193.2).**

1. Effectiveness of controls

In order to be considered effective, controls are expected to meet the internal control objectives⁽³⁶⁾ and for each of those control objectives result in benefits. The objectives are detailed hereafter:

a) Legality and regularity of the transactions

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

DG ECFIN's portfolio consists of segments with a relatively low error rate (target error rate of 0%), i.e. expenditures under direct management with low inherent risk such as the MFA (RCS 7), provisioning of the EFSI and InvestEU compartments of the CPF (RCS 6), Marguerite fund (RCS 4), or expenses of an administrative nature & procurement (0,5%). A few segments have a slightly higher target error rate of <2%, i.e. grants with the reimbursed cost mechanism (BCS, PERICLES and the HERO Pilot Project (not part of any RCS because of the small volume) as well as EIAH (RCS 8), InvestEU Advisory Hub (RCS 9) and entrusted entities (ELENA (RCS 3)) and Financial Instruments managed via IFIs (RCS 2).

These error rates are low for each segment thanks to the inherent risk profile of the activities and the performance of the related control systems. Through recoveries and financial corrections, DG ECFIN has in place an effective mechanism for correcting errors. During the reporting year the executed corrective capacity amounted in total to EUR 0.089 million representing 0.00018% of the relevant expenditure. The benefit at ex ante level control amounts to EUR 0.089 million, whilst recoveries and financial corrections following the results of ex post controls amounted to EUR 0 million (for more details see Annex 7).

Non-RRF ex-post controls are usually performed on a limited range of transactions identified using an annual risk-analysis. Errors found are unrepresentative of overall

⁽³⁶⁾ 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.

expenditure, as DG ECFIN controls the “riskiest” transactions, hence they cannot be extrapolated over total overall expenditure.

The control of a framework contract partner for BCS grants was carried out at the end of 2022 and reported upon in January 2023. The related specific grant was selected because the concerned partner had not been included in ex-post control for more than 8 years. Errors in the calculation of staff and other direct costs were identified for follow-up. Some of the findings can lead to a recovery in respect of the payments subject to the ex-post control (May 2019 - April 2022).

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

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

Overrides and non-compliance events

Analysis of the registry of overrides and non-compliance events in 2022 revealed 5 non-compliance events in 2022 and no exceptions.

Details on the overrides and non-compliance events in 2022 can be found in Annex 7.

Negotiated procedures

In 2022, 3 negotiated procedures above EUR 60.000 were awarded.

Benefits of controls

The possibility to execute recoveries are a tangible benefit of controls. No recovery orders concerning irregularities were issued in 2022. Ex-ante controls detected 30 irregularities worth EUR 88.674,50. 22 of those irregularities concerned non-eligible costs in cost claims worth EUR 40.550,63 and 8 covered credit notes worth EUR 48.123,87. None of them pertained to any RCS. The total of recoveries and corrections sum up to less than 0.00018% of the DG’s expenditure under direct and indirect management combined.

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

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

This is, respectively, thanks to the inherent risk profile of the programmes and the performance of the related control systems.

In addition, DG ECFIN has in place an effective mechanism for correcting errors, through ex-ante and ex-post controls, resulting in preventive and corrective measures, respectively.

		Preventive Measures (m EUR)	Corrective measures (m EUR)
Implemented by the Commission			
	<i>of which from Member States controls</i>	0,00	0,00
	<i>of which from EU controls</i>	0,43	0,00
DG ECFIN total		0,43	0,00

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

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

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

DG ECFIN	Payments made	Relevant expenditure	Estimated risk (error rate %) at payment		Estimated future corrections and deductions		Estimated risk (error rate %) at closure	
	m EUR	m EUR	m EUR	%	m EUR	%	m EUR	%
Financial instruments managed via IFIs (RCS 2)	4,3	4,3	0 - 0,09	0%- 2%	0	0%	0-0,09	0% - 2%
Grants under ELENA / Entrusted Entities (RCS 3)	35,3	0,0	0 - 0	0%-2%	0	0%	0	0% - 0%
Equity Investments (EBRD, Marguerite Fund) (RCS 4)	0,5	0,5	0	0%	0	0%	0	0%
EU Guarantee under the EFSI (RCS 5)	0	0	0	0%	0	0%	0	0%
Provisioning of the Common Provisioning Fund – EFSI and InvestEU compartments (RCS 6)	2.201,2	2.201,2	0	0%	0	0%	0	0%

DG ECFIN	Payments made	Relevant expenditure	Estimated risk (error rate %) at payment		Estimated future corrections and deductions		Estimated risk (error rate %) at closure	
	m EUR	m EUR	m EUR	%	m EUR	%	m EUR	%
Macro-financial assistance (MFA (RCS 7))	95,9	95,9	0	0%	0	0%	0	0%
Grants (BCS – Pericles – EIAH (RCS 8) – HERO PP)	11,14	6,1	0 – 0,1	0%-2%	0	0%	0-0,12	0%-2%
InvestEU Advisory Hub (RCS 9)	9,6	0	0	0%-2%	0	0%	0	0%-2%
EU Guarantee under the InvestEU Fund (RCS 10)	0	0	0	0%	0	0%	0	0%
Other Actions under Indirect Management	0.12	0	0	0%-2%	0	0%	0	0%
Procurement and administrative expenses	6,7	6,7	0,03	0.5%	0	0%	0,03	0.5%
Cross-delegations to other DGs (other AOXD's) - Non-RCS	0.4	0,4	0	0%	0	0%	0	0%
DG ECFIN total	2.365	2.315	0,00-0,24	0%-0,01%	0	0%	0,00-0,24	0%-0,01%

The estimated overall risk at payment for 2022 expenditure is the AOD's best conservative estimate of the amount of relevant expenditure during the year, not in conformity with the contractual and regulatory provisions applicable at the time the payment was made. This expenditure will subsequently be subject to ex-post controls and a proportion of the underlying errors will be detected and corrected in subsequent years. This amount corresponds to the conservatively estimated future corrections for 2022 expenditure.

The difference between those two amounts results in the estimated overall risk at closure⁽³⁷⁾. There is no relevant change compared to 2021 (0%) mainly because the overall portfolio did not change and very good ex-ante controls are in place.

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

b) Fraud prevention, detection and correction

DG ECFIN has updated and is implementing its renewed anti-fraud strategy since 02.05.2022, on the basis of the methodology provided by OLAF. The new strategy takes into account the new responsibility for the RRF. It is updated every three years. Its implementation is being monitored, with periodical reporting to the management and ad-hoc presentations to the Internal Control Management Group (ICMG). By the end of 2022 around 45% of actions of the 3-year plan were implemented.

DG ECFIN also contributed to the Commission anti-fraud strategy and there were no open OLAF *financial* recommendations.

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

- awareness raising on ethics and integrity for the staff involved in the RRF: continuation of training rounds to cover all concerned staff;
- updating of the specific control framework for the RRF including:
 - o The promotion of the use of the ARACHNE risk-scoring tool by Member States as one of the measures described in the recovery plans to prevent, detect and correct fraud;
 - o The implementation of an audit strategy including system audits on the protection of the financial interests of the union (see part 3 of the AAR);
 - o Awareness raising by ECFIN and OLAF to the Member States on fraud prevention, including specific guidance on the use of Arachne.
 - o The transmission of information related to possible fraud or corruptive or any other illegal activity detrimental to the EU and the provision of information of potential interest to OLAF following audits on the RRF.

⁽³⁷⁾ This is the AOD's best, conservative estimation of the expenditure authorised during the year that would remain not in conformity of applicable regulatory and contractual provisions by the end of implementation of the programme.

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

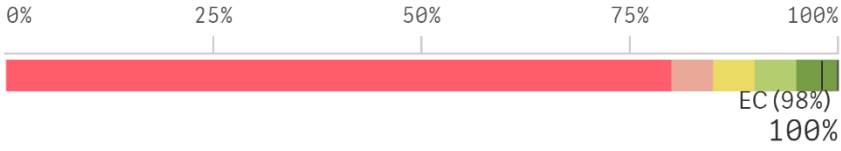
c) Other control objectives: safeguarding of assets and information, reliability of reporting (if applicable)

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

2. Efficiency of controls

Three main indicators are used to monitor control efficiency: time to pay; time to inform; time to grant. As reported in Annex 3, table 6, the average time-to-pay with suspension in 2022 was 21 days (18.1 days in 2021). The periods specified in article 116.1 of the Financial Regulation were complied with and 99.9% 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 58 days for Framework Partnership Agreements (FPA) and 19.5 for grant agreements (GA) and specific grant agreements (SGA). Meanwhile, the average time-to-sign (the time-period starting from the date of informing the successful applicants and ending with the signing of the grant agreement at Commission level) was 9 days for FPAs and 10 for GAs and SGAs. This complies with the periods specified in article 194.2 of the Financial Regulation (a maximum of six months for informing all applicants and a maximum of three months for signing grant agreements with applicants).

Timely Payments	ECFIN Score	EC Score
	100%	98%

Also in 2022, as in previous years, DG ECFIN efficiently managed to execute 100% of payments within the legal deadline which is above Commission average of 98%.

Given the above, DG ECFIN concludes that its controls are efficient.

3. Economy of controls

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 0,028% (up from 0,027% in 2021). While the ratio is rather stable, the costs in absolute terms increased by ca. EUR 12M. The ratio is calculated as the total sum of costs of control³⁸, which was EUR 38.214.840 (up from EUR 26.486.960) divided by the total amount of funds managed in the relevant control systems, which was EUR 138.075.319.731³⁹. This means a cost of EUR 277 (up from EUR 266) to control EUR 1 million of funds managed.

The largest contributions in the increase of control costs come from the increased controls of the RRF (increased by EUR 5.279.700), and the new RCS 10 for the EU Guarantee under the InvestEU Fund contributing a new EUR 5.237.450.

Cost of control ratio at entrusted entity level for RCS covering indirect management was 5,49% (up from 0,39%, but this ca. tenfold increase is exclusively due to a technical change in the calculation)⁴⁰. This concerns only RCS 3 Grants under the European Local Energy Assistance (ELENA).

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

a) Costs of control at entrusted entity level for RCS covering indirect management

The following table gives an overview of costs of control at 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 or fees for external audits, that

⁽³⁸⁾ 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.

⁽³⁹⁾ The figures are based on the accounting systems and DG ECFIN's internal analysis of FTEs involved in the various control stages and other related costs. While some figures, for example FTEs involved, are estimates, the DG is convinced the estimates are very good and accurate. FTEs were analysed not just by control stage, but also differentiated by cost of job function and statute/contract type.

