



**2017**

# **Annual Activity Report**

**Directorate-General for  
International Cooperation  
and Development**



# FOREWORD

This report reviews the work of the European Commission's Directorate-General for International Cooperation and Development (DG DEVCO) in 2017. DG DEVCO is working on different continents and regions, including Africa, Asia and Latin America and areas of business from biodiversity to climate change, development finance to Human Resources. This report looks at the main steps taken by DG DEVCO to fulfil its commitments, to achieve the objectives set in its Strategic Plan 2016-2020 and its Management Plan 2017 and to provide assurance on the use of resources provided for the completion of its mission.

2017 was a year full of significant landmarks:

- New ambitious global and European frameworks for sustainable development;
- A bold plan to massively increase investment in our partner countries;
- An unprecedented global initiative to end violence against women and girls;
- And a vision to recast our partnerships with the African, Caribbean and Pacific states and beyond.

Following the Commission proposal adopted on 22 November 2016, a **new European Consensus on Development** was adopted in June 2017 by the Council, EU Member States, the Parliament and the Commission. It has put forward a **shared vision and framework** of action for sustainable development and poverty eradication for all EU institutions and Member States, while addressing in an integrated manner the main orientations of the **2030 Agenda for Sustainable Development**. And we already pressed forward with a number of initiatives to implement it.

One of these was a **new European External Investment Plan** to help unlock the huge untapped potential of Africa. The Commission has already started to work closely with Member States and European and international financing institutions on its implementation – including through potential co-financing. We have proposed focusing on sustainable energy, entrepreneurship, agribusiness, sustainable cities and digitalisation, as we believe these offer some of the greatest potential for job creation and eradication of poverty thus tackling one of the root causes of irregular migration.

As emphasized also in the new European Consensus, the EU is a global leader in promoting **gender equality** and women and girls' empowerment. In 2017, the Commissioner for International Cooperation and Development launched an unprecedented action with the United Nations family – the new "Spotlight Initiative" – to end **all forms of violence and discrimination** perpetrated against women and girls, while addressing their free and universal access to essential services like health and education as well as to resources like credit, knowledge, technology, energy and land. This is one of the greatest injustices of our time and a major barrier to eradicating poverty and inequality once and for all.

Furthermore, the expiry in February 2020 of the current ACP-EU Partnership Agreement – Cotonou Partnership Agreement (CPA), which was signed in 2000 in Cotonou, is the opportunity to rejuvenate the EU's relationship with its African, Caribbean and Pacific partners and to create **a renewed partnership with Africa, the Caribbean and the Pacific and beyond**. Following a Joint Communication adopted in November 2016, proposing the building blocks for a renewed partnership, the important milestone in 2017 has been the adoption by the College of a recommendation for a Council Decision with negotiating directives.

While setting our ambitions high we recognise that an efficient and effective implementation needs continued attention.

This Report provides further evidence of the results achieved on key EU policies and EU role in achieving Sustainable Development Goals.

**Brussels, 28 March 2018**

**Stefano Manservigi**

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## GLOSSARY

**AAAA** = Addis Ababa Action Agenda  
**AAR** = Annual Activity Report  
**ACP** = Africa, Caribbean and Pacific group of states  
**AEC** = ASEAN Economic Community  
**AEP** = Annual Evaluations Plan  
**AER** = Average Error Rate  
**AFD** = Agence Française de Développement  
**AFS** = Anti-fraud strategy  
**AfT** = Aid for Trade  
**AGIR** = Global Alliance for Resilience  
**AMC** = Account Management Centre  
**AOSD** = Authorising Officer by Sub-Delegation  
**APF** = African Peace Facility  
**APSA** = African Peace and Security Architecture  
**ARAC** = ASEAN Risk Assessment Centre for Food Safety  
**AREI** = Africa Renewable Energy Initiative  
**ARISE** = ASEAN Regional Integration Support from the EU  
**ASEAN** = Association of South East Asian Nations  
**ASSIST** = ASEAN Solutions for Investments, Services and Trade  
**AU** = African Union  
**AUC** = African Union Commission  
**BC** = Beneficiary Country  
**BFA** = Business Facilitation Act  
**BL** = Budget line  
**BS** = Budget Support  
**BSSC** = Budget Support Steering Committee  
**CAHFSA** = Caribbean Agricultural Health and Food Safety Agency  
**CARIFORUM** = Caribbean Forum of the ACP States  
**CBSD** = Capacity Building on Security and Development  
**CBRN** = Chemical, Biological, Radiological and Nuclear  
**CELAC** = Community of Latin American and Caribbean States  
**CFSP** = Common Foreign and Security Policy  
**CIR** = Common Implementing Regulation  
**CREF** = Caribbean Renewable Energy Forum  
**DAS** = Declaration of Assurance  
**DCI** = Development Cooperation Instrument  
**DG** = Directorate-General  
**DG DEVCO** = Directorate General for International Cooperation and Development  
**DG ECHO** = Directorate General Humanitarian Aid & Civil Protection  
**DG NEAR** = Directorate General Neighbourhood and Enlargement Negotiations  
**DM** = Direct Management  
**DRR** = Disaster Risk Reduction  
**EAMR** = External Aid Management Reports  
**EBRD** = European Bank for Reconstruction and Development  
**ECA** = European Court of Auditors  
**ECB** = European Central Bank  
**ECOWAS** = Economic Community of West African States  
**EDDs** = European Development Days  
**EDF** = European Development Fund  
**EDFI** = European Development Financing Institution  
**EEAS** = European External Action Service  
**EFSD** = European Fund for Sustainable Development  
**EIB** = European Investment Bank  
**EIF** = European Investment Fund  
**EIDHR** = European Instruments for Democracy and Human Rights  
**EIP** = External Investment Plan  
**ElectriFI** = Electrification Financing Initiative  
**ENI** = European Neighbourhood Instrument

**EPA(s)** = Economic Partnership Agreement(s)  
**ERM** = Early Response Mechanism  
**EU** = European Union  
**EU GS** = European Union Global Strategy  
**EUTF** = European Union Trust Fund  
**EYD** = European Year of Development  
**FA** = Financing Agreement  
**FACA** = Central African Armed Forces  
**FARC** = Revolutionary Armed Forces of Colombia  
**FLEGT** = Forest Law Enforcement Governance and Trade  
**FR** = Financial Regulation  
**GAP** = Gender Action Plan  
**GCCCA+** = Global Climate Change Alliance  
**GNI** = Gross National Income  
**GO** = General Objective  
**GPEDC** = Global Partnership for Effective Development Cooperation  
**GPGC** = Global Public Goods and Challenges  
**HR** = Human Resources  
**IAC(s)** = Internal Audit Capability  
**IAS** = Internal Audit Service  
**ICS** = Internal Control Standard  
**IcSP** = Instrument contributing to Stability and Peace  
**ICT** = Internal Control Template  
**IFI(s)** = International Financial Institution(s)  
**IGAD** = Intergovernmental Authority on Development  
**IM** = Indirect Management  
**IMBC** = Indirect Management with Beneficiary Countries  
**INSC** = Instrument for Nuclear Safety Cooperation  
**IO(s)** = International Organisation  
**IOM** = International Organisation for Migration  
**IPA** = Instrument for Pre-accession Assistance  
**IT** = Information Technology  
**ITC** = International Trade Centre  
**JVAP** = Joint Valletta Action Plan  
**KPI(s)** = Key Performance Indicator  
**LDCs** = Least Developed Countries  
**ME** = Managing Entity (ies)  
**MFF** = Multiannual Financial Framework  
**MP** = Management Plan  
**MS** = Member States  
**MSME** = Micro, small and medium enterprises  
**MTR** = Mid-Term Review  
**NEIP** = National EPA Implementation Plans  
**NDCs** = Nationally Determined Contributions  
**NGOs** = Non-Governmental Organisations  
**OECD** = Organisation for Economic Co-operation and Development  
**OCTs** = Overseas Countries and Territories  
**ODA** = Official Development Assistance  
**PA** = Pillar Assessment  
**PE** = Programme Estimates  
**PEUMP** = Pacific-European Union Marine Partnership  
**PFM** = Public Finance Management  
**PFMDB** = Portfolio Management Dashboard  
**PI** = Partnership Instrument  
**PRAG** = Practical guide to contractual procedures for EU external actions  
**PSOs** = Peace Support Operations  
**RER** = Residual Error Rate  
**ROM** = Result-oriented Monitoring  
**SDAO** = Sub-Delegated Authorising Officer  
**SDG(s)** = Sustainable Development Goals

**SETF** = Staff Engagement Task Force  
**SIDS** = Small Island Developing States  
**SME(s)** = Small and Medium Enterprise(s)  
**SNA** = Somali National Army  
**SO** = Specific Objective  
**SP** = Strategic Plan  
**SPS** = Sanitary and Phyto-Sanitary measures  
**SUNREF** = Sustainable Use of Natural Resources and Energy Finance  
**SWD** = Staff Working Document  
**TBT** = technical barriers to trade  
**TCCs** = Troop Contributing Countries  
**TF** = Trust Fund  
**TFA** = Trade Facilitation  
**TFEU** = Treaty on the Functioning of the European Union  
**ToR** = Terms of Reference  
**UN** = United Nations  
**UNHCR** = United Nations High Commissioner for Refugees  
**USAID** = United States Agency for International Development  
**VCA4D** = Value Chain Analysis for Development  
**VI** = Very Important  
**VPA** = Voluntary Partnership Agreements  
**WB** = World Bank  
**WTO** = World Trade Organization  
**YEP** = Youth Entrepreneurship Programme  
**YSLA(s)** = Youth Savings and Loans Associations

# THE DIRECTORATE GENERAL IN BRIEF

## The mission statement

Within the European Commission, the Directorate-General for International Cooperation and Development (DG DEVCO) is in charge of development cooperation policy in a wider framework of international cooperation, adapting to the evolving needs of partner countries. DG DEVCO plays a leading role in implementing the 2030 Agenda of the United Nations and its Sustainable Development Goals (SDGs) in EU development cooperation policy, and will take coordinated action to implement the 2017 European Consensus on Development. This encompasses two main strands of work, first in terms of policy setting, second in terms of implementation and financial management.

DG DEVCO ensures cooperation with developing countries at different stages of development to cover their specific needs including during the transition period between low income countries and upper middle income countries.

DG DEVCO works closely with other Commission services responsible for sectoral policies, as well as with the European External Action Service, so as to facilitate and help ensure a coherent approach.

DG DEVCO is responsible for formulating the European Union development cooperation policy and sectoral policies in order to reduce poverty in the world, to ensure sustainable economic, social and environmental development and to promote and support peace, democracy, rule of law, good governance and the respect of human rights, notably through external cooperation. It fosters coordination between the European Union and its Member States in the area of development cooperation and ensures the external representation of the European Union in this field.

DG DEVCO is responsible, together with the European External Action Service and the other DGs, for the multiannual programming of the Union's relevant external assistance instruments. This is increasingly done jointly with Member States' programming of their bilateral assistance.

DG DEVCO is in charge of implementing the European Union's external financing instruments<sup>1</sup> financed by the general budget of the Union and the European Development Fund (outside the EU budget). In this context, DG DEVCO ensures the high quality and impact of aid, the swift implementation of projects and programmes and their visibility.

## The role of DG DEVCO

DG DEVCO is responsible for designing and implementing European international cooperation and development. Within the European Commission, DG DEVCO promotes coherence between the European Union's development cooperation policy and its other internal and external policies.

DG DEVCO conducts dialogues on development with non-European Union bilateral donors, emerging economies and with international organisations in order, on the one hand, to present a united European position and, on the other hand, to ensure that the Commission on behalf of the European Union contributes to negotiations in international development *fora*. Moreover, DG DEVCO enters into dialogue on development issues with non-state actors with whom it defines and implements cooperation measures.

DG DEVCO seeks to target funds to countries most in need. This is in support of the EU and Member States commitment to provide 0.15%-0.20% of GNI as Official Development

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<sup>1</sup> The Development Cooperation Instrument (DCI), the European Instrument for Democracy and Human Rights Worldwide (EIDHR), the Instrument contributing to Stability and Peace (IcSP) (only the long term objectives), the Instrument for Nuclear Safety Cooperation (INSC) and EU-Greenland cooperation instrument.

Assistance (ODA) to Least Developed Countries, the Addis Ababa Action Agenda on financing for development. DG DEVCO focuses on delivering better results and higher impact of its actions. It has also developed a results framework to improve its reporting on results<sup>2</sup>.

DG DEVCO implements cooperation policy through European Union Delegations. For this purpose, it defines, establishes and runs the management, supervision, support and control systems required to ensure the highest levels of regularity, quality, impact and visibility of the programmes implemented.

DG DEVCO strives to be a learning organisation promoting the capitalisation of knowledge and expertise.

DG DEVCO implements an information and communication strategy in order to raise awareness among European Union citizens and partner countries regarding the action taken by the European Union to support development.

DG DEVCO finds itself working in difficult environments which can have an impact on its operations. In close cooperation with other Commission services and the EEAS, DG DEVCO takes all reasonable practicable duty-of-care responsibilities in order to protect its personnel deployed outside the European Union

## The operating context

Development cooperation is defined chiefly in Articles 208 to 210 of the Treaty on the Functioning of the European Union. Its primary objective is to reduce and, in the long term, eradicate poverty in developing countries. It is hoped that the long-standing objective of eradicating extreme poverty may to a large extent be fulfilled in the coming decade - the extent to which this happens will depend partly on the implementation of the United Nations 2030 Agenda and its Sustainable Development Goals. In today's world, developing countries are at very different stages of development. Many of them are still dependent on development assistance while others have become emerging countries, with which wider and innovative cooperation with the EU is in the interest of both sides.

DG DEVCO can represent the Commission/European Union in certain circumstances on the international stage, in bilateral settings and multilateral fora like the United Nations. It has been in charge of the management of over EUR 10 billion in commitments for the year 2017, providing assistance to around 130 countries on five continents. The EU and its Member States collectively form the world's largest donor, accounting for more than half of global Official Development Assistance.