⁽⁴⁰⁾ Costs of control at entrusted entity level includes management remuneration fees and fees for external audits. Calculation of cost of control changed for the AAR 2022. Denominator of the calculation is now not the total funds managed (which was EUR 389.841.975), but the total payments made (which is EUR 35.337.881,3, i.e. less of a tenth of the funds managed). The absolute costs at entrusted entity level stayed roughly the same.

are for activities that form part of the exerted control over the funds, which are not actually incurred in the Commission. This is currently only the case for RCS 3 (ELENA):

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 payments made in 2022 4% or EUR 41.870 per EUR 1M	All types of remuneration fees paid to entrusted entities during the year / total payments made in 2022 ⁴¹ EUR 1.479.630 / EUR 35.337.881,30
Grants under the European Local ENergy Assistance (ELENA) (RCS 3)	overall indicator	Fees for external audits / total of payments 0,132% or EUR 1.327 per EUR 1M	Fees for external audits during the year / total of payments under the respective Delegation Agreements EUR 30.350 / EUR 22,863,049

It should be noted, that in 2022, under RCS 5 “EU Guarantee under the EFSI” the EIF retained an amount of EUR 58,5 million 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.

4. Conclusion on the cost-effectiveness of controls

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

At 0,028% costs of control are overall very low for DG ECFIN even though they are minimally higher than in 2021. Overall, they are to a large extend driven by RCS 1 for the RRF. This is because a larger but still economical number of resources has been assigned to control the RRF.

For comparison, excluding RCS 1 for the RRF and excluding the non-RCS payments that are small and therefor usually with a high cost rate, the cost of control ratio would be 0,016% for 2022.

Annex 7 also gives an overview of the small spending programmes under the control of DG ECFIN that are not included in a 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.⁴²

⁽⁴¹⁾ The basis of calculation was changed from the total managed funds to the total payments made during the year to be in line with the reporting reasoning applied to other programmes in the DG.

⁽⁴²⁾ The BCS programme for example has a cost of control ratio of 8,72%, which is lower than last year’s 9,5%. 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

Rigorous treatment of suspected cases of fraud, fast payments, a very low error rate and an extremely low ratio of cost-effectiveness of control, mean DG ECFIN's control strategy meets the intended control objectives efficiently and at a very reasonable cost.

2.1.2. Audit observations and recommendations

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

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

In 2022, DG ECFIN closed 20 ECA audit recommendations. Details on these are presented in Annex 7.1.C. DG ECFIN had no open recommendations from the IAS to implement. No ECA audit recommendation, whether closed in 2022 or still open, provide grounds to believe that DG ECFIN's Declaration of Assurance is impaired. In the course of the year, DG ECFIN faced an increasing number of audit assignments, both from the IAS and the ECA, focusing mainly on the RRF.

ECA audits:

In 2022, DG ECFIN accepted 12 recommendations from 2 ECA Reports: 11 from Special Report No 21 2022 *The Commission's assessment of national recovery and resilience plans ('NRRPs')* and 1 from Special Report No 28 2022 *Support to mitigate Unemployment Risks in an Emergency (SURE) - SURE financing contributed to preserving jobs during the COVID-19 crisis, but its full impact is not known*. None indicated, that DG ECFIN's control environment would be compromised.

Of the 11 ECA recommendations to the Commission in Special Report No 21 2022, 7 are already considered implemented; they cover (i) the compliance of specific milestones for monitoring and control and the use of the Commission's data-mining and risk scoring tool; (ii) analysis of the contribution of RRF measures to the achievement of EU Semester Country Specific Recommendations; (iii) the transparency and monitoring of the do no significant harm principle and (iv) the promotion of good practices amongst Member States. The 4 still open recommendations seek to (i) improve the Commission's assessment

thus has a high cost of control ratio of 79% (up from 54% in 2021, mostly due to around less expenditure), but serves an important purpose in preventing currency counterfeiting.

procedures and documentation to understand better the outcome of the assessment process, and (ii) ensure clear verification mechanisms for milestones and targets

In addition, the Court announced four performance audits implicating DG ECFIN, all looking at different aspects of the RRF: one on the *performance of the RRF*, one on the *rule of law in the EU* (focusing on RRF and cohesion policy), one on *the timely absorption of RRF funding*, and one on *the digitalisation of schooling* (which examined the impact of RRF funding on this objective). These came on top of the performance audits launched in 2021 that continued throughout 2022: *the design of control for the Recovery and Resilience Facility* and the non-RRF audit on *the EU's financial architecture* (completed in December 2022).

After the reporting period, ECA published the Special Report 'Design of the Commission's control system for the RRF', that includes 5 recommendations, of which the Commission rejected 2.

While the Commission agrees with substantial parts of the special report, it does not fully endorse or agree with all the ECA's observations and related conclusions. Notably, the Commission does not share the conclusion, that there is an assurance gap at EU level on compliance with EU and national rules.⁴³

The Commission takes note that the ECA report is based on the design of the control system until April 2022, hence only reflecting the implementation of the control framework at a very early stage.

As foreseen in the RRF control framework, the Commission is very actively engaged since the beginning of 2022 in controlling that Member States have put in place the adequate control systems to protect the financial interests of the Union and to ensure that the use of EU funds complies with the applicable Union and national law.

First, it has made a thorough assessment of the adequacy of national control systems in the context of the assessment of the recovery and resilience plans.

Second, where warranted, it has insisted with Member States on additional and timebound improvements to those systems, as a pre-condition for future disbursements.

⁽⁴³⁾ Furthermore, the Commission accepted and partially accepted two more recommendations:

The Commission accepted a recommendation to "develop guidance and procedures that address the reversal of a measure related to a previously fulfilled milestone and target".

The Commission furthermore partially accepted a recommendation to "align RRF related fraud reporting and record RRF related cases of fraud and other illegal activities in the Irregularity Management System". Specifically, the Commission accepts to remind and encourage the Member States to make use of the Irregularity Management System (IMS) for recording such irregularities, in addition to their legal obligation to report in the management declaration. To this end, the Commission has already adapted IMS so that the system can be used for the RRF by the competent national authorities for such purposes. But, unless all Member States systematically use IMS, the Commission would be reluctant to publish partial data in its annual PIF report.

Third, it is conducting system audits (at least one per Member State) to test the robustness of the control systems in Member States. In the context of the system audits, building the work of national audit authorities and of other Commission services, the Commission checks that the Member States systems generally provide for, and check compliance with EU and national rules, including specific elements of the public procurement procedure. To date, the Commission has performed 21 system audits, hence covering 80 ministries and agencies. By the end of 2023, all Member States will have been audited at least once.

Following up ECA's recommendations, the Commission has started to intensify further its audit work beyond its initial plan.

First: This means more targeted system audits when and where weaknesses or risks are detected and audits of the national audit authorities. The Commission already audited a specifically risky measure twice in one Member State.

Second: On compliance with EU and national law, in particular public procurement and state aid, the Commission will make full use of all the information already available within the Commission, in particular the Joint Audit Directorate for the cohesion funds. Where gaps remain, the Commission will conduct targeted audits and will also systematise its checks on public procurement and state aid, including the testing of the systems in place for concrete measures.

Third: The Commission is intensifying cooperation with national audit bodies to share experiences and best practices and to provide guidance.

IAS audits:

At the end of 2022, DG ECFIN received two final reports from the IAS. The final report regarding the Limited Review of the RRF control and audit strategies in DG ECFIN, was received in November, and DG ECFIN finalised its action plan aiming to address the 5 recommendations in the report (including 2 very important ones⁴⁴) and to be implemented in 2023. In DG ECFIN's view some of the recommendations have been already implemented well ahead of the deadline set in the action plan.⁴⁵

By the end of April 2023 (cut-off date) DG ECFIN has already addressed most parts of the two very important recommendations number 3 and 4. On recommendation 3 the work is well advanced with a new guidance note on internal control systems formalized and documented in ARES and sent to all Member States. The audit methodology for the system audits on the protection of the financial interests of the European Union has been

⁽⁴⁴⁾ These 2 very important recommendations pertain to "measures for prevention, detection and follow up of any serious irregularities, double funding and serious breaches of the Financing Agreement", and "Suspension of payments and reduction of support due to not satisfactorily fulfilled milestones and targets".

⁽⁴⁵⁾ The 5 recommendations in the Limited Review require 21 actions in the plan, and of those, 10 are already implemented, in the view of DG ECFIN.

approved. A note on double funding under the RRF has been completed. On recommendation 4, a methodology for the suspension of payments has been approved in Annex II to the COM(2023)99 and templates and checklist are being developed. There was no material impact on the internal control objectives, as for recommendation 4 there was no need to do a partial suspension of payments in 2022. As for recommendation 3 the impact was limited, because some of the actions for the sub-recommendations were already implemented in the course of 2022, e.g., audit methodology for the system audit on the PFIU. One sub recommendation (iii) under recommendation 2 (important) of the Limited Review has been rejected by the by DG ECFIN. It concerns the development by DG ECFIN of internal guiding principles for the consultation of other Commission services prior to the ISC (during the preliminary assessment).⁴⁶

At the same time, DG ECFIN received the final audit report on the human resources audit, with the corresponding action plan finalised and approved after the reporting period in early 2023. It includes 10 important recommendations to be implemented by the end of 2023 at the latest.⁴⁷

The IAS issued an overall opinion (“emphasis of matter”) that states that the Commission’s Directorates-General should continue to design and implement appropriate financial management, audit and control strategies for operations to support the recovery under NextGenerationEU, in particular as concerns the Recovery and Resilience Facility. Due to the implementation of a new performance-based approach, certain elements of the design of the control strategy covering legality and regularity were still to be further elaborated in 2022, namely the procedures for suspension of payments and reduction of support in cases where milestones and targets for a particular payment request have not been met partially or fully. In addition, the control design had to be completed as concerns the responsibility of the Commission in relation to other elements of compliance (i.e. protection of the financial interests of the Union in the case of fraud, corruption, and conflicts of interest or a serious breach of an obligation resulting from the Loan or Financing Agreement).

Regarding the 1st element, a methodology for the suspension of payments has been approved (concerns recommendation 4 of the IAS limited review). Regarding the 2nd

⁽⁴⁶⁾ The rejection is substantiated by the following arguments: under the RRF, ECFIN and SG RECOVER are fully responsible for the assessment of the payment requests. They may ask technical input to some policy officers in other DGs where relevant. However, this does not constitute a formal consultation process. To consult other services with respect to the preliminary assessment of the payment request, ECFIN and SG RECOVER launch the inter-service consultation process (ISC), which is the unique consultation process within the Commission. As a result, ECFIN and SG RECOVER have to reject a recommendation that would de facto lead to formalize a second inter-service consultation process. Moreover, DG ECFIN does not agree that the absence of such additional formalisation may risk leading to inconsistencies and/ or errors being made and not detected, since the formal interservice consultation is systematically included in the process and fully ensures consultation and involvement of the relevant DGs.