DG DEVCO is in charge of implementing the following EU's external financing instruments:

- Development Cooperation Instrument (DCI)<sup>3</sup>,
- European Development Fund (EDF),
- European Instrument for Democracy and Human Rights (EIDHR)<sup>4</sup>,
- Instrument contributing to Security and Peace (long term objectives) (IcSP)<sup>5</sup>,
- Instrument for Nuclear Safety Cooperation (INSC)<sup>6</sup>,
- EU-Greenland cooperation instrument<sup>7</sup>

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<sup>2</sup> 20/7/2016 (ref. SWD(2016) 255)

<sup>3</sup> COM(2016)300- June 2016: [http://ec.europa.eu/budget/library/biblio/documents/2017/DB2017\\_WD01\\_en.pdf](http://ec.europa.eu/budget/library/biblio/documents/2017/DB2017_WD01_en.pdf) -page 367

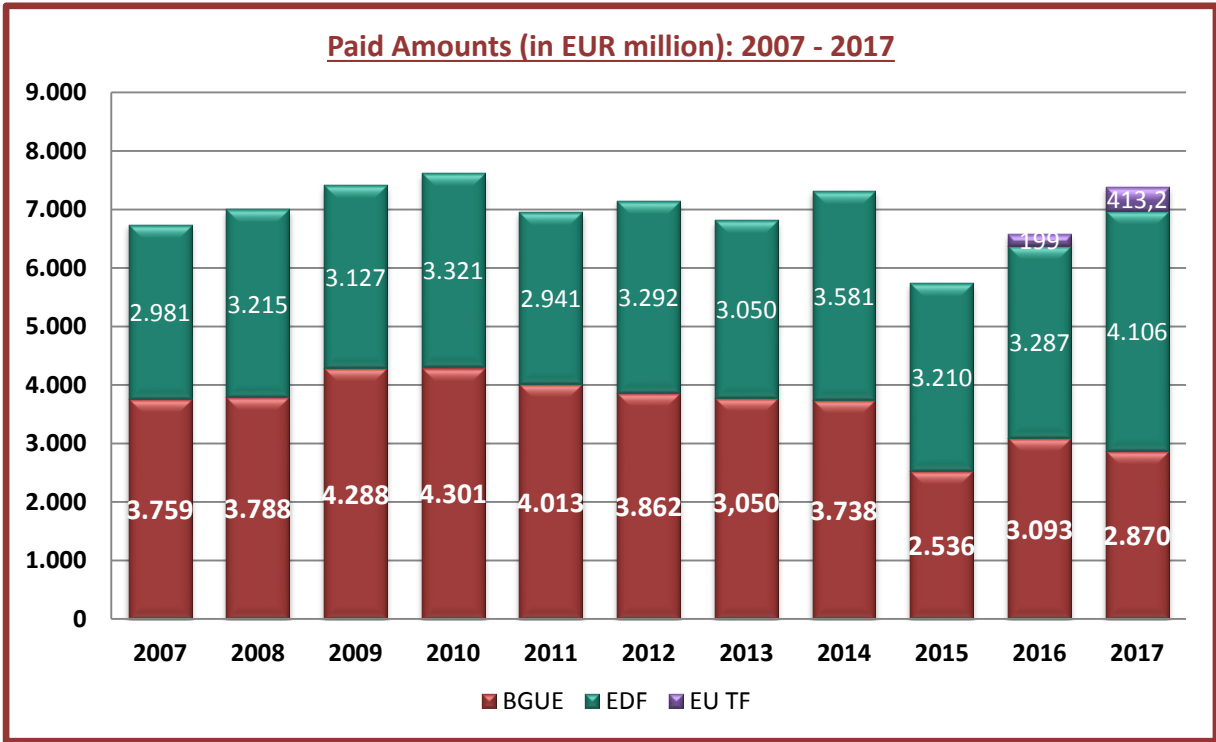
<sup>4</sup> COM(2016)300-June 2016: [http://ec.europa.eu/budget/library/biblio/documents/2017/DB2017\\_WD01\\_en.pdf](http://ec.europa.eu/budget/library/biblio/documents/2017/DB2017_WD01_en.pdf) -page 394

<sup>5</sup> COM(2016)300-June2016: [http://ec.europa.eu/budget/library/biblio/documents/2017/DB2017\\_WD01\\_en.pdf](http://ec.europa.eu/budget/library/biblio/documents/2017/DB2017_WD01_en.pdf) -page 404

<sup>6</sup> COM(2016)300-June 2016: [http://ec.europa.eu/budget/library/biblio/documents/2017/DB2017\\_WD01\\_en.pdf](http://ec.europa.eu/budget/library/biblio/documents/2017/DB2017_WD01_en.pdf) -page 428



The evolution of the volume of payments funded by the General Budget of the Union (BGUE), the European Development Fund (EDF) and the Trust Funds of the European Union (EUTF) is presented in the graph below:



In 2017, a total amount of EUR 7,389 million was paid by DG DEVCO on behalf of the EU (General Budget: EUR 2,869.5 million<sup>8</sup>, EDF: EUR 4,106.3 million<sup>9</sup> and EUTFs Bêkou, Africa and Colombia: EUR 413.2 million<sup>10</sup>).

**o Legal and policy setting**

Development cooperation is a policy in its own right and at the same time forms part of EU's external action, along with, for example, trade, neighbourhood, enlargement, humanitarian, and foreign and security policies. Since the Lisbon Treaty came into force, all of these policies are pursued within the setting of general principles and objectives. In addition to eradicating poverty, these include *inter alia* fostering sustainable development, supporting democracy, the rule of law and human rights, integrating developing countries into the world economy, preserving peace, preventing conflicts and strengthening security<sup>11</sup>.

The legal bases for the current funding instruments<sup>12</sup> for aid delivery were negotiated between 2011 and 2013 and are applicable until 2020. The 11<sup>th</sup> European Development Fund finances cooperation with African, Caribbean and Pacific countries under the

<sup>7</sup>COM(2016)300- June 2016: [http://ec.europa.eu/budget/library/biblio/documents/2017/DB2017\\_WD01\\_en.pdf](http://ec.europa.eu/budget/library/biblio/documents/2017/DB2017_WD01_en.pdf) -page 444

<sup>8</sup> Reconciliation of the amount of EUR 2,869.5 million paid by the General Budget in 2017 with the amount of EUR 3,018.8 million presented in annex 3A: EUR 2,869.5 million + EUR 73.1 million (contribution to EU TF) + EUR 76.3 million (contribution for support expenditure from EDF or EUTF paid under BL 21.010407, 21.010408 and 22 01 04 03) = EUR 3,018.8 million.

<sup>9</sup> Reconciliation of the amount of EUR 4,106.3 million paid by EDF with the amount of EUR 4,157.8 million presented on table 2.1 of the annex 3B: EUR 4,106.3 million + EUR 149.9 million (contribution to EU TF) - EUR 98.4 million (Recovery Orders) = EUR 4,157.8 million

<sup>10</sup> EUTF Bêkou: EUR 18 million, EUTF Africa: EUR 389.6 million, EUTF Colombia: EUR 5.6 million.

<sup>11</sup> Treaty on the European Union (Art. 21 on external action) and Treaty on the Functioning of the European Union (Arts. 208-211 on development)

<sup>12</sup> DCI, EUR 19,661.64 million; the EDF EUR 30,506 million; EIDHR EUR 1 332 million; IcSP EUR 622 million (long term objectives only); INSC EUR 225.32 million; the Greenland Decision EUR 217.8 million and Common Implementing Regulation (CIR).

Cotonou Agreement, and also with Member States' Overseas Countries and Territories. It is an intergovernmental fund managed outside the budget and it accounts for about 65% of the portfolio. Instruments financed from the budget account for the remainder and include a series of EU Regulations, both geographic and thematic, notably on democracy and human rights, and stability and peace.

Accounting for one quarter of the portfolio, the Development Cooperation Instrument encompasses geographic assistance for Asia and Latin America and a Pan-African programme. It also includes major thematic programmes geared towards cooperation with civil society organisations and local authorities, and towards global public goods and challenges in the areas of human development, food security and agriculture, environment and climate change, sustainable energy, migration and asylum.

### **o Ways of delivering EU assistance**

DG DEVCO has continued to encourage innovative modalities in order to leverage investment and ensure high level impact such as blending of grants and the use of EUTFs on top of traditional aid deliveries like project implementation, budget support, delegation agreements with international institutions and cooperation with Member States and Civil Society Organisations. The main goal remains to meet the commitment to devote 0.7% of GNI to ODA, but also to leverage private funds in order to boost the impact of EU collective action.

### **o Accountability and reporting chain in DG DEVCO**

The accountability and reporting chain in DG DEVCO is organised as a pyramid with several levels: on the first level, there are the EU Delegations that are accountable and report to the relevant geographical directors (second level), who at their turn report to the Director-General. Through this system, the statements of assurance signed by each Head of Delegation set the basis of the assurance provided by the other authorising officers by (sub)-delegation (AOSD) at the upper levels of the pyramid. The Trust fund managers also provide assurance via their AOSD reports to the respective Directors.

All AOSDs substantiate their statements of assurance in their annual reports taking into account the results achieved for 25 DG DEVCO Key Performance Indicators (KPIs) regrouped in three categories: sound financial management, effectiveness of the internal control systems and effectiveness of the audit system.

## EXECUTIVE SUMMARY

The Annual Activity Report (AAR) is a management report of the Director-General of DG DEVCO 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<sup>13</sup>.

### a) Key results and progress towards the achievement of general and specific objectives of the DG

DG DEVCO is a DG entrusted with policy making responsibilities in the field of development and international cooperation. It is also a DG implementing this policy via the different instruments it is managing.

The general policy framework is set by the United Nations 2030 Agenda for Sustainable Development – and its Sustainable Development Goals –, the Addis Ababa Action Agenda on Financing for Development and the Paris Agreement on Climate and more widely by the Treaty on the European Union (Art. 21 on external action) and Treaty on the Functioning of the European Union (Arts. 208-211 on development), the European Consensus on Development and the Global Strategy for the European Union's Common Foreign and Security Policy. Development is a global and common challenge, the policies are interconnected and the goals are universal. In a joint effort with the other actors, DEVCO needs to address all aspects of sustainable development: economic, social and environmental, in the relations with partner countries.

The European Consensus on Development was adopted by the Council, Member States, the European Parliament and the European Commission on 7 June 2017<sup>14</sup>. It provides a shared framework for a common approach to development policy and guides the action of EU institutions and Member States in their cooperation with partner countries and actors. It ensures collective credibility, effectiveness and impact. It is structured around the "five Ps" agreed in the Preamble of the 2030 Agenda (People, Planet, Prosperity, Peace and Partnership) to address in a balanced yet synthetic manner all 17 SDGs. It contributes to the objectives of EU external action, while affirming development policy's essential role in harnessing globalisation and promoting multilateralism. It is a key contribution to delivering on the European Commission's four General Objectives included in the Strategic Plan 2016-2020 of DEVCO which are the following:

- 1. General Objective 1- EU as a Stronger Global Actor**
- 2. General Objective 2 -Towards a new Policy on Migration**
- 3. General Objective 3- A new Boost for Jobs, Growth and Investment**
- 4. General Objective 4- A resilient Energy Union with Forward looking Climate Change Policy**

### DG DEVCO selected to present 4 examples of performance linked to the above four General Objectives as follows:

**1. General Objectives 1 " EU as a Stronger Global Actor" and 3 " A new Boost for Jobs, Growth and Investment " - Promoting Sustainable Development, investment and job creation**

Poverty eradication remains the primary objective of development policy under the new Consensus. DG DEVCO also continued supporting measures that have as purpose to create conditions that generate growth and jobs such as the External Investment Plan

<sup>13</sup> Article 17(1) of the Treaty on EU.

<sup>14</sup> Official Journal of the EU: 2017/C 210/01

that will support the generation of investments in the African continent. The private sector has been supported so that it can invest and help, especially for the youth in partner countries.

The EU is the major **trading and investment partner** for most **African countries**. To tackle the challenge of job creation, the EU intends to boost further its support for sustainable and inclusive growth, with specific attention to youth, women and girls, seek to unlock economic, trade and investment opportunities, and promote African integration. The backbone of the EU's intervention will be the proposed **External Investment Plan**, under which support will be provided to guarantees and blending operations, technical assistance and improvement of the business environment.

In this context, the External Investment Plan aims at mobilising private investment in support of development. In 2017, DG DEVCO worked closely with Member States and European and international financing institutions in its implementation. As a result, a first batch of investment windows focusing on sustainable energy, entrepreneurship, agri-business, sustainable cities, and digitalisation was adopted by the EU Regulation 2017/1601 establishing the European Fund for Sustainable Development (EFSD), the EFSD Guarantee and the EFSD Guarantee Fund<sup>15</sup>, which should offer a strong potential for job creation.

### **EU International Cooperation and Development Results Framework Facts** **EU- funded projects and programmes that ended between mid-2013 and mid-2017** **contributed to the following selected results**

- **37,000** firms gained access to credit, to help them avoid risks and make investments
- **1,500** quality certifications were issued to improve partner countries' national quality infrastructure in order to meet international standards and thus reap the benefits of the multilateral trading system
- **29** countries improved their business environment thereby enabling private enterprises to develop, leading to economic growth.
- **11,000** km of transmission/distribution lines were built or upgraded, as part of efforts to provide access to secure, sustainable energy services
- **27,000** micro, small and medium-sized enterprises (MSMEs) applied sustainable consumption and production practices to support a "green" economy that generates growth, creates jobs and helps to reduce poverty

## **2. General Objective 2 " Towards a new Policy on Migration " - Addressing the root causes of irregular migration and forced displacement**

Migration challenges have been at the top of the European agenda. The European Commission continued to proactively address the development-migration nexus, in line with the 2030 Agenda and the Consensus for Development. EU development cooperation played a crucial role in contributing to the overall EU efforts to address migration, in the context of the European Agenda on Migration<sup>16</sup>, the Valletta Declaration, the Partnership Framework on migration<sup>17</sup> and the new EU approach on forced displacement, in full compliance with development objectives and principles. Through a range of development instruments, for instance through the EU Emergency Trust Fund for Africa, but also other geographical instruments, DG DEVCO actions in 2017 addressed both short and long term challenges and opportunities. In particular three aspects were in focus in our work: 1) addressing the drivers/root causes of irregular migration/forced displacement; 2) enhancing partners' capacities for improved migration/refugee management; 3) maximising the development impact of migration. Through this comprehensive approach, DEVCO support in 2017 contributed to both strengthen the dialogue and partnership with partner countries in the area of migration and to achieve tangible results in improving migration management and providing protection to vulnerable migrants and refugees in partner countries.

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<sup>15</sup> OJ L 249 of 27.9.2017

<sup>16</sup> COM(2015)240 final

<sup>17</sup> COM/2016/0385 final of 07/06/2016

### **3. General Objective 4 " - A resilient Energy Union with Forward looking Climate Change Policy " Towards a forward looking policy on climate change with focus on renewable energy**

EU actions cannot bear fruits if the environment in which we work is not sustainable. Resources are limited, mining and fossil exploitation is not sustainable in long term. The environmental impact of our actions has a bearing on under or unfair development. In this context, DEVCO has pursued especially the promotion of clean energy as part of a wider effort to keep climate change under control.

#### **EU International Cooperation and Development Results Framework Facts EU- funded projects and programmes that ended between mid-2013 and mid-2017 contributed to the following selected results:**

- **99** partner countries either developed and/or implemented climate change strategies, to help them adapt to global changes such as climate change and ecosystem degradation
- **3,465,000** hectares of agricultural and pastoral ecosystems were managed by sustainable land management practices to reverse the degradation of agricultural ecosystems in partner countries caused by factors such as climate change

### **4. General Objective 1 " EU as a Stronger Global Actor " - Security**

The EU is a stronger global actor also through DEVCO's action towards development. Development is a prerequisite for social justice and sustainability. In 2017, DG DEVCO has continued to concentrate on poverty eradication as this is a global cause of the world's instability and unsustainability. To address this, the root causes of poverty, conflict and instability were targeted further, and sustainable growth promoted, while keeping people at the core of all actions. DG DEVCO has continued to address the fragility of States and the vulnerability of their societies.

#### **EU International Cooperation and Development Results Framework Facts EU- funded projects and programmes that ended between mid-2013 and mid-2017 contributed to the following selected results:**

- **459,000** individuals benefited directly from justice, rule of law and security sector reform programmes
- **2,789,000** people benefited directly from programmes that specifically aimed to support civilian post-conflict peace building and/or conflict prevention

**More concretely in 2017 DEVCO has delivered, among others, on the following:**

- **Policy Statement adopted jointly by the Council, EU Member States, the European Parliament and the European Commission on a new Consensus on Development:** It has addressed in an integrated manner the main orientations of the 2030 Agenda for Sustainable Development and contributed to the objectives of EU external action, while affirming development policy's essential role in addressing the challenges of globalisation. The Consensus has put forward proposals for the EU and its Member States to work better together, to increase collective credibility, effectiveness and impact. It was adopted in the second quarter of 2017.
- **Towards a new partnership between the EU and the African, Caribbean and Pacific Countries after 2020:** 2017 has been an important year in which work was focused on developing the framework for a renewed partnership with the countries of Africa, the Caribbean and the Pacific beyond 2020. Following preparatory steps as per Better Regulations requirements, **the College adopted a Recommendation with draft negotiating directives<sup>18</sup> in December 2017.**
- **A Joint Communication on the "Africa-EU Partnership: renewed impetus"<sup>19</sup>** was included in the 2017 Commission Work Programme to shape the

<sup>18</sup> COM/2017/0763 final of 12/12/2017

<sup>19</sup> Reference number JOIN/2017/017 final of 04/05/2017

EU's strategic objectives and priorities in its relations with Africa in view of the 5<sup>th</sup> Africa-EU Summit which took place at the end of 2017 in Côte d'Ivoire, which was instrumental in enhancing further relations between the two continents.

- Deriving from the Global Strategy for the EU's Foreign and Security Policy, **a Joint Communication on Resilience**<sup>20</sup> aimed at developing a clearer common narrative as to what the term resilience implies and how it can be made operational. It has addressed resilience at state and societal level, drawing on the substantial progress that has been made in implementing the existing resilience policy framework.
- **A Communication on Achieving Prosperity through Trade and Investment: Updating the 2007 Joint EU Strategy on Aid for Trade**<sup>21</sup> was adopted in November 2017 to especially operationalise in that area the directions set by the newly adopted European Consensus on Development.
- Together with the UN Secretary General Guterres a **joint global Gender Initiative** (The Spotlight Initiative to eliminate violence against women and girls) of at least half a billion EUR was launched in September 2017 in New York to showcase the UN-EU partnership in action on gender equality, on the empowerment of women of all ages and on the elimination of all forms of violence against women and girls. The EU must and will be at the vanguard.
- **A Mid-Term Review Report of the 2014-2020 External Financing Instruments**<sup>22</sup> has been adopted by the Commission at the end of 2017 and submitted to the European Parliament and the Council. In order to provide certain inputs for this report, such as the extent the instruments are meeting their objectives, the Commission drafted a set of evaluations (one per instrument) which largely drew from a corresponding set of external evaluations that took place over 2016-2017<sup>23</sup>. The evaluations and the MTR Report also inform the work on the next Multiannual Financial Framework post 2020.

## CHALLENGES 2017

The challenges have been global and their presence was felt everywhere: from the effects of climate change, to the impact of the technological revolution, from the inequalities between and within countries, to the factors of migration and mobility, from the dangers of terrorism and violent extremism to the threats of populism. To address difficulties, the Commission has continued to consolidate the coordination with Member States and followed a coherent and coordinated approach. 2017 has been the right moment for a more political and more action-orientated partnership with countries in Africa, the Caribbean, the Pacific and beyond.

## b) Key Performance Indicators (KPIs)

Result/Impact indicator (description)	Target (or milestones)	Latest known results as per AAR
<b>Most relevant KPI 1:</b> Share of EU-funded international cooperation and development assistance directed towards supporting human development	<ul style="list-style-type: none"> <li>• (2014-2018) 19.2%</li> <li>• (2014-2020) 20%</li> </ul>	<ul style="list-style-type: none"> <li>• Cumulative (2014-2017): 16.9%<sup>24</sup></li> <li>• (2017): 17.1%</li> </ul>

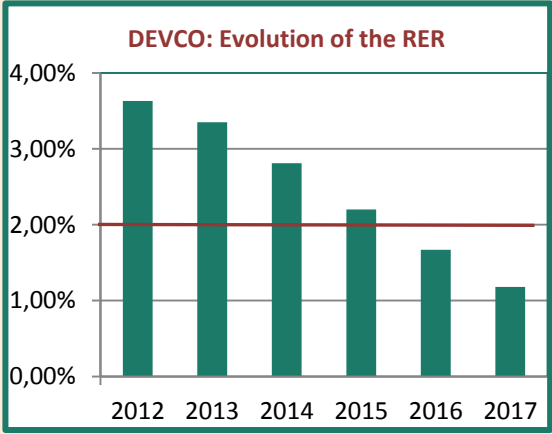
<sup>20</sup> Reference number JOIN(2017) 21 final of 7/6/2017.

<sup>21</sup> Reference number COM/2017/0667 final of 13/11/2017

<sup>22</sup> Development Cooperation Instrument, 11<sup>th</sup> European Development Fund, European Neighbourhood Instrument, European Instrument for Democracy and Human Rights, Greenland Decision, Instrument contributing to Stability and Peace, Instrument for Pre-Accession, Instrument on Nuclear Safety Cooperation, Overseas Countries and Territories Decision, Partnership Instrument and the Common Implementing Regulation itself.

<sup>23</sup> COM(2017) 720 final; SWD(2017)463 final; SWD(2017) 600 final; SWD(2017) 601 final; SWD(2017) 602 final; SWD(2017) 604 final; SWD(2017) 605 final; SWD(2017) 606 final; SWD(2017) 607 final; SWD(2017) 608 final; SWD(2017) 609 final of 15/12/2017

<sup>24</sup> DCI objective of 25% of committed amount on "Global Public Goods and Challenges" covering human development already reached (25% for period 2014-2016).

Result/Impact indicator (description)	Target (or milestones)	Latest known results as per AAR
<b>Most relevant KPI 2:</b> Amount and share of EU-funded international cooperation and development assistance contributing to climate change (adaptation and mitigation)	<ul style="list-style-type: none"> <li>(2014-2018) 18.3%</li> <li>(2014-2020) 20%</li> </ul>	<ul style="list-style-type: none"> <li>Cumulative (2014-2017): 19.3%<sup>25</sup></li> <li>(2017) 24.7 %</li> </ul>
<b>Most relevant KPI 3:</b> Proportion of EU-funded cooperation and development initiatives promoting gender equality	(2020) 85% <sup>26</sup>	(2017) 65.9%
<b>Most relevant KPI 4</b> =Residual Error Rate (RER)	(2020) 2%	<ul style="list-style-type: none"> <li>(2017) 1.18%</li> </ul> 

The KPIs above reflect current key policy priorities of the EU, in the areas of human development, climate change (adaptation and mitigation) and gender equality.

Human development is an important component of EU aid policies, with a 20% budget benchmark for the period 2014-2020. By 2017, 16.9% of EU-funded international cooperation and development assistance has been committed towards supporting human development. The share has increased by almost 4 percentage points compared to 2016 thus getting closer to the 2014-2018 milestone – though falling slightly short.

Furthermore, by 2017, 19.3% of EU-funded international cooperation and development assistance addresses climate change, reflecting EU commitment to sustainable development. This shows considerable improvement towards the 2020 targets of 20% and allows us to meet the 2014-2018 milestone one year in advance.

In addition, the European Commission is contributing to gender equality and women's empowerment development initiatives with 65.9% of its new projects and programmes approved in the year 2017. Over the last three years, there has been a consistent increase in the proportion of initiatives that promote gender equality (they were 31.3% of the total in 2014). As things stand, the final target (85%) presented in the Gender Action Plan<sup>27</sup> (GAP) 2016-2020 is fully in reach.

The fourth KPI, the RER is an indicator measuring internal control aspects, and it was selected as relevant since DG DEVCO is managing spending programmes.

<sup>25</sup> DCI objective of 25% of committed amount on "Global Public Goods and Challenges" covering climate change and environment already reached (51% for period 2014-2016).

<sup>26</sup> The EU Gender Action Plan 2016-2020 sets a target of 85% of new projects promoting gender equality in year 2020. This KPI presents an annual target in 2020 with linear progress expected each year. Based on this, the cumulative intermediate milestone was deleted. The latest know results shows the annual result for 2017 and this is in line with the reporting in the previous years and shows clear progress.

<sup>27</sup> SWD(2015)182 final

## **c) Key conclusions on financial management and internal control**

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

The Commission has adopted a set of internal control standards, based on international good practice, aimed to ensure the achievement of policy and operational objectives. The financial regulation requires that the organisational structure and the internal control systems used for the implementation of the budget are set up in accordance with these standards. DG DEVCO has assessed the internal control systems during the reporting year and has concluded that the internal control standards are implemented and functioning as intended. The IAS concluded that control systems are partially effective and in its 2016 Annual EDF Report, the European Court of Auditors issued an adverse opinion on the legality and regularity of payments underlying the accounts. The implementation of the action plans following present and past reservations and the specific action plans relating to the individual audit findings intend to improve the control system. Please refer to AAR section 2.1.3 for further details.

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

In conclusion, management has reasonable assurance that, overall, suitable controls are in place and working as intended; risks are being appropriately monitored and mitigated; and necessary improvements and reinforcements are being implemented. The Director-General, in his capacity as Authorising Officer by Delegation has signed the Declaration of Assurance, albeit qualified by reservations concerning the error rate and the African Peace Facility (APF).

## **d) Information to the Commissioner**

In the context of the regular meetings during the year between the DG and the Commissioner on management matters, also the main elements of this report and assurance declaration, including the reservations envisaged, have been brought to the attention of Commissioner Mimica, responsible for International Cooperation and Development.



# 1. KEY RESULTS AND PROGRESS TOWARDS THE ACHIEVEMENT OF GENERAL AND SPECIFIC OBJECTIVES OF THE DG

## Policy Highlights

Poverty and inequality, climate change, fragility, migration, and security remained high on the global political agenda in 2017, underlining **the importance of development policy** to tackle the root causes of these complex and interrelated challenges. In this context, 2017 saw the international community advance in the implementation of its collective policy response to these challenges, as set by the 2030 Agenda for Sustainable Development, the Addis Ababa Action Agenda, and the Paris Agreement on Climate Change.

In 2017 the European Union sent a strong message on its commitment to the implementation of the 2030 Agenda, with the renewal of its development policy framework. DG DEVCO, together with other Commission services and the EEAS, has brought **clear added value** in this process through a uniting role, building on complementarities in the pursuit of common objectives. DG DEVCO continued to play a key role in supporting the EU objective of eradicating poverty and promoting sustainable development in developing countries, particularly least developed ones. DG DEVCO also remained strongly committed to strengthening EU and MS' collective voice and global influence, contributing to shape unified positions of EU institutions and Member States on development matters in International Organisations (IO) and international fora (e.g. UN, OECD, International Financing Institutions (IFIs), G20, G7), contributing to more effective multilateral discussions and to strengthening the role of development policy in the context of external action. This was also possible on the ground thanks to Joint Programming, and partly to Delegated cooperation, as reflected in the Joint Programming process evaluation and the one of Delegated Cooperation concluded in 2017<sup>28,29</sup>. Finally, DG DEVCO continued to foster multi-stakeholder partnerships to support the implementation of the SDGs in developing countries, in particular supporting the role of civil society organisations.

A major achievement was the adoption of the new **European Consensus on Development**, in June 2017. The Consensus provides a framework for a common approach to development policy, to be applied by the EU institutions and the Member States, in support of the implementation of the 2030 Agenda in developing countries. It addresses the 17 Sustainable Development Goals of the 2030 Agenda in a comprehensive way, based around the Agenda's "5Ps": People, Planet, Prosperity, Peace and Partnerships. They describe the need to address the three areas of sustainable development -economic, social, and environmental- as well as governance and implementation aspects. The Consensus takes a comprehensive approach to implementation, drawing on the framework agreed through the Addis Ababa Action Agenda, combining aid with other resources, with sound policies and a strengthened approach to Policy Coherence for Development. Following the adoption of the Consensus, in 2017 DEVCO started to take steps to reflect the orientations of this new policy framework in a range of important initiatives.

Together with the EEAS, DG DEVCO led preparations towards a **new relationship with the countries of the African, Caribbean and Pacific Group of States**. This work led to the adoption of a Council Decision including Negotiating Directives, authorising the opening of negotiations on a Partnership Agreement with ACP countries. The proposed Negotiating Directives set out the main orientations for a true modern political and targeted partnership between equal partners. It is proposed to have a legally binding

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<sup>28</sup> [https://ec.europa.eu/europeaid/evaluation-eu-joint-programming-process-development-cooperation-2011-2015\\_en](https://ec.europa.eu/europeaid/evaluation-eu-joint-programming-process-development-cooperation-2011-2015_en)

<sup>29</sup> [https://ec.europa.eu/europeaid/evaluation-eu-aid-delivery-mechanism-delegated-cooperation-2007-2014\\_en](https://ec.europa.eu/europeaid/evaluation-eu-aid-delivery-mechanism-delegated-cooperation-2007-2014_en)

agreement with a common foundation with all ACP countries, in combination with three strengthened regional partnerships.