⁽⁴⁷⁾ See annex 7 for details.

element⁴⁸, the Commission is currently implementing the corresponding actions of the recommendations 3 and 5 under the limited review.

In its limited conclusion the IAS concludes that the internal control systems in place for the audited processes are effective, except for the observations giving rise to the 'very important' recommendations, mentioned above.

2.1.3. Assessment of the effectiveness of internal control systems

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

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

In 2022 DG ECFIN worked with the Internal Control Principles to assess the effectiveness of its key internal control systems in accordance with applicable Commission guidance and using monitoring indicators supplemented by other sources of information. This allows the Internal Control Coordinator to report the state of internal control and make recommendations to the Director General.

DG ECFIN's risk management exercise found no critical risk in the DG.

ECFIN has assessed its internal control system during the reporting year and has concluded that it is effective, that the components and principles are present and functioning well overall, but that some improvements are needed⁴⁹ as minor deficiencies were identified in the beginning of the year related to staff getting a clearer understanding of what is expected from them at work. The improvements implemented are based on the further development of process documentation and trainings and ECFIN assumes that these facilitated the assessed improvement of the situation. The latest self-assessment of middle-managers showed that as of the time of writing there is now an overwhelmingly positive assessment of the clarity of the expectations.

Further conclusions were drawn from the analysis of the register of exceptions and non-compliance events, very important or critical ECA or IAS audit recommendations, management opinions, AOSD reports, and other corporate indicators.

⁽⁴⁸⁾ Responsibility of the Commission in relation to other elements of compliance (i.e. protection of the financial interests of the Union in the case of fraud, corruption, and conflicts of interest or a serious breach of an obligation resulting from the Loan or Financing Agreement.

⁽⁴⁹⁾ All but one internal control monitoring criteria met their target values.

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 well overall, but some improvements are needed as minor deficiencies were identified related to making sure that staff knows what is expected of them and in order to implement the 2 very important recommendations from the IAS's Limited Review of the RRF control and audit strategies and the 3 recommendations from the ECA Special Report on the Design of the Commission Control System for the RRF issued on 8 March 2023, with which the Commission fully or partially agreed.

The improvements and remedial measures implemented regarding the first point were a survey to find out underlying reasons as well as trainings and further developments of guidance documents. Regarding the RRF control and audit strategies DG ECFIN has addressed one of the very important recommendations⁵⁰ by its communication from the Commission to the European Parliament and the Council⁵¹ which includes a Framework for assessing milestones and targets under the RRF Regulation and a Payment suspension methodology and has almost finalised the implementation of the other recommendations⁵². In the meantime, mitigating actions have been put in place by DG ECFIN.

2.1.4. Conclusions on the assurance

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

All 5 control objectives were met for both major control systems at DG ECFIN (direct and indirect management) as shown in section 2.1 and in part 3 for the RRF and with full details provided under Annex 6, Annex 7, and Annex 14. 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.

⁽⁵⁰⁾ Recommendation 4 has been addressed.

⁽⁵¹⁾ COM(2023) 99 final of 21.2.2023: COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL - Recovery and Resilience Facility: Two years on – A unique instrument at the heart of the EU's green and digital transformation.

⁽⁵²⁾ Recommendation 3 is almost fully addressed.

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

For budget under indirect management the Statements of Assurance and financial reports audited by an external independent auditor were received in March and April 2023 and gave further assurance on the proper safeguarding of assets and information. Details are to be found in Annex 7.

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

2.1.5. Declaration of Assurance

Declaration of Assurance

I, the undersigned,

Director-General of Economic and Financial Affairs

In my capacity as authorising officer by delegation

Declare that the information contained in this report gives a true and fair view ⁽⁵³⁾.

State that I have reasonable assurance that the resources assigned to the activities described in this report, including its Section 3 below, have been used for their intended purpose and in accordance with the principles of sound financial management, and that the control procedures put in place give the necessary guarantees concerning 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, date 15.05.2023

****Signed****

.....

(signature)

Maarten Verwey

⁽⁵³⁾ True and fair in this context means a reliable, complete and correct view on the state of affairs in the DG.

2.2. Modern and efficient administration – other aspects

2.2.1. Human resource management

Human resource management in ECFIN in 2022 continued to be impacted by the repercussions of the COVID-19 crisis, notably the workload arising from the implementation of the Recovery and Resilience Facility, and the Commission's move to a hybrid working environment. In addition, the situation in Ukraine and the related energy crisis, have presented new challenges, resulting in the RePowerEU measures, and again an increased pressure on resources across the DG.

In this context, the recruitment of an additional 73 contract agents assigned to DG ECFIN to work on the Recovery and Resilience Facility was completed in 2022. The continuously increasing workload has again been recognised, with a decision in late 2022 to allocate further new resources to RePowerEU. In 2022, DG ECFIN continued to make progress in establishing gender balance at senior management level, with the appointment of two new female directors, though these new appointments have had a negative impact at the level of deputy directors. Having already exceeded its established target for new Heads of Unit, DG ECFIN made a further first female middle management appointment in 2022, maintaining the proportion of female Heads of Unit at 29%. A new Career Development Programme for AD women was launched in partnership with DGs COMP, GROW and FISMA, with a view to encouraging reflection on management careers among talented female colleagues who would be eligible to apply for DHoU positions. At the DHoU level the female ratio remains, despite ongoing efforts, well below the Commission target.

In 2022, DG ECFIN continued to implement the GEM-Equality Mainstreaming Action Plan adopted in October 2021. In terms of actions internal to DG ECFIN, emphasis has been placed on ensuring inclusiveness, and an internal campaign on microaggressions, including a dedicated session for middle managers.

In 2022, DG ECFIN received the final report of the IAS audit on Human Resources Management, that included 10 important recommendations. DG ECFIN accepted them and is in the process of implementing the corresponding action plan.⁵⁴

DG ECFIN has started implementing its local HR Strategy (2022-2024), adopted in early October 2021. This gives a prominent place to staff participation and well-being, in light of the very heavy workload that DG ECFIN's new responsibilities entail. In this context, an important focus in 2022 was the analysis and extensive consultation on the results of the 2021 Commission Staff Survey. Priority follow-up actions have been identified in areas including work-life balance, learning and professional development and promoting an open and inclusive work environment. Strong emphasis was also placed on the establishment of sustainable working conditions, with special emphasis given to streamlining working methods and processes. A further survey provided feedback from staff and managers on

⁽⁵⁴⁾ Please see annex 7 for additional details on the audit.

how the current hybrid working environment is perceived and implemented, providing the basis for further guidance, as needed. ECFIN's staff Sounding Board has continued to be consulted on matters relating to ECFIN as a place to work.

DG ECFIN has continued to support the development of its highly specialised workforce with a selection of targeted training initiatives to address learning needs. This included further courses on ethical conduct for colleagues involved in RRF implementation. Initiatives to support and develop managers and teams, were also offered through team events and team coaching. In addition, 2022 saw the return of ECFIN's Summer School, with the organisation of 43 courses, many of which were delivered by ECFIN staff. The Summer School offer also included 7 sessions focusing on staff well-being, including a focus on hybrid ways of working and digital overload.

DG ECFIN's HR Correspondent and internal communication teams continue to work closely together, including on initiatives designed to reconnect ECFIN staff members in the context of hybrid working. ECFIN's AST Network continues to be an important partner in supporting colleagues and integrating newcomers. ECFIN's Middle Management Club has continued to provide additional opportunities for discussion and shared support in 2022.

2.2.2. Digital transformation and information management

During 2022 new modules of the InvestEU Management Information System went live. The development timeline for InvestEU is thus respected. Similarly, FENIX, the information system for the Recovery and Resilience Facility (RRF), respected its development timeline and the mandatory new features for 2022 were implemented as expected. In addition, to follow the IAS recommendation to put in place a better follow-up mechanism for RRF audits, the development of a new set of functionalities was initiated during Q4-2022 and is expected to be ready by the end of Q1-2023. These functionalities are deeply connected to the FENIX database to avoid data duplication. They aim at collecting all audit-related data, including all info related to Milestones and Targets necessary for audit trail, and the generation of reports on the state of play of audits, key findings, audit recommendations, etc. The Forecast Data Management System "Star" (FDMS*) was enhanced to further adjust to the digital strategy principles, like for the FASTOP⁵⁵ Information System. A new Excel add-on was developed in this context to facilitate the access to data sources – this was made possible through the possibilities offered by the Welcome domain being deployed by DG DIGIT. The local IT Governance framework, aligning ECFIN's IT strategy with its business strategy, entered into force in the beginning of 2022 and the implementation of the digital strategy principles progressed as planned, with a global result of 50% which was the objective for 2022.

(⁵⁵) FASTOP is a set of small and medium size IT modules supporting the DG ECFIN Business. (Structural Reforms Analysis, European Semester Country-Specific Recommendations, Stability and Convergence Programmes, Draft Budgetary Plans, Recording of Fiscal Policy Measures, Sectoral Performance Indicators, Monitoring the influence of tax and benefit instruments on household incomes and incentives to work, etc.).

One of the main actions for 2022 to progress in the digital transformation and address IT legacy was the replacement of ageing IT components of the Business and Consumer Surveys (BCS) system by new, state-of-the-art ones. The project progressed enough to plan a rollout in production during 2023.

IT security is a permanent item on the agenda of the DG ECFIN IT steering Committee (ITSC) and DG ECFIN continued raising awareness on cybersecurity by organising regular cybersecurity trainings aimed at staff. At the same time, DG ECFIN continued to scan the systems for detecting potential security vulnerabilities and verify the compliance with existing Commission rules.

During 2022, DG ECFIN continued with the implementation of the corporate principles for data governance for its key data assets and the implementation of the reference quality framework (RQF) for its other statistics. Main actions were the setting up of DG ECFIN's Data Governance Board for coordinating data-related matters in the DG, the identification of data governance roles and responsibilities, including data owners and stewards, and the maintenance and increase in coverage of metadata information under the RQF for other statistics.