2017 was an important year for the Strategic Partnership with Africa. A Joint Communication for a **renewed impetus of the Africa-EU Partnership** was adopted in May, followed by the 5<sup>th</sup> African Union-EU Summit, which took place in Abidjan in November under the theme "Investing in Youth for a Sustainable Future". The Summit brought together European and African leaders to define the future direction for cooperation between the two continents. They adopted a political declaration comprising a set of priorities, namely investing in people; strengthening resilience, peace, security and governance; migration and mobility; and mobilising investments.

In 2017, DG DEVCO advanced on enhancing the **cooperation framework with partner countries in Latin America, the Caribbean and Asia**. Efforts were aimed at renewing and refocusing partnerships with More Advanced Developing countries, through the development of tailored approaches and strategies. These include renewed emphasis on policy dialogue on the implementation of the 2030 Agenda and on bilateral and regional issues, including the use of blending as well as on global development issues, the use of blending. Triangular cooperation is happening in a number of countries, mostly through the EU-LAC triangular cooperation facility ADELANTE. In the Asia Pacific region, triangular cooperation was launched with Singapore and Thailand. The independent evaluation on blending<sup>30</sup>, recently concluded, found that overall blending was successful in achieving results. It also found that in the early years mistakes were made (e.g. the justification of the grant and the pro-poor objectives were not systematically emphasized in the project design), but to a large extent these are being corrected. The strategic value of blending is found to be considerable although the instrument is not yet fulfilling its full potential. Budget support also continued to be a key tool in bilateral cooperation with partner countries in these regions and was increased in Asia Pacific region. Evaluations of budget support in Ghana and Paraguay concluded in 2017 that its impact was overall positive, with recommendations to further improve its efficiency and effectiveness.

In 2017, DG DEVCO also continued its efforts to boost sustainable and inclusive growth in EU partner countries, and to contribute to prosperous and peaceful societies. The **External Investment Plan** (EIP) is an ambitious initiative which supports this objective, by mobilising public and private investment to help partner countries in Africa and the EU Neighbourhood region to achieve the SDGs. It is structured around three pillars: a European Fund for Sustainable Development (EFSD); technical assistance to develop bankable projects and improve the investment climate and business environment in partner countries; structured dialogue with the private sector and enhanced policy dialogue. The EIP was made operational in September 2017 with the EU Regulation establishing the EFSD, which has an indicative budget of EUR 4.1 billion, covering investments (EUR 2.6 billion) and guarantees (EUR 1.5 billion). In addition, the EU remains committed to aid-for-trade as a key element of development cooperation, as reflected in the Communication of November 2017 on Achieving Prosperity through Trade and Investment.

The EU and its Member States continue to be global leaders in promoting gender equality and women and girls' empowerment in external relations and across all EU development activities, a commitment substantiated with the adoption of the **EU Gender Action Plan 2016-2020** (GAP II). The GAP II implementation has begun in full and the first report was published in 2017<sup>31</sup>, highlighting that during this first year good progress has been made in better integrating gender in EU external action, e.g. through closer collaboration on gender equality and women's empowerment in partner countries between EU Delegations and Member States, and mainstreaming gender in core training curricula for EU staff. The year 2017 was also marked by the launch of **The Spotlight Initiative**, a new partnership by the EU and UN to eliminate all forms of violence against women and girls. The Spotlight Initiative aims at achieving transformational change at the regional

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<sup>30</sup> [https://ec.europa.eu/europeaid/evaluation-blending\\_en](https://ec.europa.eu/europeaid/evaluation-blending_en)

<sup>31</sup> SWD(2017) 288

level, and is backed by an initial dedicated financial envelope of EUR 500 million<sup>32</sup>. It focuses on domestic and family violence, sexual and gender-based violence, harmful practices, trafficking in human beings and sexual and economic (labour) exploitation.

Together with the EEAS, NEAR and ECHO, DEVCO led the preparation of the Joint Communication on a Strategic Approach to **Resilience** in the EU's external action, which expands the previous approach to resilience from climate change and natural disasters, to include the adaptability of states, societies, communities and individuals to political, economic, environmental, demographic or societal pressures in order to sustain progress towards the SDGs. The implementation of this approach is being tested in a number of pilot countries. In 2017 the evaluation of the EU approach to resilience to food crises in African drylands<sup>33</sup> was concluded, confirming the relevance of the approach and highlighting several points to be enhanced, on which the EU has started to take action, such as better inter-services collaboration and the need for more context-specific interventions.

In 2017, DEVCO continued to contribute to external aspects of the **Security Union**, working with partners to prevent and counter violent extremism, designing programmes to promote a criminal justice approach to counterterrorism, strengthening the protection of critical infrastructure, tackling issues related to cybersecurity, and prioritising negotiations on **Capacity-building for Security for Development** (CBSD). The CBSD amendment to the Instrument contributing to Stability and Peace was adopted in December 2017<sup>34</sup>, allowing the EU to work with military actors, in exceptional circumstances, when the involvement of the military is needed to achieve development objectives.

In December, DG DEVCO together with DG NEAR and FPI, in cooperation with the EEAS, prepared a **mid-term review report on the external financing instruments** that was adopted by the College and transmitted to the European Parliament and the Council. The review concluded that the instruments are generally fit for purpose and do not require amendments through delegated acts. The report also shows that lessons have been learned from previous experience, for example, that fragmentation in the EDF and DCI has been reduced through (i) sector concentration and (ii) differentiation, meaning more resources are focused on Least Developed Countries and fragile/post-crisis countries. The added value of the instruments based on, amongst others, the EU's expertise, supranational identity and geographic spread is also highlighted. Nevertheless, some challenges remain, including the need to better reflect some parts of the policy framework, such as the 2030 Agenda, the need to enhance monitoring systems; to reduce overlapping actions between instruments and to better address tensions between the principle of country ownership and the EU's promotion of fundamental values.

## **DG DEVCO's contribution to the political priorities of the European Commission**

DG DEVCO is associated to four General Objectives (GO) of the European Commission to which it contributes via 7 Specific Objectives (SO).

### **The four GOs are:**

- **GO 1. EU as a Stronger Global Actor**
- **GO 2. Towards a New Policy on Migration**
- **GO 3. A New Boost for Jobs, Growth and Investment**
- **GO 4. A resilient Energy Union with a Forward Looking Climate Change Policy**

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<sup>32</sup> <http://www.un.org/en/spotlight-initiative/>

<sup>33</sup> [https://ec.europa.eu/europeaid/strategic-evaluation-eu-approach-resilience-withstand-food-crises-african-drylands-sahel-and-horn\\_en](https://ec.europa.eu/europeaid/strategic-evaluation-eu-approach-resilience-withstand-food-crises-african-drylands-sahel-and-horn_en)

<sup>34</sup> OJ L 335 of 15.12.2017

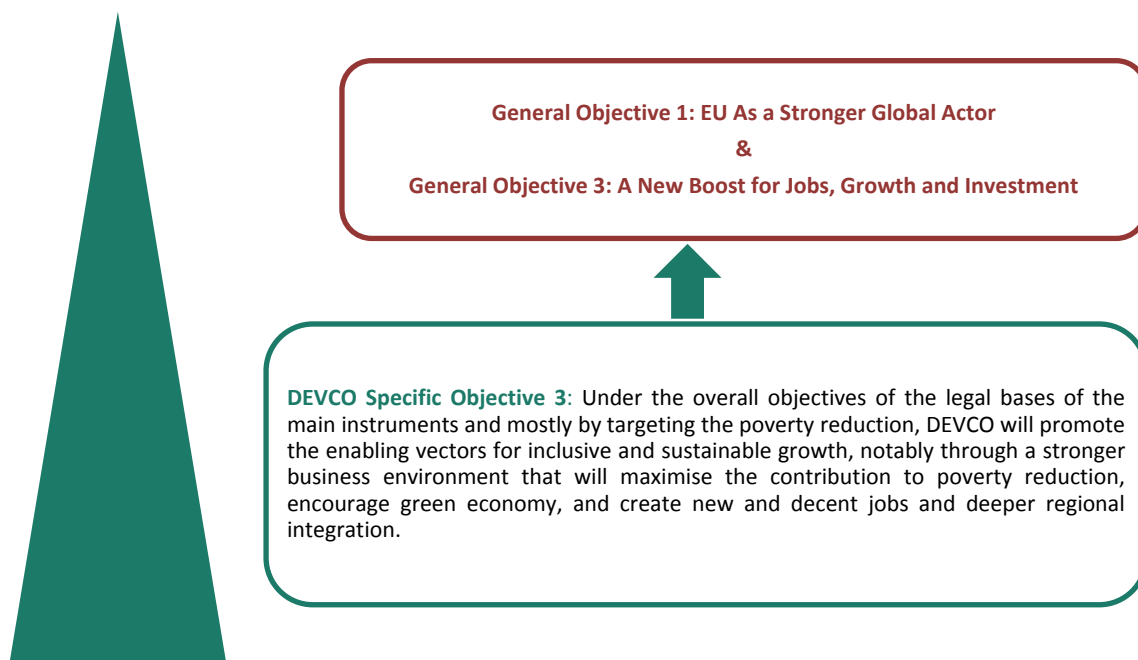
**The seven SO of DG DEVCO** and their links to the four GOs and European Consensus on Development Themes (5 "Ps") are the following:

DG DEVCO Specific Objective	General Objective (GO)	European Consensus on Development Theme
DG DEVCO SO 1: Contribute to sustainable development and development effectiveness in the areas of EU international and development cooperation with a view to the implementation of the Agenda 2030 and AAAAA.	GO1	PEOPLE PLANET PROSPERITY PEACE PARTNERSHIP
DG DEVCO SO 2: Under the overall objectives of the legal bases of the main instruments, DEVCO will promote human development by supporting actions in the field of social protection, health, education and better access to decent jobs in order to ensure a solid foundation for partner countries' further development.	GO1, GO2	PEOPLE PROSPERITY
DG DEVCO SO 3: Under the overall objectives of the legal bases of the main instruments and mostly by targeting the poverty reduction, DG DEVCO will promote the enabling vectors for inclusive and sustainable growth, notably through a stronger business environment that will maximise the contribution to poverty reduction, encourage green economy, create new and decent jobs and deeper regional integration.	GO1, GO2, GO3	PEOPLE PLANET PROSPERITY
DG DEVCO SO 4: Under the overall objectives of the legal bases of the main instruments, DEVCO will promote the inclusive and sustainable development particularly by supporting sectors that have a strong multiplier impact on developing countries' economies and contribute to protecting the planet from environmental degradation, including climate change mitigation and adaptation, sustainable agriculture and energy.	GO1, GO4	PLANET PROSPERITY
DG DEVCO SO 5: Under the overall objectives of the legal bases for the main instruments, DG DEVCO will promote democracy, human rights, rule of law, gender equality and empowerment of women, the economic and social inclusion of vulnerable groups, support the civil society and local authorities.	GO1	PEOPLE PEACE PARTNERSHIP
DG DEVCO SO 6: Under the overall objectives of the legal bases of the main instruments, DG DEVCO will support the public sector capacity, public finance management, tax policy and administration, procurement and fight against corruption in our partner countries.	GO1	PROSPERITY
DG DEVCO SO 7: Under the broader coverage of the legal bases of the IcSP and the Instrument for Nuclear Safety Cooperation (INSC), DG DEVCO will address nuclear safety issues (EURATOM based) as well as specific global, trans-regional and emerging security threats, including among others chemical, biological, radiological and nuclear (CBRN) risks, terrorism and protection of critical infrastructure in third countries (TFEU based).	GO1	PLANET PROSPERITY PEACE

DG DEVCO selected to present in its AAR 2017- 4 performance stories linked to 4 key GOs and 4 SOs:

1. GO1 & GO3 - Promoting Sustainable Development, investment and job creation
2. GO2 - Addressing the root causes of irregular migration and forced displacement
3. GO 4 - Towards a forward looking policy on climate change with focus on renewable energy
4. GO 1 - Security

## 1. General Objectives 1 and 3: Promoting sustainable development, investment and job creation



The 2017 **New European Consensus for Development** recognises the importance of the private sector as an engine of economic growth, job creation and prosperity in developing countries. The job creation challenge is particularly evident in Africa, where 18 million jobs need to be created every year by 2035 just to keep up with rapid population growth. It is therefore essential to support the development of the private sector by promoting a business-friendly environment, through better policies and regulatory environment, innovative business models and a greater government capacity.

### Political context

The private sector has been placed at the forefront of international development in line with global agreements, notably the 2015 **Addis Ababa Action Agenda** on Financing for Development and the **2030 Agenda for Sustainable Development**. The 2014 EU Communication on "**A Stronger Role of the Private Sector in Achieving Inclusive and Sustainable Growth in Developing Countries**"<sup>35</sup> set a new paradigm for sustainable development in which the private sector plays a critical role. More recently the **EU-AU Summit** and its **Business Forum** in November 2017, Abidjan, confirmed the strategic priority of job creation through private investment in the EU partnership with Africa.

<sup>35</sup> European Commission Communication COM(2014)263 - "A Stronger Role of the Private Sector in Achieving Inclusive and Sustainable Growth in Developing Countries", 13 May 2014

In 2016, the Commission proposed the **External Investment Plan (EIP)**<sup>36</sup>, providing an integrated financial package to mobilise public and private investments in Africa and the EU Neighbourhood region. The EIP was made operational in September 2017 with the EU Regulation establishing the European Fund for Sustainable Development (EFSD), the EFSD Guarantee and the EFSD Guarantee Fund. The EFSD has an indicative budget of EUR 4.1 billion, covering investments (EUR 2.6 billion) and guarantees (EUR 1.5 billion). This ambitious package will mobilise investment to help EU partner countries in Africa and the EU Neighbourhood region to achieve the SDGs by promoting job creation, inclusive growth and sustainable development, and to tackle some root causes of irregular migration.

The EU has also been supporting the involvement of the private sector in global efforts to combat climate change. At the 2015 **United Nations Climate Change Conference**, the EU launched the ElectrIFI initiative, to unlock private investments that could improve access to sustainable energy in Africa. ElectrIFI was kicked off in 2016 with an initial EU funding of 75 million euro, and is implemented by the Association of bilateral European Development Financing Institution (EDFI) through the blending mechanism. In September 2016, the EU approved an additional contribution of EUR 33 million. The ElectrIFI initiative was made fully operational in 2017 with investment deals of up to EUR 50 million expected to be concluded by mid-2018. In 2017, 3 projects started implementation and 5 additional proposals completed their business plans with Electrifi support, for a total value of over 4 million euro. By the end of 2017, four countries – Zambia, Benin, Ivory Coast and Nigeria – had allocated funds of the respective National Indicative Programmes to ElectrIFI, so-called "country windows", for a total of 85 million euro, and more are expected to come. Expected results from the current pipeline of projects can be estimated to be 452.000 new connections to electricity, 88 MW of new renewable energy generation capacity and the reduction of some 200.000 tons of CO<sub>2</sub>-equivalent per year.

The EU development policy Agenda for Change identifies **sustainable agriculture** as a key factor in driving poverty reduction and economic development. However, investors still perceive rural markets as risky. To attract private finance for viable and responsible agricultural investments, the EU launched in 2015 a new Agriculture Financing Initiative (AgriFI) with the aim to advance sustainable and inclusive development of the sector.

The Communication from the Commission of November 2017 on **Achieving Prosperity through Trade and Investment** reaffirms EU's commitment to aid-for-trade (AFT) as a key element of development cooperation. This updated communication focuses on reducing fragmentation of initiatives, linking AFT actions to the EIP and prioritising efforts on the Least Developed Countries (LDCs). Emphasis will be given to the development of global value chains, and in this regard EU Delegations have been asked to identify priority value chains and reform measures in respective countries (jobs and growth compacts). The EU continues to pursue Economic Partnership Agreements (EPAs) and supports the development and roll-out of National EPA Implementation Plans (NEIPs).

### **Commission/DG DEVCO role and added value**

As laid out in the Communication "A Stronger Role of the Private Sector in Achieving Inclusive and Sustainable Growth in Developing Countries", there are twelve concrete actions in areas where the Commission believes it can add value and effectively complement actions by Member States and other development partners. These include improvement in regulatory environments in partner countries, promotion of business development and access to finance, especially for job-creating micro, small and medium sized enterprises (MSME) in the formal as well as in the informal sectors.

The network of EU Delegations covers all developing countries and the EU has in each country a leading role in political and sector policy dialogue with the respective authorities and structured dialogue with the private sector, while being one of the main

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<sup>36</sup> [https://ec.europa.eu/commission/external-investment-plan\\_en](https://ec.europa.eu/commission/external-investment-plan_en)

donors. This provides a huge added-value for the implementation of the EIP integrated approach, where EU Delegations identify and support investment opportunities for partner financial institutions (pillar 1), as well as priority reform measures to improve the investment climate and business environment (pillar 3).

DG DEVCO uses a combination of interventions involving EU Delegations managing bilateral and regional programmes in Asia, Latin America, ACP countries, together with global thematic programmes such as the Global Public Goods and Challenges (GPGC) programme, and applies a variety of implementation methods, such as blending, budget support and project approach, with the participation of other development partners and the civil society.

### **Illustrative examples of implementation, results and outputs, risks and mitigation actions**

The following illustrative examples show DG DEVCO's substantial contribution to sustainable development, investment and job creation:

#### **European Investment Plan – European Fund for Sustainable Development**

- Female entrepreneurship plays a key role in creating jobs and driving economic growth in the Eastern Neighbourhood region. Female-run small and medium-sized enterprises (SMEs) often face reluctance from banks to lend to them as they are perceived as higher-risk customers. With the **Women in Business Programme**<sup>37</sup>, the EU support provides partial risk cover to local banks to encourage the development of specific products that target eligible women-led SMEs as well as advisory services, training and support for women entrepreneurs and their businesses, with a financial contribution of EUR 4.8 million channelled through the **EIP**. The EU contribution will leverage a total investment amount in the programme of EUR 54.3 million, with the EBRD being the lead financial institution. During 2017, the programme run seminars and workshops in most participating countries, involving partner local banks and targeting prospective women-run SMEs
- **Boost Africa**<sup>38</sup> is a partnership programme between the European Union, the African Development Bank and the European Investment Bank to promote entrepreneurship and innovation across Africa. The EU contributes with a EUR 80 million grant through the EIP, and the total leveraged investment amounts to approximately EUR 180 million. The initiative focuses on fostering start-ups and Small and Medium Enterprises (SMEs) by supporting the commercial apparatus that engages with these companies, such as venture capital funds, "angel" funds and collaboration with business accelerators. Africa will leverage its resources, catalyse technical knowhow and create an enabling environment for start-ups and SMEs, which are crucial engines for job creation.

#### **Investment and Investment Facilities**

- At the end of 2016, Haitian clean-energy micro utility **Sigora** raised USD 2.5 million from **ElectriFI**<sup>39</sup>. Since then, the utility has expanded its deployment in the Northern province of the country with two mini-grids adding 200kW of solar photo voltaic (PV) array, and increasing 5 times the number of households with access to electricity. Sigora Haiti is now connecting 3,420 households just two years after driving its first post in the ground on Haiti's North western peninsula. Sigora customers are within the

<sup>37</sup> <http://www.ebrdwomeninbusiness.com/>, European Bank for Reconstruction and Development, 2016-2022

<sup>38</sup> <https://www.afdb.org/en/topics-and-sectors/initiatives-partnerships/boost-africa-empowering-young-african-entrepreneurs/>, African Development Bank; <http://www.eib.org/projects/regions/acp/applying-for-loan/boost-africa/index.htm>, European Investment Bank

<sup>39</sup> <http://electrifi.org/sigora-connects-3420-households-247-renewable-electricity-northern-haiti/>; <http://electrifi.org/>, Association of European Development Finance Institutions (EDFI).

small minority with access to 24/7 electricity in a country where three quarters of the population do not have power, and where those who do have to cope with frequent cuts limiting access to just 5-9 hours a day. The micro-utility plans to continue its deployment in the Northern province by adding another mini-grid, linking its existing mini-grids, and by connecting close to 10,000 active accounts by year end. Sigora is the winner of the "2017 Microsoft Affordable Access Initiative" and of the "2017 Caribbean Renewable Energy Forum (CREF) Best Micro-Grid".

- The **Value Chain Analysis tool (VCA4D) under AgriFI** applies an agreed methodology for analysing sustainability of value chains in its key dimensions: economic (inclusiveness), social and environmental. The tool is managed by Agrinatura, a consortium of European research institutes, who ensure the necessary relevant expertise, and provide the analysis upon request of the Commission. The analysis then allows relevant stakeholders to assess the impact of a value chain in the four dimensions cited above, establish a baseline of indicators, introduce remedial measures in a support programme, or feed a sector dialogue. In this way it makes an important contribution to ensuring the effectiveness of value chain promotion, and the achievement of the intended development objectives. The toolkit has been made available to all EU Delegations in 2017, and there are on-going activities in 8 countries, as well as another 15 planned for 2018.
- The importance of investments in reaching the SDGs is increasingly recognised in development cooperation. Investment facilities in Asia and Central Asia have been implemented successfully with increasing involvement of EU Delegations in the identification and formulation phases. Under the **Investment Facility for Central Asia**<sup>40</sup>, 3 projects totalling EUR 18 million were signed in 2017, aiming to boost SME development and environmentally sustainable waste management. The Asian Investment Facility contributed EUR 58 million to 9 blending projects, mainly in the area of climate adaptation and mitigation. As far as the Pacific region is concerned, a pipeline of potential projects has been identified.

## Aid for trade

- The World Bank-managed Trade Facilitation programme aims to assist developing countries with the implementation of the WTO Agreement on **Trade Facilitation (TFA)**. This agreement contains provisions for expediting the movement, release and clearance of goods, including goods in transit. It also sets out measures for effective cooperation between customs and other appropriate authorities on trade facilitation and customs compliance issues. The TFA recognizes particular needs of developing countries and especially LDCs, providing for special and differential treatment for these members as they seek to implement the agreement. The EU has made a contribution of EUR 9.6 million to this programme. As of end 2017, 62 countries have requested assistance, 53 validation missions have been completed, and implementation has begun in 36 countries.
- In July 2017 the EU made an additional contribution of EUR 5 million to the **Hub and Spokes programme** for an ambitious next phase which will extend until at least February 2019. The programme has a total budget of EUR 15.7 million and has been running from 2004 as a joint effort of the European Union, the ACP Group Secretariat, the Commonwealth Secretariat and the Organisation internationale de la Francophonie. The objective of this initiative is to enhance the capacity of key stakeholders in the public and private sectors in ACP countries to contribute to the formulation, negotiation and implementation of trade policies and agreements, such as the EPAs. Through the initiative, 10 regional trade advisers, or "hubs", and 32 national trade advisers, or "spokes", are currently deployed in ACP countries. The trade advisers are estimated to have aided more than 5,000 national and regional stakeholders in 2016 alone and helped to draft a range of trade policies since the start

<sup>40</sup> C(2017)8970; [https://ec.europa.eu/europeaid/regions/central-asia/investment-facility-central-asia-ifca\\_en](https://ec.europa.eu/europeaid/regions/central-asia/investment-facility-central-asia-ifca_en)



of the programme, including for instance the delivery of Fiji's first ever national trade policy and helping the country to become a Pacific trading and investment hub.

- In 2017, the EU made available an integrated and comprehensive package of EUR 92 million to support competitiveness and trade in West Africa, in order to boost jobs and support sustainable growth. The **programme West Africa Competitiveness**, with a national and regional dimension, will support the development of selected value chains with highest job and export potential and will contribute to the improvement of the overall business climate of the West African countries. In particular, the programme will aim to increase employment from tapping regional trade opportunities in ECOWAS (Economic Community of West African States). In this context, a complementary **programme on Trade Facilitation** is being implemented. With the additional support of USAID (United States Agency for International Development) and Netherlands, the support will go beyond the traditional "hard" trade facilitation interventions on trade corridors and increased connectivity; and will focus on creating a conducive and safe trading environment for small-scale traders, in particular women traders. This is particularly relevant since an important portion of West African trade happens at small scale where women play a crucial role. Overall, women tend to be affected disproportionately by trade constraints such as high tariffs, complex procedures, and cumbersome requirements, and also to be more vulnerable than men to challenges such as corruption, violence, and forms of abuse. The programme will therefore contribute to overcome these challenges.
- The **Youth Entrepreneurship Programme** (YEP) in Gambia was launched in February 2017 in Gambia. This EUR 11 million programme supports the development of local economy by enhancing employability and self-employment opportunities for youth, with a focus on vocational training and the creation of small-sized enterprises, and by creating employment opportunities through value addition and internationalization. The first employment forum took place in March 2017 with important private stakeholders from tourism, agribusiness, ICT and textile/fashion industries. More than 3,000 youth have already benefited from awareness rising on skills development. Yusupha Jawo, a young Gambian and student in Banjul, gives her testimonial: *"I've completed a three month solar installation level one program from Sterling Consortium with the support of YEP and EU. Now I can install a solar PV system on my own. As I am writing this, I currently have a contract to install a solar system for my client. I'm saying a big thank you to Sterling, YEP and EU for truly changing my life!"*
- In 2017, the **EU-ASEAN regional programme flagship** was launched in support of ASEAN economic and trade integration (ARISE Plus). The programme is designed to support the ASEAN Economic Community Blueprint 2025, covering a wide range of areas including trade facilitation, customs, civil aviation, intellectual property rights and economic and trade statistics capacities. Support is provided both at the regional level as well as through targeted measures in individual ASEAN Member States, responding to specific country needs. The programme will have a valuable contribution to furthering the region's sustainable economic growth and connectivity. It will support ASEAN's integration effort drawing from EU's experience, added value and interests in this area.

## Economic Partnership Agreement

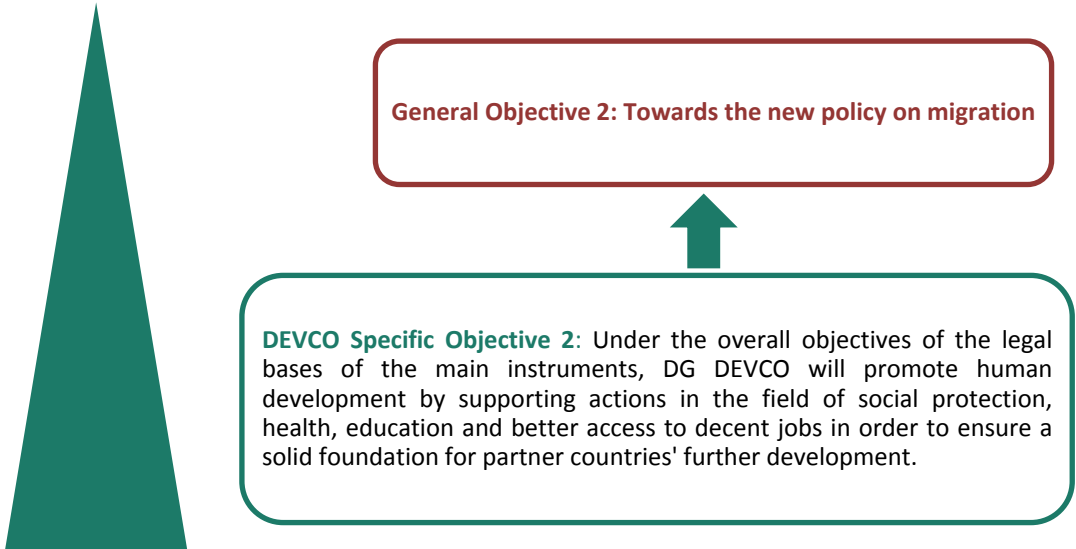
The Member States of the Caribbean Forum of the ACP States (CARIFORUM) signed an **Economic Partnership Agreement (EPA)** with the European Union in October 2008. The CARIFORUM-EU EPA is a single negotiated agreement that governs how the two regions will co-operate on a wide range of trade-related issues that directly impact the job creation in the Caribbean countries. This process is underpinned by the EUR 46.5 million programme "Support to the Caribbean Forum of the ACP States in the implementation of the commitments undertaken under the Economic Partnership Agreement -EPA".

This programme, structured around seven components, has supported the process of a

better integration of CARIFORUM States into the world economy through a broad range of activities. The main areas covered by the programme are fiscal reform and adjustment, statistics, sanitary and phyto-sanitary measures (SPS), technical barriers to trade (TBT), services, the rum sector and institutional support – all being implemented by different regional and international agencies. The results delivered by the programme are *inter alia* the creation of the Caribbean Agricultural Health and Food Safety Agency (CAHFSA), the ISO 9001 certification of six “National Standards Bureaux”, the training of over 2,000 government officials and other stakeholders, including the private sector and civil society on trade facilitation or the establishment of an “authentic Caribbean rum brand”. In addition, through the Caribbean Technical Assistance Centre, tax reforms have been accomplished, including the successful launch of VAT in eight countries. The programme has been instrumental in achieving sustainable development, the fostering of investment and job creation through the adequate implementation of the EPA.