2.2.3. Sound environmental management












Notwithstanding that DG HR as the lead department manages the European Commission's Eco-Management and Audit Scheme (EMAS) framework, each DG is instrumental in its contribution to the overall performance of the institution. The overall impact on the environment of the COVID-crisis and the large-scale teleworking measures that this has brought, will be assessed by central services. DG ECFIN has continued to strongly promote all corporate campaigns. In addition, in 2022, a number of ECFIN-specific initiatives were taken, including the launch of a "Greening ECFIN" intranet page with details on sustainable commuting options, an initiative to promote the recycling of electronic devices, and the organisation of a Midday Information Session on digital mindfulness.

3. RECOVERY AND RESILIENCE FACILITY

3.1. Progress made in 2022

- **Assessment and approval of Recovery and Resilience Plans**

Assessment criteria and key elements

 1. Balanced response	 2. Addresses challenges identified in CSRs	 3. Growth, resilience and social impact	 4. Do no significant harm
 5. Green transition	 6. Digital transition	 7. Lasting impact	 8. Effective monitoring and implementation
 9. Reasonable and plausible cost estimates	 10. Robust control systems	 11. Coherence	

Consultation	Equality	Security
Member States have to explain how the relevant national stakeholders have been involved in preparation of RRP.	Member States have to explain how the RRP contribute to gender equality and equal opportunities for all.	Member States provide a security self assessment, where appropriate, for investments in digital capacities

All 27 Recovery and Resilience Plans (RRPs) have been approved by the end of 2022, as the Commission endorsed the 5 RRP of Bulgaria, Sweden, Poland, the Netherlands, and Hungary in 2022. The proposals for Council Implementing Decisions (subsequently adopted by the Council) are accompanied by corresponding Staff Working Documents analysing the substance of the respective plans and include an analysis of the extent to which each plan complied with the 11 assessment criteria of the RRF Regulation including how the plan addressed the relevant country-specific recommendations. All related financing and loan agreements were signed by the Commission and the Member States, and all documents related to these plans are made publicly available on the Commission’s website.

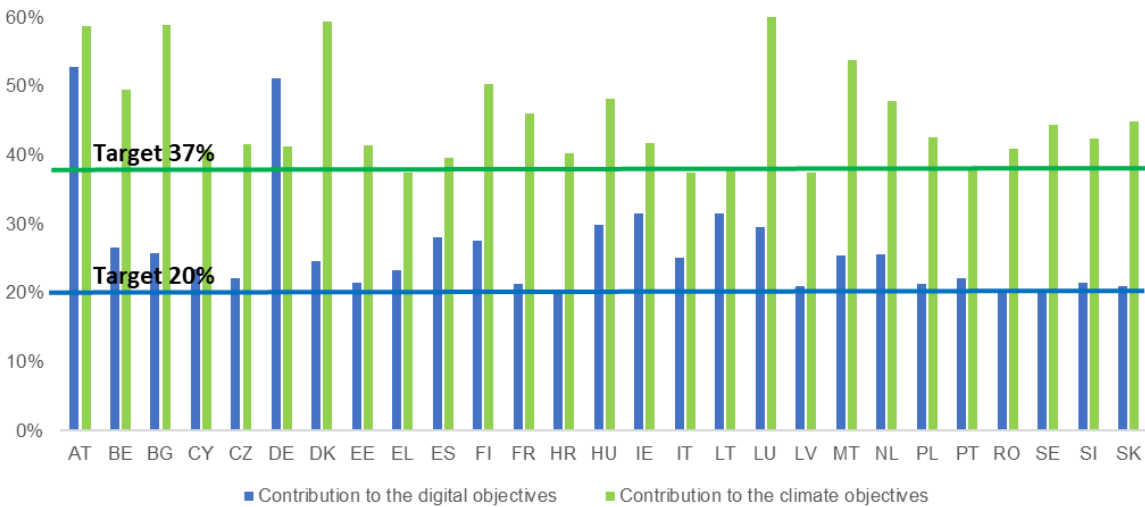
In addition, DG ECFIN, jointly with SG RECOVER, also led the assessment of the revised RRP submitted by Luxembourg to take into account the update of the maximum financial contribution; the updated plan was endorsed by the Commission on 9 December 2022. By end-2022, the Commission was also assessing the amended plan submitted by Germany on 8 December 2022.

Moreover, the Commission has made publicly available the sixteen Operational Arrangements agreed with Member States in 2022, covering detailed aspects of the implementation until 2026. The Operational Arrangements include details on the frequency and format of exchange of information, precise modalities for access to data, a list of monitoring steps, an indicative timeline of payment requests or further specification of milestones and targets and verification mechanisms.

DG ECFIN, jointly with SG RECOVER, had a leading role in all phases of the preparation, negotiation, and assessment of these plans. As in 2021, DG ECFIN, jointly with SG RECOVER, provided guidance to Member States including by answering questions asked by national authorities through the RRF Q&A platform, and preparing and circulating comprehensive guidance documents.

The 27 RRFs⁵⁶ approved by the Council by end-2022 account for a total allocation of EUR [335.1] billion in non-repayable financing and EUR [165.4] billion in loans⁵⁷ (see details per MS in annex 14). The RRFs approved by the Commission in 2022 include reforms and investments that contribute to the six policy pillars as defined in Article 3 of the RRF Regulation. Similarly, and as is the case for all RRFs, the plans approved in 2022 dedicate at least 37% of their total allocation to measures contributing to climate objectives and at least 20% of the total allocation to measures contributing to digital objectives. **With all RRFs now adopted, it appears that Member States have exceeded this ambition** (see Figure 1). The latest information on the RRFs and their contribution to the six pillars, achievement of climate and digital targets and on social expenditure are available in the Recovery and Resilience Scoreboard.

Figure 1 - Share of RRFs estimated expenditure towards climate and digital objectives



Note: Climate expenditure amounts to about 40% and digital expenditure to about 26%.

Source: [Recovery and Resilience Scoreboard](#)

⁽⁵⁶⁾ 27 RRFs include a total of 2557 measures (around one third reforms and two third investments), and a total of 6237 milestones and targets to be fulfilled by 2026. Some have a concentration of milestones and targets rather at the beginning of the period, while others rather in the second half of the RRF timeline.

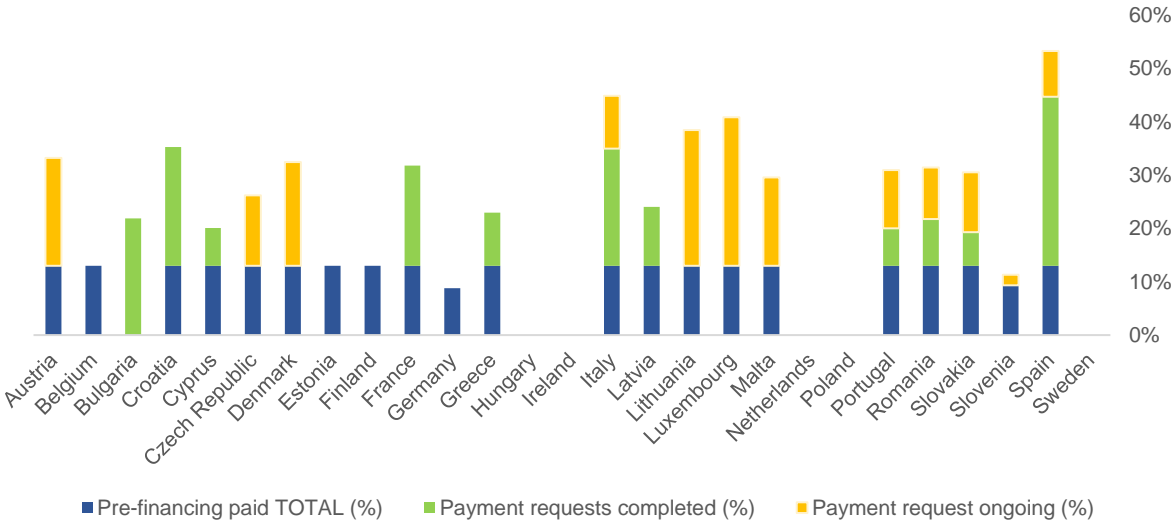
⁽⁵⁷⁾ Seven Member States requested loans (Cyprus, Greece, Italy, Poland, Portugal, Romania, Slovenia).

As established by Article 11 of the RRF Regulation, ECFIN also prepared the update of the calculation of the RRF maximum financial contribution, which was published on 30 June 2022.

- **Payment requests and payments disbursed**

In line with Article 24 (2) of the RRF Regulation, Member States submit a request for payment to the Commission upon completion of relevant milestones and targets. ECFIN, jointly with SG RECOVER, monitors on a continuous basis the progress made with the implementation of the measures in each plan in close contact with the national authorities. When a payment request is submitted, the Commission has then two months to assess the payment request, taking into account the information and justification provided by the Member State. It then adopts and share its preliminary assessment with the Economic and Financial Committee, and eventually launches the comitology procedure leading to the adoption of the payment decision (see Figure 2). . As part of the assessment process, ECFIN, jointly with SG RECOVER, relies on documentary evidence provided by the Member States to establish whether the milestones or targets have been satisfactorily fulfilled.

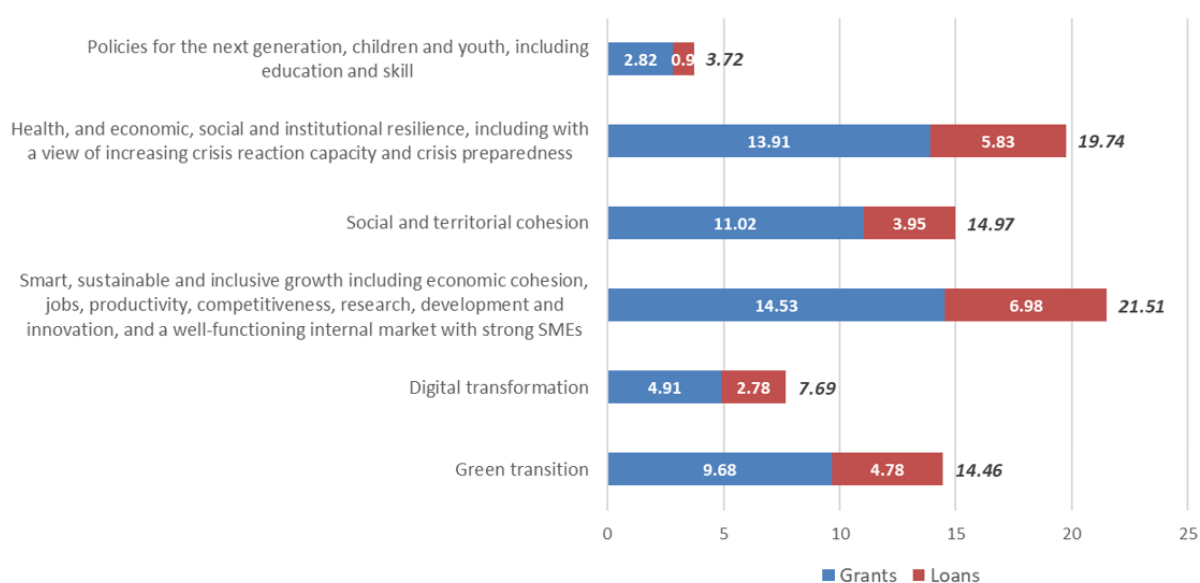
Figure 2 – Disbursements made as of end-2022 (% total RRF allocation to each Member State)



Source: European Commission

In 2022, the Commission disbursed 13 payments to Member States for a total of EUR 72.2bn (out of which EUR 25.2bn in loans) for the satisfactory fulfilment of 366 milestones and targets, detailed in the table in Annex 14. In addition, for 2 plans adopted at the end of 2021 (FI and RO – loan part), the prefinancing was paid at the beginning of 2022 for a global amount of EUR 2.2 bn. The milestones and targets related to the disbursements pertain to a large scope of measures covering the six pillars of the RRF Regulation (Figure 3).

Figure 3 – Disbursements to Member States per pillar in 2022, EUR bn



Note: Each disbursement reflects progress in the implementation of the RRF, across the six policy pillars. This graph displays how disbursements under the RRF (excluding pre-financing) relate to the pillars. The amounts were calculated by linking the milestones and targets covered by a given disbursement to the pillar tagging (primary and secondary) of their respective measures.

Source: [Recovery and Resilience Scoreboard](#)

23 payment requests were submitted by Member States over the course of the year. In many cases, the Commission had to seek additional information to enable a comprehensive assessment, but all assessments of payment requests were concluded positively in 2022 and were published on the dedicated RRF website.

The implementation of the Recovery and Resilience Plans was broadly on track as of end-2022, with progress on most milestones and targets in line with initial expectations. During the October 2022 bi-annual reporting, Member States reported on the implementation of the milestones and targets planned to be implemented up to end-September 2023. The vast majority of milestones and targets with indicative implementation dates up to the third quarter of 2022 were either fulfilled (27%) or reported as completed⁵⁸ (55.5%), with only a minority marked as not yet completed (17.5%). At the time of reporting, the milestones and targets planned to be achieved up to the third quarter of 2023 were mostly reported as being on track (81%) for timely implementation or already completed (10%), with only a small minority identified by Member States as “delayed” (9%).

⁽⁵⁸⁾ Reported as completed by Member States in the Scoreboard, but not yet assessed by the Commission as fulfilled.

- **REPowerEU**

In the context of the unprecedented geopolitical developments linked to Russia's invasion of Ukraine, DG ECFIN, jointly with SG RECOVER and other DGs, led the work towards the adoption of the Commission proposal (COM(2022) 231 final) for a Regulation amending the RRF Regulation as regards REPowerEU chapters in Recovery and Resilience Plans.

This proposal is part of the broader Commission REPowerEU plan, the objective of which is to rapidly reduce the EU's dependence on Russian fossil fuels by accelerating the clean energy transition and joining forces to achieve a more resilient energy system and a true Energy Union. DG ECFIN actively participated to the Inter Services Group dedicated to the preparation of the REPowerEU plan.

To guide Member States in adjusting their RRFs in relation to both the update of the Maximum Financial Contribution and the prospect of the inclusion of a REPowerEU chapter, ECFIN, jointly with SG RECOVER, prepared the guidance on RRFs in the context of REPowerEU, adopted on 18 May 2022.

DG ECFIN, jointly with SG RECOVER, engaged closely with co-legislators to facilitate their work and was intensely involved in political and technical trilogues between co-legislators. A political agreement was reached on 14 December 2022 on the Regulation on REPowerEU chapters in the recovery and resilience plans, making the RRF better equipped to effectively address the objectives of the REPowerEU plan. The Regulation provides the necessary framework to ensure that investments and reforms strengthening the EU energy security and resilience are mobilised as soon as possible. It defines a specific set of REPowerEU objectives that should underpin the investments and reforms to be included in the existing recovery and resilience plans as part of dedicated REPowerEU chapters. The Regulation provides for dedicated funding sources to finance the relevant measures (EUR 20 billion stemming from the sale of EU Emissions Trading System allowances, up to EUR 5.4 billion stemming from transfers from the Brexit Adjustment Reserve), which can also be supported by the remaining EUR 225 billion of available RRF loans. The measures included in the REPowerEU chapter can benefit from a prefinancing of 20%.

- **Continuous dialogue with Member States**

DG ECFIN and SG RECOVER held five meetings of the Expert Group for Member States in 2022, including one specifically focused on exchange of good practices.

In this meeting of the informal expert group on the RRF, Member States had the opportunity to present their good practices on three topics: (1) the role of the coordinating authority and the governance of RRF implementation, (2) the involvement of stakeholders in the preparation and implementation of the RRFs, and (3) communication and visibility aspects of the RRF. The exchange of views allowed the Member States to benefit from the experience of other Member States in these aspects of RRF implementation. The Commission has drawn up a set of good practices in this regard for the Member States.

ECFIN, jointly with SG RECOVER, also organised together with Member States annual events, bringing together institutions, stakeholders (in particular social partners and civil society) and beneficiaries of RRF support to discuss the progress and state of play of the RRP implementation. 15 Annual Events took place in 2022 (EE, LV, MT, PT, ES, LT, FR, SI, RO, IE, BG, IT, CY, HR, SK).

- **Steering the reporting under the RRF**

Reporting under the RRF has been further expanded. ECFIN further developed the FENIX IT tool which was set up in 2021 for Member States to report relevant information on the implementation of the plans in a user-friendly manner.

- **Bi-annual reporting**

As stipulated by Article 27 of the RRF Regulation, Member States are required to report twice a year on the progress made in the achievements of their RRPs. This is done by submitting the relevant information regarding the state of implementation of past and upcoming milestones and targets and monitoring steps in FENIX⁵⁹. The biannual reporting data provided the Commission with an overview of the progress in the implementation of each plan and of the RRF as a whole and informed the dialogue with each Member State and discussions on potential obstacles and risks of delays.

- **Recovery and Resilience Scoreboard**

In line with Article 30 of the RRF Regulation, the Commission established on 15 December 2021 a Recovery and Resilience Scoreboard displaying the progress of the implementation of the recovery and resilience plans of the Member States in each of the six policy pillars defined in Article 3⁶⁰. DG ECFIN maintained the publicly available scoreboard and jointly with SG RECOVER updated its contents regularly and as relevant throughout 2022 (see Annex for list of information included in the Scoreboard).

- **Reporting on common indicators**

Commission Delegated Regulation (EU) 2021/2106 of 28 September 2021 establishes that the Member States shall report biannually (by 28 February and 31 August respectively) on a set of 14 common indicators across all six policy pillars. The common indicators data allows the Commission to report on the progress achieved by all Member States towards the objectives of the RRF, but is not used to monitor individual RRPs. DG ECFIN, jointly with SG RECOVER, verified the consistency and robustness of the data, if needed requesting checks and corrections. DG ECFIN updated the recovery and resilience scoreboard on 30 September 2022 with the first set of common indicators. As of end-2022, the data

⁽⁵⁹⁾ Commission Delegated Regulation (EU) 2021/2106 establishes that such reporting shall take place, as a rule, by 30 April and 15 October of each year.

⁽⁶⁰⁾ Commission Delegated Regulation (EU) 2021/2106 of 28 September 2021 further defines the specific content of the scoreboard.

submitted by Member States in the second round of reporting in August 2022 was under verification.

DG ECFIN, jointly with SG RECOVER, also prepared the **annual RRF Report**⁶¹ which was published on 1 March 2022 and the **RRF Review report**⁶², published on 29 July 2022.

- **Reporting framework regarding RRF support and other sources of EU funding**

As stipulated in Articles 9 and 22 of the RRF Regulation, Member States are under the obligation to avoid double funding when implementing the RRF and need to report, as part of the bi-annual reporting rounds, on other EU funding received in relation to the RRF measures. DG ECFIN, jointly with SG RECOVER and in close collaboration with other DGs responsible for large funding instruments (BUDG, REGIO, EMPL, ENER), developed an approach aimed at defining the concept of double funding under the RRF. Discussions were held with Member States to explain the approach while a specific reporting module was developed in FENIX to allow Member States to report on the support received from other EU funds by any measures supported under the RRF. A first reporting round was held in November 2022.

- **Reporting on expenditure under RRF climate measures**

DG ECFIN put in place the necessary modules in FENIX to allow Member States to report on the cumulated expenditure incurred under RRF measures with a positive climate coefficient, as per the Climate tagging methodology in Annex VI of the RRF Regulation. This reporting is submitted with each payment request for all measures with a positive climate coefficient in the Member State's recovery and resilience plan and allows DG BUDG to monitor and report on the implementation of measures financed by NGEU green bonds.

- **Mid-term evaluation of the Facility**

DG ECFIN and SG RECOVER started preparing the evaluation report on the implementation of the Facility, which is due by February 2024, according to Article 32 (1) of the RRF Regulation. The Commission has published the call for evidence, which was available for comments on the Better Regulation Portal until 6 December 2022. DG ECFIN and SG RECOVER jointly co-chaired the first meeting of the inter-service group on the RRF mid-term evaluation.

⁽⁶¹⁾ The Annual Report takes stock of the progress made in the implementation of the Facility, from the adoption of the RRF Regulation in February 2021 to the disbursement of the first regular payment in December 2021 and the contribution of the RRFs to the climate and digital targets and expenditure under the six pillars of Article 3 of the RRF Regulation. The report shows that major headway has been made and confirms that the implementation of the RRF is well underway.

⁽⁶²⁾ The RRF Review Report confirms that major progress has been made in the implementation of the RRF and that the reform and investment agenda of Member States is well on track. It details numerous examples of the investments and reforms supported by the RRF in the 25 national recovery and resilience plans that were adopted by that date.

3.2. Control environment

3.2.1. Overview

The RRF is a fully performance-based instrument, which means that, and unlike for other EU funding programmes, the Commission does not reimburse Member States based on actual costs incurred for the reforms and investments included in the Recovery and Resilience Plans. Instead, the Commission pays pre-defined instalments solely when agreed milestones and targets are satisfactorily fulfilled. As a result, the legality and regularity of the payments is solely based on the satisfactory fulfilment of milestones and targets. The RRF funds, once disbursed, enter the national budget with no direct link to the expenditure incurred to finance the reforms and investments.