In South East Africa, Mauritius, a EUR 10 million EPA project aims at "Improving the Business and Investment Climate", by enhancing the regulatory framework for business licensing and intellectual property. The key achievement in 2017 was the procurement of specialised services and equipment to establish an e-Licensing Platform that will act as a single entry point for permit and license applications. The EPA support programme has prompted the government to review the Business Facilitation Act (BFA), which came into force on 20 May 2017, so as to give a new impulse to investment by eliminating regulatory and administrative bottlenecks. The BFA promotes the use of information technology in various areas, such as the issuance of e-certificates of incorporation which allows businesses to start their operations expeditiously. Other improvements relate to the process for registering property and initiatives undertaken to enhance transparency. This project is based on broad reforms that will produce systemic improvement on government regulation as well as build the capacity of regulators to implement and sustain the reforms.

## 2 General Objective 2: Addressing the root causes of irregular migration and forced displacement



The **root causes of irregular migration and forced displacement are multi-faceted** and complex: they derive from a combination of structural push factors, perceived pull-factors, as well as from the migration management regimes that govern national migration management, including the distinction between regular and irregular migration.

Promoting human development links to the **European Agenda on Migration**<sup>41</sup> in a number of ways:

- An improved management of migration and mobility facilitates the safe, regular and orderly movements and reduces the human costs caused by many forms of irregular migration - thereby helping unlock the positive development impact of migration on host and sending countries, as well as for migrants themselves.
- Promoting human development in partner countries reduces some of the negative push factors for migration - including insecurity, lack of opportunities and economic inequalities.
- Improved opportunities for legal migration and mobility helps leverage the positive impact of migration for development by providing access to economic opportunities amongst others.
- Promoting human development results in greater skill levels and ability of future migrants to contribute to the development of both the host and sending countries. This will facilitate EU's ability to attract the workers its economy needs.

### **Political context**

While migration and mobility are not new, the number of international migrants has increased in recent years, to reach 258 million in 2017<sup>42</sup> (up from 220 million in 2010 and 173 million in 2000). Global forced displacement figures remain at all-time high. During 2017 the EU as a whole received over 0.6 million first-time asylum claims, registering a significant reduction compared to previous years<sup>43</sup>. At the same time, the **vast majority of worldwide refugees continue to be hosted by developing countries**. Despite the fact that the total number of recorded death of migrants has decreased compared to 2015 and 2016 (the two deadliest years), including in the Mediterranean, the number is still tragic with more than 5,400 estimated to have died or gone missing in 2017 while trying to cross international borders. Although the absolute number of deaths in the Mediterranean decreased in 2017, the journey on the central Mediterranean route including the crossing of the Mediterranean is becoming more and more dangerous for migrants, being by far the most dangerous route recorded, with 1 death for 42 arrivals.

In this context, **migration and mobility clearly remained high on the EU agenda in 2017**, including for EU development policy. Migration as a development enabler is now fully recognised in the **2030 Agenda for Sustainable Development**. Migration and migrants are referred to both in terms of migration, as a positive force for development, and in terms of promoting the rights and wellbeing of migrants. The 2030 Agenda also recognizes international migration as a multidimensional reality of major relevance for the development of countries of origin, transit and destination, requiring coherent and comprehensive responses. Such responses should also strengthen the resilience of communities hosting refugees, particularly in developing countries. Supporting partner countries to better address the challenges, but also seize the opportunities of migration is an integral part of EU development policy as expressed in the **European Consensus on Development**.

Both the Consensus on Development and the **European Agenda on Migration** reaffirm EU commitment to addressing migration and forced displacement in a comprehensive and global manner. The EU has continued its active multilateral involvement in the process of elaborating two **Global Compacts for Migrants and Refugees**, as a follow-up to the UN Summit on Large Movements of refugees and migrants in 2016. The elaboration of these Global Compacts is a unique opportunity to ensure improved governance of migration and refugee issues at international level. Balanced, concrete and action-oriented results are sought, firmly rooted in a long-term vision, fully aligned and supportive of the migration-related targets of the 2030 Agenda.

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<sup>41</sup> COM(2015)240 final

<sup>42</sup> United Nations - International migration report 2017

<sup>43</sup> Eurostat, [Asylum and first time asylum applicants by citizenship, age and sex Monthly data \(rounded\)](#)

On 25 January 2017, the Commission and the High Representative/Vice-President presented a **Joint Communication –Migration on the Central Mediterranean Route, Managing flows, saving lives**<sup>44</sup>, which proposes a number of additional measures as part of a comprehensive strategy to strengthen EU work along this route, in particular with and around Libya. The measures outlined focus on fighting human smuggling of migrants and trafficking in human beings, helping to manage migratory flows more effectively, continuing to save lives at sea and improving the living conditions of migrants and refugees in **Libya and neighbouring countries**.

The Partnership Framework<sup>45</sup> with third countries under the **European Agenda on Migration**, adopted in June 2016, remained the main framework for engaging with partner countries on migration. With migration fully embedded in the EU external and foreign policy, all instruments and tools available to the EU and its Member States could be pooled to deliver on jointly agreed targets and commitments, including in areas such as resilience and job creation, infrastructure, investments, border management and disrupting the business model of migrant smugglers and traffickers in human beings.

As confirmed in the progress reports on the implementation of the Partnership Framework<sup>46</sup>, significant efforts have been made and first results achieved to increase awareness and cooperation on migration with priority partner countries.

At the Senior Officials Meeting in Valletta in February 2017, a review of the implementation of the **Joint Valetta Action Plan**<sup>47</sup> (JVAP) was discussed. In preparation for the meeting, partners of the Rabat Process and the Khartoum Process produced individual analysis reports which offered a state of play of national policies and programmes undertaken towards the implementation of the JVAP. The Khartoum Process established in its analysis that domain 1 of the JVAP (Development benefits of migration and addressing root causes of irregular migration and forced displacement) was the most important domain in terms of funding received and number of initiatives identified in the JVAP. Both processes noted that this domain had retained particular interest among their members. Going forward, Valletta partners called for renewed focus within domain 1 of support aimed at job-creation, vocational education and training as well as the creation of economic opportunities, especially for women and youth, in countries of origin and transit. These actions should also enhance support to micro-, small- and medium-sized enterprises in the formal and informal sectors, as well as improve their access to financing opportunities, while developing employment and vocational-training policies and programmes.

### **Commission/DEVCO role and added value**

Addressing migration under development cooperation is not new for the EU, and DG DEVCO has been playing a leading role in driving forward the **international dialogue and policy on addressing the root causes of irregular migration and forced displacement**. To achieve real impact in this area, it has proved vital to combine high level political commitments with policy dialogue and concrete and effective implementation on the ground. DG DEVCO has substantially contributed to that objective.

DG DEVCO has been actively engaged in ensuring that EU development policy fully contributes to the implementation of the **Partnership Framework**<sup>48</sup> and the **Joint Valetta Action Plan**, whilst fully respecting core development policy objectives and principles. It has been done both through funding and implementation of relevant programmes, as well as through DG DEVCO's contribution to policy dialogues at the bilateral, regional, continental and international level. DG DEVCO's long-standing **experience and expertise in the area of migration and development**, combined

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<sup>44</sup> JOIN(2017) 4 final

<sup>45</sup> COM/2016/0385 final of 07/06/2016

<sup>46</sup> COM(2018)250, 14.3.2018

<sup>47</sup> [https://www.consilium.europa.eu/media/21839/action\\_plan\\_en.pdf](https://www.consilium.europa.eu/media/21839/action_plan_en.pdf)

<sup>48</sup> COM/2016/0385 final of 07/06/2016

with a thorough knowledge of the political and socio-economic situation in partner countries, has largely contributed to achieving progress in this area.

However, making real progress is only possible if all stakeholders -the Commission services, the EEAS, EU Member States, other donors, International Organisations, civil society, private sector and most of all partner countries- cooperate in a coordinated and comprehensive way, pulling together resources and making use of all policy tools available. In 2017, DG DEVCO was able to **mobilise substantial funding**, in particular through the **EU Trust Fund for Africa** to boost socio-economic development, contributing amongst others to the creation of new, decent jobs in many African partner countries.

As of 31 December 2017, a total of 143 projects worth EUR 2,388 million were approved under the Sahel & Lake Chad, the Horn of Africa and the North of Africa regions. Out of this amount, over EUR 580 million were allocated to programmes targeting greater economic and employment opportunities, in particular through inclusive economic programmes creating employment, especially for young people and women in local communities, with a focus on vocational training and creation of micro- and small enterprises. Some interventions will support sustainable reintegration efforts to migrants after their return to their countries of origin.

In Asia, Afghanistan, Bangladesh, Pakistan and Iraq -EU's priority countries with regard to origin and transit of migratory flows, a special measure of EUR 196 million<sup>49</sup> was adopted by the Commission in September 2017 to address challenges posed by protracted forced displacement and migration in Asia and the Middle East. It will complement EU migration dialogues with all five target countries. Key objectives are to strengthen resilience and self-reliance including for local and host communities, to support sustainable livelihoods, enhance rights' protection and sustainable reintegration.

The **External Investment Plan**, builds on and expands these efforts. By creating decent jobs and growth in developing countries, the Investment Plan will bring more stability and improve conditions on the ground in the least developed and fragile countries. And by doing so, it will also contribute to address the root causes of irregular migration.

### **Implementation, tangible results, link to outputs, risks and mitigation actions, illustrative examples**

#### **Global Migration and Refugee Compacts**

Under the overall objective of improving the global governance framework on migration and forced displacement, the EU concretely supports the elaboration of the **two Global Compacts** with a EUR 5 million programme: the support to the **Global Compact on Refugees** backs UNHCR to enhance contributions of stakeholders to the process, notably of developing countries, civil society and affected communities. The programme also aims at improving the monitoring of comprehensive, development-led responses to refugee situations. Under the **Global Compact on Migration**, assistance is provided to both the IOM (International Organisation for Migration) and the office of the UN Special Representative on International Migration so as to ensure all stakeholders' involvement in the process, via national consultations, global civil society stocktaking, and related migration data and research.

#### **Implementation of EU Trust Fund for Africa**

The current population dynamics coupled with socio-economic instability and conflicts within West and Central Africa have increased irregular migration and forced displacement within these regions as well as towards North Africa and Europe. Migrants,

<sup>49</sup> special measures, financing decision COM(2017)6190

refugees and asylum seekers face extreme risks along the journey -being unable to access services and living in fear of trafficking, exploitation and violence. In line with the high level national and regional dialogues, the EUTF focusses on addressing the current emergency migration context, and in particular on strengthening mechanisms to protect and assist migrants along the migration routes, making sure that the migration process is safer and better managed and that migrant rights are respected. With contributions from Germany (EUR 48 million) and Italy (EUR 22 million), a joint initiative with the International Organization for Migration (IOM) to support the efforts of partner countries in the Sahel and Lake Chad regions and Libya to strengthen migration management, to save lives and support solutions for migrants and their communities was launched under the **EU Trust Fund for Africa**. From April until December 2017, the programme, working with government authorities in Niger, has contributed to save the lives of more than 2,700 migrants through Search and Rescue operations in the desert. More than 13,000 vulnerable and stranded migrants have been provided with adequate protection measures and a range of services such as food and temporary accommodation, health and psychosocial assistance, access to information, counselling and family tracing. In addition to the 8,800 stranded migrants returned from Libya, more than 4,500 individuals could safely return to their home country from Niger since May 2017 and received post-arrival assistance and reintegration upon return.

The EUTF for Africa also supports legal migration and mobility of West and Central African youth to Europe. In 2017, the existing ERASMUS+ programmes has provided additional opportunities for the region to increase African youth skills and employability by supporting the mobility of an additional 2,000 students and 200 young teachers from West Africa to Europe. It is expected that about 30 additional universities in the region will benefit from this programme.

In 2017, the EU launched with the International Trade Centre (ITC) the **Gambia Youth Empowerment Project** to boost job creation and support long-term economic sustainability for the Gambia, as a contribution to address the drivers of migration. This programme funded by the EU Trust Fund for Africa, directly supports the development of the local economy by enhancing employability and self-employment opportunities for youth, with a focus on vocational training directed to market needs and the creation of micro and small-sized enterprises, as well as by creating and improving employment opportunities in selected sectors and internationalisation. The programme aims to raise awareness about skills training and development for 100,000 youth, ensure that 7,000 young people complete technical or vocational training programme or an apprenticeship, provide entrepreneurship services –such as business advisory support and access to finance– for at least 8,000 youths, as well as support and help improve the training programmes for 10 partner institutions.

The Horn of Africa is host to the highest number of refugees on the continent, nearly 4 million, by the end of December 2017, and their situation is increasingly protracted. Moreover, there are new waves of refugees due to the combined effects of recurrent conflict, droughts and other crises. Increasing their protection and supporting their long-term development needs has therefore been a key priority in the EU's engagement with the Horn, through an approach based on durable solutions for refugees, also promoting the socio-economic development of their host communities.

In March 2017, a Special Summit on Durable Solutions for Somali Refugees and Reintegration of Returnees in Somalia was organised by the Intergovernmental Authority on Development (IGAD), the EU and UNHCR. This Summit, bringing together the region's Heads of State, agreed on the Nairobi Plan of Action, which will provide refugees with better access to jobs, education, healthcare and land, while progressing towards integrated service delivery for refugees and their hosts, as well as accelerated solutions in Somalia by creating an environment conducive to voluntary and sustainable return.

The Plan of Action is being implemented within each country and regionally. One immediate focus has been on education: a regional ministerial meeting was held in Djibouti in December 2017, supported by the EU and Germany, during which a series of

measures were decided upon, to accelerate improved access and quality of education for both refugee and host communities.

In 2017, four new projects have been approved from the EU Trust Fund in the Horn of Africa in support of this agenda, for an amount of EUR 58.05 million. This brings the total contribution of the EUTF in the region on the issue of forced displacement to EUR 207.05 million. This includes support in the areas of livelihoods, such as in Ethiopia and Uganda, and access to basic services, such as in Djibouti and Kenya.

### Migration development nexus

The recent Rohingya refugee crisis has become a priority since August 2017 in Bangladesh, where the EU is supporting the **migration and development nexus**. The EU has already provided long-term support to the Rohingya refugees via UNHCR in the two official camps of Kutupalong and Nayapara in Cox Bazar –where the old caseload of registered refugees is hosted, with total EUR 19.6 million committed for that purpose since 2009). The interventions in 2017 have focused on basic service delivery in health, education, Water, Sanitation and Hygiene, as well as camp management. In response to the August 2017 crisis, the EU co-hosted a UN conference in Geneva at which it pledged EUR 30 million to coherently address the immediate humanitarian needs of the Rohingya in Bangladesh, while providing medium-term comprehensive developmental response. It covers not only refugees but also local host communities, who have been heavily affected by the recent immense refugee influx. The pledging conference resulted in total USD 345 million, of which nearly EUR 170 million pledged by the EU and its Member States.