The control framework is tailored to the unique nature of the RRF as an EU spending programme that provides adequate financial and reputational protection for the EU budget. Beyond the Commission's internal control structure, the control environment of the RRF aims at providing DG ECFIN's AOD with the necessary elements of assurance in a timely manner on the RRF budget.

The RRF control strategy is built upon **two main pillars**:

- controls to provide reasonable assurance over the **legality and regularity of commitments and payments**, based on specific controls related to the achievement of the agreed milestones and targets.

To ensure the legality and regularity of the payments made, the Commission assesses through ex-ante controls and ex-post audits whether the agreed milestones and targets included in the payment requests submitted by Member States are satisfactorily fulfilled.

- controls to ensure adequate **protection of the financial interests of the Union**, in the manner prescribed by Article 22⁶³ of the RRF regulation setting out the respective roles and responsibilities of Member States and of the Commission.

⁽⁶³⁾ Recital 54 of the RRF Regulation further states: "The Commission should ensure that the financial interests of the Union are effectively protected. While it is primarily the responsibility of the Member State itself to ensure that the Facility is implemented in compliance with relevant Union and national law, the Commission should be able to receive sufficient assurance from Member States in that regard. To that end, in implementing the Facility, the Member States should ensure the functioning of an effective and efficient internal control system and recover amounts unduly paid or misused. In that regard, Member States should be able to rely on their regular national budget management systems. Member States should collect standardised categories of data and information allowing the prevention, detection, and correction of serious irregularities, meaning fraud, corruption and conflicts of interests, in relation to the measures supported by the Facility. The Commission should make available an information and monitoring system, including a

In this respect, Member States must put in place an effective and efficient monitoring and control systems to protect the financial interests of the Union and to ensure that the use of EU funds complies with the applicable Union and national law. These systems are described in detail in the recovery and resilience plans and are assessed by the Commission before the plan is adopted.

Member States must implement these control systems throughout the entire lifetime of the RRF. Notably, in accordance with Article 22(2)a of the RRF Regulation, they must undertake systematic and regular checks to ensure that the financing provided has been properly used and that any measure under the recovery and resilience plan has been properly implemented in accordance with all applicable rules, in particular regarding the prevention, detection and correction of fraud, corruption and conflicts of interests.

If a Member State detects any specific irregularities, it must take action to correct them and inform the Commission of these irregularities. If a Member State does not undertake the necessary corrections in case of fraud, corruption, conflict of interests or double funding, the Commission will recover funds from the Member State instead (Article 22(5) RRF Regulation). Moreover, if a Member State seriously breaches its obligations under the financing and loan agreement that it signed with the Commission, the Commission can apply a flat-rate correction of either 5%, 10%, 25% or 100% of that Member State's RRF funds.

Pursuant to its audit strategy, **DG ECFIN performs system audits to check and test the robustness of the control systems in Member States**. The scope of the system audits draws upon the information available within the Commission and upon audit summaries and management declarations submitted by the Member States, together with their payment requests. The latter provides the Commission with a comprehensive view on the system audit work carried out at national level, including audits on compliance with national and EU rules. In the context of the system audits, the Commission checks the procedures in place in Member States to prevent, detect and correct fraud, corruption, and conflict of interest, including elements of public procurement procedures. In addition, the Commission conducts audits of the national audit authorities.

At the beginning of 2023, DG ECFIN strengthened further the RRF control strategy, considering recommendation 3⁶⁴ of the *ECA Special Report on the design of the Commission's control systems for the RRF* and concerns expressed by the CONT Committee of the European Parliament. This additional audit work relates to further assurance on

single data-mining and risk-scoring tool, to access and analyse this data and information, with a view to a generalised application by the Member States.”

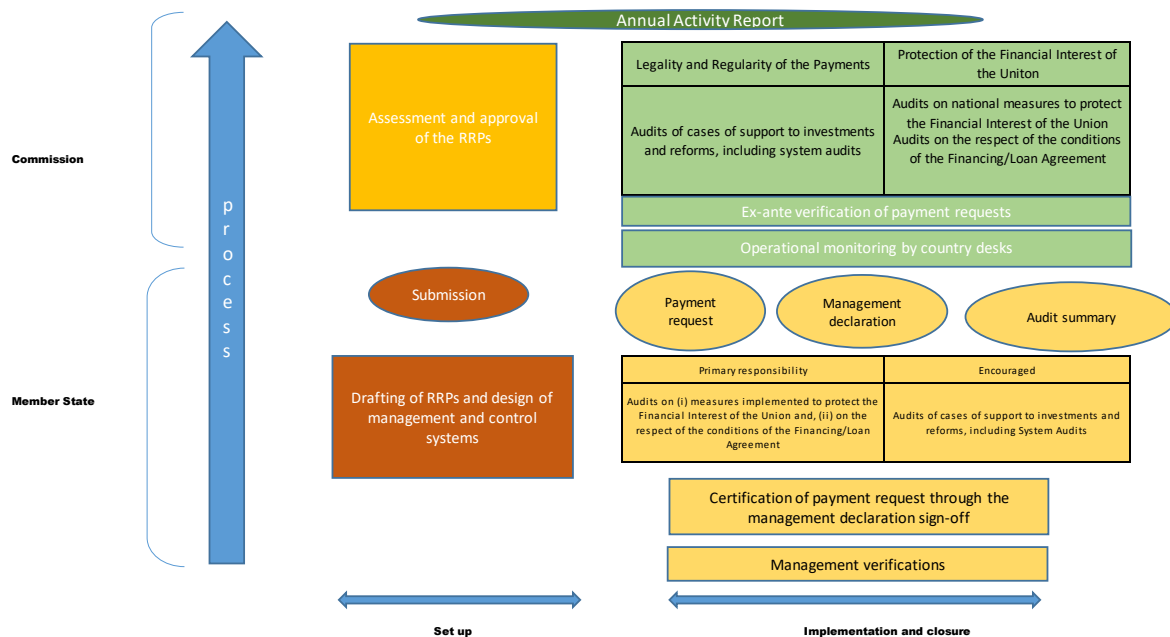
(⁶⁴) Which recommends the Commission to identify measures to close the assurance gap identified by ECA at EU level on MS' compliance with public procurement and state aid rules.

Member States' obligations⁶⁵ concerning compliance with public procurement and State Aid rules in 2022 pursuant to Article 22(2) lit. a of the RRF Regulation.

In summary, it can be said that as per its responsibility:

- by means of the ex-ante and ex-post controls, the Commission assures itself of the legality & regularity of the payments;
- by means of an assessment carried out in early 2023 by DG ECFIN regarding the respect by the Member States in 2022 of their obligation regarding compliance with public procurement and state aid rules, it develops assurance regarding to Article 22 (2) lit. a RRF Regulation;
- and by means of its system audits and audits of national audit authorities, it develops assurance regarding Article 22 (5) of the RRF regulation.

Together, ex-ante controls and audits, as for any other control systems, ensure the overall reasonable assurance for the RRF.



(65) “regularly check that the financing provided has been properly used in accordance with all applicable rules and that any measure for the implementation of reforms and investment projects under the recovery and resilience plan has been properly implemented in accordance with all applicable rules regarding the prevention, detection, and correction of fraud, corruption and conflict of interests.”

3.2.2. Control environment in detail

1. Member States

As per Article 22(1) of the RRF Regulation, all Member States, as beneficiaries or borrowers of funds under the Facility, must take appropriate measures to protect the financial interests of the Union, and ensure that the use of funds in relation to measures supported by the Facility complies with the applicable Union and national law, in particular regarding the prevention, detection and correction of fraud, corruption and conflicts of interests. Member States are required to do so by ensuring that an effective and efficient audit and control framework is in place.

The RRF Regulation further provides that:

- Firstly, Member States are responsible to regularly check that the financing provided has been properly used in accordance with all applicable national and EU rules. Audit work carried out by national audit authorities is key in providing assurance that Member States comply with this obligation.
- Secondly, Article 22(2) of the RRF Regulation, as well as the Key Requirements of the Member State's control system contained in the RRF Financing Agreement, identify as a priority the prevention, detection and correction of fraud, corruption, and conflicts of interests. Whilst such issues need to be addressed by measures wider than only audits, audits are a key aspect of providing assurance that the Member State systems to prevent, detect and correct fraud, corruption and conflicts of interests are functioning. Furthermore, in terms of content to be covered by audits related to the protection of the financial interests of the Union, Article 4(2) of the Financing Agreement provides an obligation for Member States to ensure that no double funding takes place.
- Finally, audits related to the effective functioning of Member State systems in terms of collecting, storing, verifying, and certifying reliable and accurate data on the achievement of milestones and targets are part of the assurance framework that support the management declaration. Whilst not necessarily linked to the data that underpins a payment request, these audits provide assurance to the authority signing off on the management declaration that the applicable rules have been complied with.

Regarding the achievement of the milestones and targets, the Member States must check that the pre-defined milestones and targets are met and that the evidence submitted to the Commission is complete and accurate. This forms the basis for the **management declaration** to be submitted by the Member States for each payment request. In the management declaration, the Member States must confirm that the control systems in place give the necessary assurance that the funds were used, and the measures properly implemented in accordance with all applicable rules, in particular rules on avoidance of conflict of interest, fraud prevention, corruption, and double funding in accordance with the principle of sound financial management.

If a Member State detects any specific irregularities, it must take action to correct them and inform the Commission of these irregularities, notably in the management declaration. If a Member State does not undertake the necessary corrections in case of fraud, corruption or double funding, the Commission will recover funds from the Member State instead (Article 22(5) RRF Regulation). Moreover, if a Member State seriously breaches its obligations, the Commission can apply a flat-rate correction of either 5%, 10%, 25% or 100% of that Member State's RRF funds.

In addition, the **Member States' audit bodies** should implement all the audit work necessary to provide assurance on the proper functioning of the internal control system implementing the Recovery and Resilience Plan, resulting in an **audit summary** accompanying each payment request and considered for the Management declaration. This document should contain the summary of audits they conducted during the implementation period, in particular the system audit work carried out on national control systems. The audit summary should reflect the assessment of the impact of the identified weaknesses and the adequacy of the corrective action taken.

A guidance to the Member States for the preparation of the summary of audits under the RRF was prepared and presented in the context of a dedicated expert group on 27 September 2021.

2. Commission's control framework

As set out in 3.2.1 Overview, the Commission's control framework for the RRF includes several layers of controls, aiming to ensure that the Commission can develop reasonable assurance on (i) the legality and regularity of payments made to Member States, (ii) the adequate protection of the financial interests of the Union in line with Article 22⁶⁶ of the RRF regulation, including (iii) the respect by Member States of their obligation to comply with public procurement and state aid rules as set out in Article 22(2) lit.a of the RRF regulation.

On this basis, the control framework at Commission level includes the following elements (in a chronological order):

- **Assessment of the robustness of national control systems described in the plans**

Under the RRF, DG ECFIN, jointly with SG Recover, lead the assessment of the Recovery and Resilience Plans as regards their relevance, effectiveness, efficiency, and coherence. This foresees amongst others the **assessment of the robustness of the Member States' control systems. This results in a pass or fail mark.**

⁽⁶⁶⁾ Please see footnote 63.

- Specific milestones on audit and control

Reflecting the requirement that the Member States, as beneficiaries or borrowers of funds under the Facility, must take appropriate measures to protect the financial interests of the Union, including on fraud, corruption and conflicts of interests, the Commission only approved the RRFs that included an adequate control system, in line with the RRF assessment criterion 10. Should the Commission detect weaknesses in the control systems, which can be addressed, it proposes to add to the CIDs of the relevant Member States specific **milestones on audit and control** that are necessary for complying with the requirements stemming from Article 22 RRF Regulation. These milestones have to be attained before the first disbursement can be made (with the exception of pre-financing).

- **Ex-ante controls at the payment stage**

- Assessment of the satisfactory fulfilment of the milestones/targets

Upon receiving a payment request, DG ECFIN, jointly with SG Recover, checks the documentation provided as supporting evidence for the completion of milestones and targets. The Member State needs to provide due justifications that the milestones and targets have been fulfilled, specifying their reasoning, and providing the underpinning evidence.

As a rule, the documentation underpinning the payment request should be sufficiently detailed for the Commission to be able to assess that all elements outlined in the Council Implementing Decision (CID), and the further specifications included in the annex to the operational arrangements, have been complied with and primary evidence should be preferred as supporting data.

In relation to the description of the measure, elements that are directly or indirectly linked to that specific milestone/target should be considered as requirements of that milestone/target unless they use non-obligatory language. Elements that are not directly or indirectly linked to that milestone/target should not be considered as requirements. If there are elements of the description of the measure that are not directly or indirectly linked to any milestone/target under that measure, they are explicitly mentioned in the context of the preliminary assessment of the final milestone/target. These elements were first specified in an internal guidance, which was further developed in July 2022, based on the experience gained on the assessment of the first payment request. Subsequently, the Commission adopted its framework for assessing milestones and targets under the RRF Regulation on 21.02.2023⁶⁷ as an annex of a dedicated Communication on the RRF.

⁽⁶⁷⁾ COM(2023) 99 final of 21.2.2023: COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL - Recovery and Resilience Facility: Two years on – A unique instrument at the heart of the EU's green and digital transformation.

The Commission checks the underlying evidence, where relevant, by using sampling methods. It then establishes, based on the due justifications provided by the Member States, whether a specific milestone or target has been satisfactorily fulfilled. In a limited number of circumstances and in line with the application of the de minimis principle, minimal deviations linked to the amounts (where a minimal deviation is defined as around a 5% or less deviation), formal requirements, timing or substance can be accepted.

The evidence considered and the rationale followed by the Commission for each milestone and target assessment is systematically recorded in specific assessment fiches to ensure an audit trail of the key contributions and evidence. The payment request checklist, which is recorded for each request, also ensures that all essential steps of the assessment process have been completed and recorded. An interservice-consultation involving all the Commission services takes place on the preliminary assessment, followed by consultation of the Economic and Financial Committee (EFC). Taking into account the EFC opinion, the draft Commission decision for payment is again consulted through inter-service consultation, and subject to a comitology process, adopted by the College.

The Commission's controls are targeted to prevent, detect, and correct errors and irregularities in the evidence that is provided by the Member States to establish that the milestones and targets have been satisfactorily completed. It may ask for additional information to the Member States and may decide to carry out additional controls to obtain the necessary complementary assurance on the achievement of the milestones and targets before making the payment.

If the milestones and targets have not been satisfactorily fulfilled, payments will first be partially or fully suspended, as per Article 24(6) of the RRF. The Member State concerned may present its observations within one month of the communication of the Commission's assessment. As per Article 24(8), where the Member State concerned has not taken the necessary measures to ensure a satisfactory fulfilment of the milestones and targets within a period of six months from the suspension, the Commission shall proportionately reduce the amount of the financial contribution and, where applicable, of the loan, after having given the Member State concerned the possibility to present its observations. As of end-2022, the Commission was still developing its methodology for determining the suspension of payments. Until end-2022, no milestone or target had been assessed as not satisfactorily met and hence such methodology was not yet needed. The Commission has adopted its methodology on 21.02.2023⁶⁸.

⁽⁶⁸⁾ Idem.

- Assessment of the milestones on audit and control

The specific milestones on audit and control included in the first payment requests are assessed during the assessment of the first payment request. No payment can be made under the RRF unless these milestones have been satisfactorily achieved.

When assessing these milestones in the context of Member States' payment requests, the authorities of certain Member States made certain commitments in order to **ensure continuous respect of the audit and control milestone**. The implementation of these commitments is **monitored by the Commission** and **assessed once the specific timeline by which they would be implemented has been reached**, to **ensure that the original milestone is continuously respected**, also taking into account the Member States' obligations stemming from the financing and loan agreements.

- Analysis of the management declarations and audit summaries

DG ECFIN audit unit is responsible for the **analysis of the management declarations and summaries of audits accompanying each payment request**. This analysis includes the request and analysis of individual **audit reports done at national level** as well as possible follow-up questions. An analysis is provided by DG ECFIN control unit on each payment request.

One of the objectives of this review is to identify any information that puts the fulfilment of milestones and targets into doubt, for instance in case the management declaration or the summary of audit indicates that inconsistencies or data errors were found in relation to data which is provided for one of the milestones and targets. Similarly, if the documents highlight a risk of fraudulent procurement procedures for a measure, the Commission would closely investigate the evidence provided for related milestones and targets.

The summary of audits also informs DG ECFIN about the audit work of the national audit body carried out to verify the compliance with national and EU rules in the Member State.

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

This analysis will inform the risk assessment of the Commission regarding its audit work on national control systems.

- **Ex-post audits**

Based on a risk assessment of all the milestones and targets included in the payment requests of each plan, DG ECFIN audit unit selects all milestones and targets it considers as potentially high-risk and, where resources allow for it, also some with medium risk.

Various criteria are used to determine the level of risk, such as the type and number of implementing bodies, the type and number of final recipients, the tagging of the measure and the complexity of the verification mechanism. For instance, measures such as the entry into force or publication of a law are considered as low risk.

Depending on this risk assessment, a number of ex post audits on specific milestones and targets are performed. Where it is deemed appropriate and indicated, the checks also include verification on whether the national authorities regularly verify compliance with public procurement and state aid.

- **System audits**

In line with its audit strategy, DG ECFIN audit unit conducts system audits of the Member States' internal control set-up during the lifetime of the instrument, to ensure that the concerned Member State complies with its obligations to have processes in place to prevent and detect serious irregularities (i.e., fraud, corruption or conflicts of interest) or serious breaches of obligations of the financing agreement (including double funding). According to the audit plan 2022-2023, such audits will have been performed in all Member States by the end 2023. In the context of these system audits, the Commission checks also that the Member States' systems generally provide for and check compliance with EU and national rules, including specific elements of the public procurement procedure. Furthermore, the Commission does on a risk-based approach undertake system audits to check if the data collection system of Member States is reliable.

- **Audits of the national audit authorities**

DG ECFIN audit unit can also carry out audits on the work done by the national audit authorities on the RRF. The objective of this type of audit is to assess the reliability of the work performed at national level, both regarding audits carried out on the national control systems to ensure that national and EU rules are complied with and that the Union budget is protected and audits on milestones and targets.

- **Assessment of checks carried out by Member States on compliance with public procurement and state aid rules**

At the beginning of 2023, considering recommendation 3 of the *ECA Special Report on the design of the Commission's control systems for the RRF* and concerns expressed by the CONT committee of the European Parliament, DG ECFIN conducted additional work to further build the assurance it could provide for 2022 concerning Member States'

obligations concerning compliance with public procurement and state aid rules pursuant to Article 22(2)a of the RRF Regulation.

This analysis is mainly based on the audit work carried out by Commission audit services, and on the results of national audit work (see details in 3.3).

3.3. Control results

- **Assessment of the robustness of national control systems described in plans**

Regarding the 5 plans approved in 2022, DG ECFIN jointly with SG RECOVER, included milestones on audit and control for all of them (see annex 14 on the audit and control milestones).

- **Ex ante controls at payment stage**

- Assessment of the satisfactory fulfilment of the milestones and targets

As detailed in part 3.1, in 2022 the Commission, led by DG ECFIN, jointly with SG RECOVER, has assessed all the **13 payment requests hence covering all the 366 milestones and targets** (328 milestones, 38 targets) included in these payment requests. Based on these assessments, **all milestones and targets were assessed as satisfactorily fulfilled**, and no suspension nor reduction of payments were needed in 2022.

- Assessment of milestones on audit and control

Among the 11 Member States for which the 1st payment took place since the beginning of the implementation, 9⁶⁹ Member States were concerned by Audit and Control milestones. In most cases, Member States had to ensure that a repository system for monitoring the implementation of the RRF was in place and operational before the first payment was done. In other cases, these milestones included entry into force of laws or decrees setting out legal mandates or defining audit & control procedures.

The Commission assessed those Member States' milestones positively, based on desk reviews and in-depth assessments of the evidence provided by each Member State (e.g. audit report on the repository system). These in-depth assessments included in most cases additional requests for information and exchanges between the Commission and the national authorities. In addition, commitments were made by 7 Member States to ensure continuous respect of the audit and control milestone.

⁽⁶⁹⁾ The 9 Member States are Bulgaria, Croatia, Cyprus, France, Greece, Italy, Romania, Slovakia, and Spain.

- Analysis of management declarations and audit summaries

The Commission reviewed the 13 management declarations and audit summaries accompanying the payment requests submitted and paid in 2022 and requested the corresponding audit reports. No information included in the corresponding reports put into question the satisfactory fulfilment of milestones and targets included in the payments made in 2022. Part of this information was used to update the risk assessment used to determine the audit plan.