### New EU-Asia and Middle East Migration Package

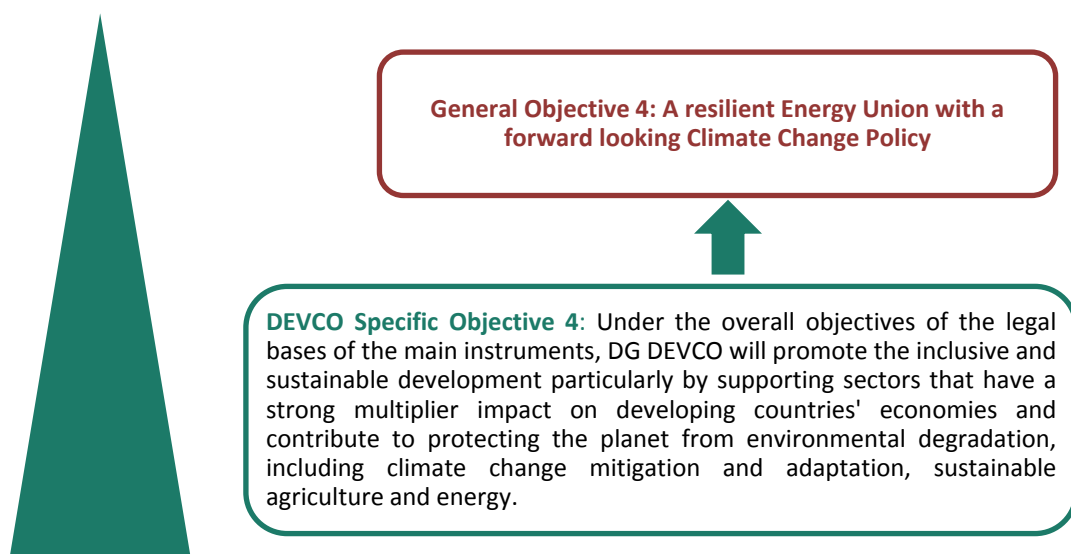
- The EU plays a key role in **Asia and the Middle East** to address the root causes of irregular migration and forced displacement, by eradicating poverty, improving the socio-economic situation, and supporting favourable environments for economic and political stabilisation in partner countries. Under the **Partnership Framework** (2016), Afghanistan, Pakistan and Bangladesh have been identified as priority countries in Asia. In this context, the Commission launched a major support programme<sup>50</sup> to improve the reintegration of returnees in Afghanistan, Bangladesh and Pakistan mobilizing approx. EUR 92 million for the period 2016-2020. In light of this commitment, 2017 saw the beginning of the implementation of a variety of assistance projects aiming at ensuring that those who return will be equipped with the necessary resources, skills and knowledge to achieve a decent standard of living and contribute to the long-term development of their communities, as well as to improve the national migration management systems and policies. During 2017 EU-funded projects supported returning migrants and members of return communities, including potential migrants, in Afghanistan and Bangladesh with individualised and community-based interventions aimed at the provision of reintegration support and enhanced access to livelihood opportunities, as well as accurate information on safe migration practices. The actions in 2017 furthermore focused on improving migration governance. Both at national and local levels, authorities have been supported to improve their policies and procedures as well as national cooperation to address migration issues, in particular reintegration. Specific support was provided during the year to address the challenges posed by the regional dimension of migration, especially by the sudden surge in returns of Afghans from Pakistan. If reintegration is not promptly and properly addressed, it may lead to a further and deeper destabilization of the country and its neighbours.
- In 2017, an additional comprehensive regional programme of EUR 195.7 million<sup>51</sup> was adopted to address migration and forced displacement challenges in Asia and the

<sup>50</sup> special measures, financing decision COM(2016)792

<sup>51</sup> special measures, financing decision COM(2017)6190

Middle East. This programme geographically extends EU support beyond Afghanistan, Bangladesh and Pakistan to also benefit Iran and Iraq. The overall objective of this programme is to facilitate orderly, safe, regular and responsible migration and mobility of people, including through the implementation of planned and well-managed policies. It will address root causes of migration such as livelihood opportunities and skills development, as well as migration management, in all targeted countries. Assistance will be provided to Afghan refugees and internally displaced people in Afghanistan, Iran and Pakistan, and it will also cover the reintegration process of returnees and livelihoods opportunities in Afghanistan, Pakistan, and Bangladesh. Multi-country interventions on integrated border management, strengthening migration management, displacement tracking systems and human trafficking are also included in the programme. Iran will be benefitting specifically from support to migration management and addressing the needs of Afghan refugees, while activities in Iraq will additionally facilitate returnees' and IDP's reintegration. Preparations for all projects under the programme were well under way at the end of 2017, so that implementation of all activities is expected to start during 2018.

### 3 General Objective 4: Towards a forward looking policy on climate change with focus on renewable energy



DEVCO's Strategic Plan 2016-2020 establishes the link between the European Commission's objective of energy resilience and forward-looking climate change policy and the support to developing countries' economies and environmental and climate policies and actions.

Protecting the planet from degradation implies global level support to sustainable consumption and production, as well as management of natural resources and urgent action on climate change –as underlined in the 2030 Agenda and through several Sustainable Development Goals (SDGs).

EU external and development policies are essential to support the clean energy and low-carbon transition globally and to strengthen the EU's energy security and competitiveness<sup>52</sup>. An ambitious and global climate policy is integral to the Energy Union. Being the world leader in renewable energy and making quick progress on delivering on its commitments for reducing emissions by at least 40% by 2030, the EU is leading by example.

<sup>52</sup> Third Report on the State of Energy Union, Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee, the Committee of the Regions and the European Investment Bank, 23.11.2017.



Under its external dimension the EU cooperates with partner countries to achieve the ambitious objectives under the Paris Agreement, in the context of sustainable development and efforts to eradicate poverty, through the European climate diplomacy and making full use of trade and development instruments.

### Political context

The EU reaffirmed in 2017 its commitment to the global fight against climate change and strengthening of existing global partnerships. The **One Planet Summit** focused on how public and private finance can innovate to support and to accelerate common efforts to fight climate change. The **European Consensus on Development** was communicated as the new European vision and framework for development cooperation aligned with the **2030 Agenda on Sustainable Development** also emphasises the need to protect the planet, in particular through sustainable energy and climate action.

The **Water-Energy-Food Nexus** has emerged as a key policy approach to support the Sustainable Development Goals (SDGs): food, water and energy –specifically targeted under goals 2<sup>53</sup>, 6<sup>54</sup> and 7<sup>55</sup>, as well as efforts to "Ensure sustainable consumption and production patterns" (SDG 12).

The **2030 Agenda** and the European **Consensus on Development** also explicitly recognise the importance of terrestrial ecosystems for sustainable development and call for the implementation of sustainable management of all types of forests, halt deforestation, restore degraded forests and substantially increase afforestation and reforestation globally. Also, 75% of the signatories of the Paris Agreements have included forests in their post-2020 climate actions.

### Commission/DEVCO role and added value

The European Commission has continuously defined itself as a promoter of the fight against climate change and has been a strong actor both internally with a strong and ambitious energy policy package and by environmental mainstreaming in all relevant policies, sectors and investment areas as well as externally within multilateral dialogue and global action.

DG DEVCO has been very active in supporting the climate negotiations, paving the way for the adoption of the Paris Work Programme and the effective implementation of the Paris Agreement. Support to partner countries has also been adjusted in order to facilitate the implementation of their Nationally Determined Contributions (NDCs) and the achievement of the relevant SDGs worldwide.

DG DEVCO's unique added value is also apparent in policy dialogue strengthening at regional level and channelling towards concrete actions. For example the Water-Energy-Food Nexus launched at the beginning of 2016 together with Germany with a budget of EUR 6.17 million (EUR 5 from DG DEVCO + EUR 1.17 from Germany) strengthens five regional policy dialogues (MENA region, SADC region, Niger Basin, Latin America and Central Asia). During 2017, a number of Nexus Assessments and Workshops in these different target regions have been accomplished while horizontal tasks have been implemented such as the development of the Nexus Resource Platform as global information hub on nexus activities and Specific Human Capacity Development activities. Other dialogues are conducted through the Resilience Building and Humanitarian-Development Nexus and the Global Alliance for Resilience (AGIR), which has brought together 17 countries, regional institutions and a wide range of governmental and non-governmental partners, promoting innovative ways of assessing food crises in the Sahel as well as enhancing complementarity between humanitarian and development actors.

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<sup>53</sup> SDG 2- Zero hunger

<sup>54</sup> SDG 6- Clean water and sanitation

<sup>55</sup> SDG 7- Affordable and clean energy

In addition to regional focus, initiatives targeting specific countries for a global benefit are also DG DEVCO's signature as shown in the examples below, especially the EU Action Plan on Forest Law Enforcement Governance and Trade (FLEGT) and the Global Climate Change Alliance Plus (GCCA+).

### **Implementation, tangible results, link to outputs, risks and mitigation actions, illustrative examples**

#### **The Global Climate Change Alliance and support to climate action**

Since its establishment in 2017, the **Global Climate Change Alliance** has up to now supported 60 projects in over 50 countries (mostly LDCs and SIDS), EUR 420 million are planned over 2014-2020. In 2017, 9 new GCCA+ projects started, they focus on adaptation and disaster risk reduction as well as on mitigation actions. Two policy dialogue events were dedicated to Civil Society Organisations' stakeholders group and a regional conference was co-organised with the Caribbean Climate Change Community Centre, to foster alignment between EU and Caribbean countries on climate policy priorities and actions, gathering policy makers and scientific institutions.

In the **Pacific region**, a new GCCA+ project was approved in 2017 for EUR 15 million. It aims to build resilience in the region's Small Island Developing States, more specifically supporting the efforts of the Governments of Cook Islands, Kiribati, Marshall Islands, Micronesia, Nauru, Niue, Palau, Tonga, Tuvalu and regional bodies in tackling the adverse effects of climate change. This project is fully in line with the Pacific Islands Framework for Action on Climate Change and its successor the Framework for Resilient Development in the Pacific 2017-2030. This in turn has been contributing to a more coherent, coordinated, efficient and mainstreamed way of delivering climate change adaptation and disaster risk reduction support at national and regional levels. This new GCCA+ project in Pacific build on results of a first five years project ended in 2016 and evaluated with successfully outcomes: in total 248,593 persons benefitted from inter alia 2,753 kilolitres of additional rainwater storage, 1,500 m of coastal protection constructed, 4.5 acres of agroforestry created where 9 climate-resilient crop varieties were trialled and 5 water quality laboratories built or refurbished. This integrated project contributed to no less than 7 SDGs: climate action, no hunger, good health, quality education, gender equality, clean water and sanitation, infrastructure, life below water.

In terms of regional cooperation, in **Southeast Asia**, two regional actions on peat lands and haze management as well as on biodiversity management in ASEAN, launched in 2017, are expected to strengthen policy dialogues on climate change and environment. Moreover, in 2017 two regional programmes were adopted, addressing disaster monitoring and emergency response capacities and the sustainable development and management of the Mekong river resources. In the Pacific, mainstreaming Climate Change and Environment are being given particular attention in project design and policy dialogues.

In terms of regional cooperation, the EUR 45 million **Pacific-European Union Marine Partnership (PEUMP) programme** was adopted in 2017, following a comprehensive approach in support of sustainable fisheries, including aspects related to biodiversity and climate change. Officially launched at "Our Ocean" Conference in Malta, it sets new standards for EU funded actions in the field of ocean governance. Furthermore, the EUR 17 million Pacific Waste Management (PacWaste Plus) programme was submitted for adoption, also with a close link to climate change.

In terms of bilateral cooperation, the EU continued to promote sustainable energy and climate change resilient agriculture in various countries of the Pacific region.

In 2017, DEVCO has continued to support **Central America** in adaption to climate change and disaster risk reduction: although one of the smallest contributor to the planet's greenhouse gases, it is one of the most vulnerable regions to the effects of

climate change. A new "Central America Coffee Rust Integral Management Programme" worth EUR 15 million –PROCAGICA- is supporting regional and national efforts in four countries to contain the coffee leaf rust fungus. Beyond its strong environmental aspect, it seeks to tackle the social and economic impacts the coffee rust epidemic has had on small and medium producers, especially women. 2017 marked the first full year of implementation of PROCAGICA, and the programme has made important strides in a number of its early activities, including the preparation of a region-wide Early Warning System dedicated to the prevention of coffee leaf rust and other threats to coffee production, as well as 287 technical assistance field visits and capacity building for 1,036 coffee producers, with the intent of renovating or diversifying coffee plantations.

### **Nexus energy-water-food**

The **Water Energy Food Security Nexus Dialogue Programme** has been assisting regional stakeholders in developing concrete policy recommendations and action plans for future investments, with a specific focus on multi-sector infrastructures and corresponding capacity development activities. During 2017, a number of Nexus Assessments were performed, such as "Water Security in the Context of Solar Pumping in Tunisia with a Focus on Impacts and Mitigation Options" and "Alignment of water policies with national and development policies of the Santa Eulalia River sub-basin through the Nexus perspective" in Peru. The Programme organised also a number of Workshops in the different target regions, for instance in South Africa on "Enhancing Regional Integration through Improved River Health and Nexus Approaches". In strong coordination with the Nexus programme, activities have also been integrated in the EU regional programmes to support sustainable transboundary water management in the Lower Mekong Region, in the Nile River Basin and for the Senegal River.

### **Forest Law Enforcement Governance and Trade**

A central element of the **Forest Law Enforcement Governance and Trade (FLEGT)** Action Plan is Voluntary Partnership Agreements (VPA), concluded between the EU and individual non-EU timber-producing countries with commitments and actions from both parties to halt trade in illegal timber. Since 2005, the Commission has been engaged in VPA negotiation and implementation with 15 countries, representing 75% of the tropical forest cover. In 2017, DG DEVCO concluded technical negotiations for the first two VPAs in America (Honduras and Guyana). 2017 celebrates the first anniversary of the scheme licensing certified legal timber products that Indonesia exports to the EU: more than 35,000 FLEGT licenses have been issued for a value of more than EUR 1 billion.