- **Ex post audits**

In line with its audit strategy, in 2022 the Commission carried out **7 audits on milestones and targets regarding the first payment requests submitted by France, Italy, Portugal, Croatia, Spain, and Romania as well as the second payment request submitted by Croatia**. As specified in 3.2, the ex-post audits on milestones and targets are carried out risk-based, hence usually covering only high-risk or medium-risk milestones and targets. The non-audited payment requests contained mainly low risk milestones for which an ex-post audit was not indicated. The Commission has reached its objective to audit **all the 15 high-risk milestones and targets** and **12** out of 22 **medium risk ones** (see Annex 14 on the control results).

Based on the audit work, the Commission concluded that **the audited milestones and targets have been satisfactorily achieved**. The discrepancies identified between the data declared and the data audited remained within the margin of 5%⁷⁰ considered by the Commission for its assessment. In case the Commission considers ex-post that a milestone or a target has not been reached, it will initiate financial corrections to recover the undue part of the payment made. This has not happened in 2022.

- **System audits on protection of financial interests of the Union**

In 2022, the Commission has carried out **16 system audits** on the Protection of Financial Interests of the Union (ES; SK; EE; DK; EL; CZ; IT; LT; MT; SI; BG; CY; FI; IE; LV; PL). As much as possible the Commission planned and announced system audits as soon as the Operational Arrangements between the Member States and the Commission had been signed.⁷¹ The bodies audited in each system audit were selected based on a risk assessment framework.

These system audits covered the 16 coordinating bodies and 48 implementing bodies, such as ministries, or agencies. **By the end of 2023, all the Member States will have been audited at least once. Already 5 audit assignments took place during the first**

⁽⁷⁰⁾ Minimal deviation as specified in COM (2023) 99 final – Annex 1, and previously set out in internal guidance used by the Commission services.

⁽⁷¹⁾ Only in a few cases system audits were announced and conducted before the Operational Arrangements were signed.

quarter of 2023. In the context of these system audits, the Commission carried out targeted checks on compliance with public procurement procedures, covering both the procedures in place to prevent fraud, corruption, and conflict of interests in public procurement procedures, and actual implementation of these procedures on a few sampled measures.

Based on the current audit work, the Commission identified very mixed situations regarding the implementation of internal control systems across the audited implementing and coordinating bodies. Good practices for some of the auditees (implementing bodies) were identified such as risk assessment on sensitive staff, procedures in place for detection of possible fraud and corruption, notably using data mining tools such as ARACHNE, existence of procedures for preventive detection of possible conflict of interests, procedures in place for verification of possible double funding before the grant award decision.

However, the main issues encountered, for which the Commission is issuing recommendations and agreed deadlines for their implementation, concern the lack of sufficient coordination/supervision by the Coordinating bodies, incomplete anti-fraud strategies for PFIU, missing elements in the fraud risk assessments, the need for improvement of ex-ante controls carried out to prevent conflict of interests, low participation in trainings organised to raise fraud awareness and deficiencies in reporting of irregularities to OLAF.

Based on the system audit work carried out in 2022, and following the contradictory procedures, Member States have started to implement the necessary improvements stemming from audit findings in the audited implementing bodies but also in other relevant bodies.

To date, 15 cases of potential fraud have been notified to OLAF by the Commission.

Based on the outcomes of the system audit work carried out in 2022 and considering the results of the analysis of the management declarations and audit summaries mentioned above, the Commission can give reasonable assurance regarding the implementation of Article 22 (5) of the RRF Regulation in 2022.

- **Audits of the national audit authorities**

In 2022, DG ECFIN reviewed the audit work carried out by **two national audit authorities** (Croatia and France) in the context of two audits on milestones and targets.

- **Annual audit and management opinions**

Based on the audit work described above, the DG ECFIN audit unit has provided its 11 annual audit opinions covering the 13 payments made in 2022. These audit opinions have then been used in addition to any other available information to provide a management opinion for the payments made to the 11 Member States concerned in 2022, hence supporting the overall declaration of assurance.

- **Assessment of checks carried out by Member States on compliance with public procurement and state aid rules**

According to the Article 22 (2) lit.a of the RRF regulation, Member States shall “*regularly check that the financing provided has been properly used in accordance with all applicable rules and that any measure for the implementation of reforms and investment projects under the recovery and resilience plan has been properly implemented in accordance with all applicable rules regarding the prevention, detection, and correction of fraud, corruption and conflict of interests.*”

To support its declaration of assurance, DG ECFIN assessed the respect by the Member States of their obligation to regularly check that State aid and public procurement rules have been complied with. This risk assessment covered 11 Member States (Bulgaria, Cyprus, Croatia, France, Greece, Italy, Latvia, Portugal, Romania, Slovakia, and Spain), corresponding to 13 payments made by the Commission in 2022.

DG ECFIN mainly relied on the results of national audit work (reported in the audit summaries or transmitted to DG ECFIN as complementary information), as well as the audit work carried out by the Commission (DG ECFIN audit unit and Joint Audit Directorate in the context of compliance audits on public procurement and state aid rules carried out in common bodies). In addition, in the absence of sufficient evidence from a desk-review, DG ECFIN conducted a fact-finding mission in one Member State.

Based on the evidence collected and assessed, and to the best of its knowledge, DG ECFIN considers that control procedures put in place in the Member States give the necessary guarantees concerning, notably for public procurement and state aid, the respect of the obligation of Member States to regularly check that the financing provided in the context of the 2022 transactions has been properly used and implemented in accordance with all applicable rules.

- **Ongoing ECA work in the context of the Statement of Assurance of 2022**

By the cut-off-date of 30 April 2023, the Commission had received twelve clearing letters from the ECA. In line with the methodology specified in the Annex 5, the Commission is currently assessing the Court’s findings to conclude on the level of risk for each payment done in 2022. With respect to five clearing letters, the Commission **after careful analysis**, maintained its position (based on its ex ante and ex post controls) that the milestones and targets included in the corresponding payment requests have been satisfactorily achieved. This implies a low level of risk. On the other letters, the assessment is still on-going at the time of the signature of the Annual Activity Report.

The main Court’s conclusions stemming from its special reports are listed in part 2.1.2 Audit observations and recommendations.

- **Qualitative assessment of the legality and regularity of payments (conclusion on the methodology on materiality threshold described in Annex 5)**

The Commission is responsible for ensuring the legality and regularity of its payments to the Member States. Since the facility is a performance-based instrument, the legality and regularity of the payments depends on the actual achievement of the milestones and targets set out in the Council implementing decisions. Consequently, the Commission's controls focus on the achievement of the milestones and targets, whereas the costs actually incurred by the beneficiary are not subject to controls by the Commission. According to the Recovery and Resilience Facility regulation, the Commission nonetheless has the right to correct serious irregularities, i.e. fraud, corruption, and conflicts of interest that have not been corrected by the Member States themselves, along with double funding or in case of serious breaches of the financing and loan agreements.

The Commission makes a qualitative assessment of the control results and the level of risk associated with the operations. Unlike other EU programmes, this assessment is not quantified with an error rate. Error rates reflect a quantitative assessment, which is pertinent when the expenditure can be directly attributed to a quantitative criterion⁷². Payments in the context of the facility are based on a qualitative assessment of the fulfilment of milestones and targets, which is difficult to translate into quantitative terms. Even when milestones and targets have not been satisfactorily fulfilled, and a reduction will be made, this reduction cannot correspond to an amount of ineligible expenditure. In addition, the investments and reforms included in the recovery and resilience plans are very diverse, both within a Member State and between Member States, which prevents any statistical extrapolation. In this context, a meaningful error rate cannot be determined. The Commission's qualitative assessment is based on a combination of the results from: (1) the Member States' management declaration and summary of audits that has to accompany each payment request; (2) the Commission's audits; (3) the assessment of the payment requests; and (4) other checks carried out by the Commission at the Member State level in the context of other funding programmes such as cohesion policy funds.

As a result, DG ECFIN determines for each payment a level of risk to the legality and regularity of the payment, which can be low, medium, or high.

In 2022, DG ECFIN concludes that all 13 payments made are considered to be at a low level of risk, in line with the materiality criteria set out in annex 5, since:

- 1) based on Commission's ex-ante and ex-post controls, all the milestones and targets have been assessed as satisfactorily fulfilled;

⁽⁷²⁾ I.e. in cases of reimbursement of costs actually incurred, or entitlement-based expenditure when an exact amount is provided for in the legal basis for a given quantity: a given amount of euros per eligible hectare under the common agriculture policy, a given amount of euros of family allowance per child for administrative expenditure or any other flat-rate or standard amount, or unit cost, that is directly linked to a given quantity.

- 2) Member States are taking the required actions to address the weaknesses identified during the systems audits;
- 3) the Commission **carefully analysed** the available results of the ECA's compliance audits for payments made in 2022 and maintained its position that the milestones and targets included in the corresponding payment requests were satisfactorily achieved, while some of the ECA's preliminary audit results were not yet available at the time of the signature of the AAR.

3.4. Conclusions on the assurance

This section reviews the assessment of the elements already described and reported above (in Sections 3.2 and 3.3). It draws an overall conclusion to support the declaration of assurance regarding the RRF implementation and whether it should be qualified with reservations. DG ECFIN bases its conclusion on all controls conducted and information available to it with a cut-off date as of 30 April 2023.

In summary, regarding the RRF, DG ECFIN has reasonable assurance on:

- the legality and regularity of the payments made in 2022 for the Recovery and Resilience Facility, based on the positive assessment of the evidence of the satisfactory fulfilment of the milestones and targets provided in the payment requests , on ex-post audit work on the milestones and targets and also considering the outcomes of the audit work carried by the ECA in the context of its statement of assurance 2022 as described in part 3.3 (clearing letters received and assessed by the cut-off date);
- notably for public procurement and State Aid, the respect of the obligation of Member States laid down in Article 22(2) lit.a to regularly check that the financing provided in the context of the underlying transactions has been properly used in accordance with all applicable rules, and that any measure for the implementation of reforms and investment projects under the recovery and resilience plan has been properly implemented in accordance with all applicable rules in particular regarding the prevention, detection and correction of fraud, corruption and conflicts of interests; and
- the implementation of Article 22(5) of the Regulation on the proportionate reduction of the support under the RRF and recovery of any amount due to the Union budget or the request for early repayment of the loan, in cases of fraud, corruption, and conflicts of interests affecting the financial interests of the Union that have not been corrected by the Member State, or a serious breach of an obligation resulting from the agreements referred to in Article 15(2) and 23(1) of the RRF Regulation.