To support timber-countries and regions in improving forest governance, enhancing legality systems and building capacities, DG DEVCO, in collaboration with DG ENV, developed in 2017 a strategic and implementation plan for the next 5 years which sets priority activities, milestones and coordination mechanisms notably with EU Member States. This plan was presented at the conference "*Tackling the challenges of illegal logging and deforestation: progress and opportunities for action*", in June 2017. Complementing FLEGT-related actions, a EUR 43 million programme was developed to combat illegal wildlife and forest crime, to be implemented by Interpol and the UN Office on Drugs and Crime as well as by Civil Society Organisations.

In the Democratic Republic of Congo, the EUR 8.6 million FLEGT VPA is a genuine success story despite a complex context. EU support through the EDF and thematic instruments has enabled the country to reinforce the participation of public authorities, civil society organisations and the private sector in the development of forestry policies, regulations and procedures related to the verification of the legality of timber. Particularly innovative is the independent monitoring by civil society, whose representatives recently stated that "in other areas, we are not involved in the drafting of laws as it is the case in the forestry sector. It is a great advance". The VPA in Congo has also promoted greater transparency with the publication of the information and a successfully implemented communication plan. The key fundamentals of the Timber Legality Assurance System are now being

developed, making it possible to monitor and verify the management, control and use of forest resources. This system will ensure that timber will be legally produced in Congo.

## Global Alliance for Resilience

The Sahel region and West Africa have faced recurrent food crises in recent years. The reality of climate change is visible in the Sahara desert spreading to the South, as a consequence of changing patterns of rain. In addition, economic shocks and security concerns have been increasing. The population is growing steadily while access to food and other services does not keep the pace, despite a constant increase in cereal production in the last thirty years. The resulting food crisis whereby 30 million people are chronically insecure is but a symptom of a complex reality and multiple interlinked trends.

In response to these challenges, the EU has supported the formation of a global alliance bringing together the 17 West African and Sahel countries, regional institutions and partners from inter-governmental organisations, UN agencies, farmers and pastoralists' organisations, civil society, private sector and non-governmental organisations, based on regional organisations and existing networks. Following the 2012 food crises, the **Global Alliance for Resilience (AGIR)** was established in 2014 with one main purpose: address the root causes of the crises and enhance complementarity between humanitarian and development actors in the short-medium and long term.

The EU has been instrumental in promoting innovative ways of assessing food crises through a participatory and objective methodology and in encouraging the creation of the regional Sahel and West Africa network which is in turn part of a "Global Network against food crises", to address the root causes of food insecurity.

With the support of the EU, AGIR has been promoting resilient farming and food systems through investments in governance of land, agricultural infrastructures, climate-resilient agricultural practices, credit, insurance and risk management instruments. This is complemented by the implementation of policies and programmes in social protection and social safety nets. Notable instruments supported by the EU include strengthening a regional food reserves system based on efficient early warning systems and a regional solidarity mechanism. Between 2014 and 2016, approximately EUR 1 billion were committed by the EU in development actions. The many initiatives promoted in previous years resulted in the commitment in 2017 of more than EUR 620 million.

The challenges remain huge to tackle the root causes of food insecurity, notably linked to climate change adaptation. More scientific research and innovation is required to address these threats. At the 2017 One Planet Summit in Paris, the European Commission supported by its Member States and the Bill and Melinda Gates Foundation announced their commitment to work together on a joint initiative to drive research and technical and organisational innovations across agricultural and food systems in developing countries<sup>56</sup>.

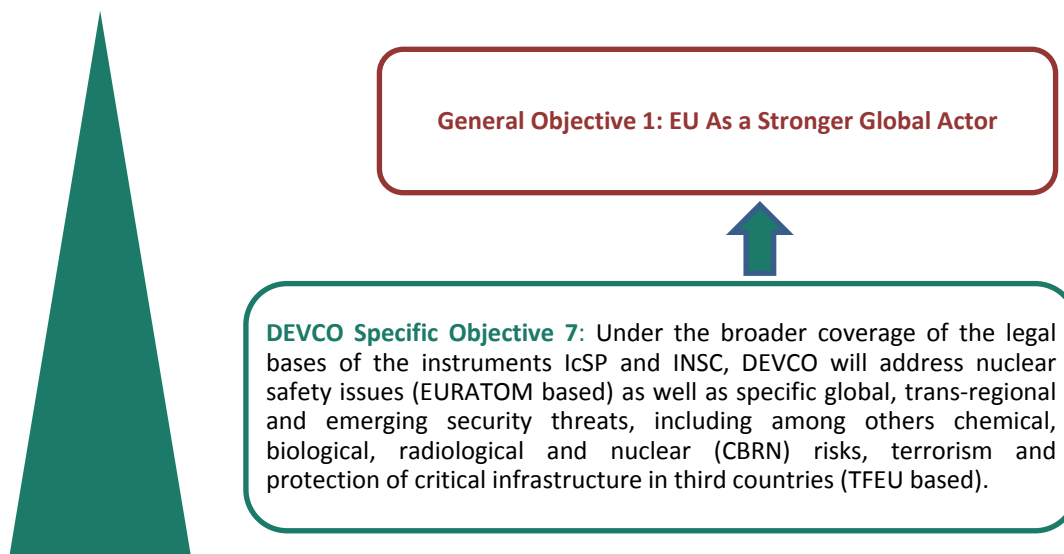
## COP 23

As largest provider of Official Development Aid and biggest contributor of climate finance to developing countries, the EU stressed in 2017 its strong commitment towards the implementation of the **Paris Agreement** 2015. In 2017, **COP23** was the preparatory meeting for the COP24 which is to take place in Katowice in 2018 and is expected to result in the adoption of the Paris rulebook –laying down details of action to be undertaken by parties to implement the Agreement. Finally, implementing the Paris Agreement is strongly linked with efforts towards reaching several Sustainable Development Goals. Hence, the European Development Cooperation has been assisting

<sup>56</sup> [https://ec.europa.eu/europeaid/news-and-events/climate-change-adaptation-european-union-and-bill-and-melinda-gates-foundation-step\\_en](https://ec.europa.eu/europeaid/news-and-events/climate-change-adaptation-european-union-and-bill-and-melinda-gates-foundation-step_en)

partner countries in these efforts, through providing adequate finance and capacity building to increase both the climate change adaptation capacity and the mitigation ambition of developing countries.

## 4 General Objective 1: Security



The European Agenda on Security emphasises fighting terrorism, organised crime and cybercrime as interlinked priority action areas, with a strong cross-border dimension, where the EU action can make a real difference. One of the key principles is bringing together the internal and external dimensions of security, as reflected in the 2016 Global Strategy for the EU's Foreign and Security Policy, and the 2017 European Consensus on Development, by funding activities to deliver these strategic objectives. DEVCO has played a key role in operationalising the security/development nexus, enabling the EU to be a stronger actor in the global arena.

Using the Instrument contributing to Stability and Peace (IcSP), DG DEVCO addresses global, transregional and emerging security threats, by supporting the development of regional networks of CBRN Centres of Excellence, working with partners to Prevent/Counter Violent Extremism (P/CVE), designing programmes to promote a criminal justice approach to counterterrorism, strengthening the protection of critical infrastructure, tackling issues related to cyber and prioritising Capacity-building for Security and Development (CBSD).

### Political context

The EU subscribes to the 2030 Agenda and its Sustainable Development Goal (SDG) 16 "Peace, Justice and strong institutions". The global community recognises the link between security and development, the "**security/development nexus**", and underlines the importance of just, peaceful and inclusive societies. SDG 16 focuses on the need to "strengthen relevant national institutions, including through international cooperation, for building capacities at all levels, in particular in developing countries, for preventing violence and combatting terrorism and crime". There is clear international agreement that there can be no development without security, and no security without development. Providing support to security sector actors in third countries, including the military, in a conflict prevention, crisis management or stabilisation context is essential in order to ensure appropriate conditions for poverty eradication, and for development. Good governance, effective democratic control and civilian oversight of the security system, as well as compliance with human rights and the rule of law, are essential attributes of the State. These can be promoted through wider security sector reform support to third countries.

An amendment to the **Instrument contributing to Stability and Peace** was adopted in 2017, enabling "Capacity-Building in Support of Security for Development". This amendment allows the EU to work with military actors, in exceptional circumstances, when the involvement of the military is needed to achieve development objectives. In some cases, lasting solutions to conflict and insecurity are not possible without the contribution of the military. The new element of the Instrument contributing to Stability and Peace constitutes an additional EUR 100 million to support military actors in fragile contexts where there is no civilian actor that can perform the tasks, and where there is a major threat to the functioning of State institutions. European Commissioner for International Cooperation and Development Neven Mimica underlines that: *"Overall, the EU objective is to assist partner governments in providing effective, legitimate and accountable security and justice services to their citizens, which are consistent with democratic norms, good governance, and respect for human rights."*

Areas of possible CBSD support include training, mentoring and advice, the provision of equipment and infrastructure improvements. Training, mentoring and advice are provided in areas such as human rights, good governance or human resource management. In terms of equipment, this can cover, for example, IT-systems, protective gear, training-related facilities or health facilities. Each project is carefully framed within a wider context of EU support to the security sector. In addition, support is only provided where there is consensus between the partner country and the EU that military actors are essential, in order to achieve development goals. Effective military actors that respect the rule of law and human rights can make a significant contribution to lasting peace.

### **Commission/DEVCO role and added value**

By implementing CBSD activity with partner country militaries, the Commission is reinforcing the role of the EU as a key global security actor is reinforced, and showcasing EU capability ahead of the new post-2020 Multiannual Financial Framework. The EU has a prominent role in ensuring a safe, secure, peaceful and prosperous world, made more effective by its ability to work flexibly with the full spectrum of security actors, in an integrated way. The IcSP as a global instrument allows for programmable CBSD actions, essential for stabilisation in fragile contexts. This means that activity can involve the military in delivering development objectives, to facilitate other, more traditional forms of support to development.

### **Implementation, tangible results, link to outputs, risks and mitigation actions, illustrative examples**

#### **Capacity-building for Security for Development**

"The CBSD is a newly included element to the IcSP regulation. 2017 outputs consisted mainly in negotiating with the Council and the Parliament the CBSD regulation which was successfully adopted on 15 December 2017<sup>57</sup>, and elaborating the initial work programme for CBSD actions which includes two initial projects, namely:

- In the **Central African Republic**, the EU is supporting the restoration of the security conditions necessary for the redeployment of civil institutions outside Bangui, through the redeployment of the Central African Armed Forces (FACA), with a EUR 3 million contribution. Non-lethal equipment and infrastructure improvements to the barracks are provided so that the FACA can work alongside the police to assure the safety of civilians and public spaces, in a professional, effective, and human-rights compliant manner. This is an initial action, where the ultimate aim would be to redeploy the FACA region by region, in order to stabilise the whole country by building outwards from secure areas.

<sup>57</sup>[http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L\\_.2017.335.01.0006.01.ENG&toc=OJ:L:2017:335:TOC](http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L_.2017.335.01.0006.01.ENG&toc=OJ:L:2017:335:TOC)

- In **Somalia**, the empowerment of the Hirshabelle State Authority is promoted through the establishment of effective Somali National Army (SNA) Sector Headquarters in close proximity to this regional authority. The EUR 3 million EU funding will make it possible to provide equipment and infrastructure improvements that will facilitate civilian oversight from the Ministry of Defence in Mogadishu, and empower the SNA to protect civilians locally, alongside the police. Support to the SNA on a regional basis for development objectives aligns with the transition plan for the transfer of security responsibility from AMISOM to the SNA, which is conditions-based, to maximise the sustainability of current security gains.
- Both projects have a three-year time-span, until 2021. However, as no clear timeline has been set for the redeployment of the FACA and SNA, DG DEVCO along with the Delegations are making sure there is clear prioritisation and synchronisation of the actions. Given blurred boundaries between army and police activities, work is also ongoing to clarify the situation in that respect and ensure appropriate levels of investment in the police, to accompany the CBSD activity.

### Security-Development Nexus

- Illicit drug production and consumption has a huge impact on security, governance, social, economic and health issues in **Latin America and the Caribbean**, undermining positive development trends in the region and worldwide. The EU-CELAC (Community of Latin American and Caribbean States) action plan<sup>58</sup> of 2015 supports the strengthening of bi-regional dialogue and the effectiveness of joint efforts to tackle the world drug problem as identified and developed in the framework of the EU-CELAC Coordination and Cooperation Mechanism on Drugs, in accordance with the principle of common and shared responsibility through an integrated, multidisciplinary, balanced and evidence-based approach and in conformity with international law, the purposes and the principles of the Charter of the United Nations, the Universal Declaration of Human Rights, the three UN Drug Control Conventions and according to the commitments made in the bi-regional Declarations adopted at the High Level Meetings of the Mechanism. The regional cooperation programme on anti-drugs policies – COPOLAD- is consistent with, and complementary to, the European Union Strategy on Drugs 2013-2020<sup>59</sup> and EU funded national projects in the same domain in Latin America. COPOLAD I and II, with a budget of EUR 16.5 million, brings together 31 institutions from the EU and Latin America and the Caribbean, the so-called COPOLAD consortium, to support the elaboration and implementation of public policies to reduce the demand and supply of drugs in the region. COPOLAD provides mainly institutional support (capacity building) to the national authorities in charge of drug issues, through training, while supporting the EU-CELAC dialogue in the drugs field. Its added value lies in knowledge transfer, sharing of experience and good practise for training purposes, and the elaboration and implementation of alternative development strategies. The programme has had so far a remarkable impact on national public policies to reduce the supply and demand of drugs, as well as on regional cooperation mechanisms and dialogue on drugs issues. As of 2017, the Programme has led to the creation of a National Observatory for Drugs in Bolivia, to the establishment of Early Warning Systems (EWS) in Argentina, Colombia, Costa Rica and Uruguay- that will soon be completed by similar institutions in Brazil, Chile, Ecuador, Mexico, Peru, Antigua y Barbuda, Bahamas, Barbados, Jamaica, Trinidad y Tobago. It has also led to the creation of legal frameworks for quality accreditation of drug reduction programmes in Argentina, Bahamas, Chile, Costa Rica, Mexico and Trinidad y Tobago, to the setting up of national structures to design and implement alternative development strategies and projects in Guatemala, Mexico, Jamaica and Paraguay. It is also worth noting that the programme has supported the elaboration – based on verifiable indicators and criteria – of national reports on drugs in 26 countries of Latin America and the Caribbean. On top of those achievements at national level, the

<sup>58</sup> <http://data.consilium.europa.eu/doc/document/ST-5748-2013-INIT/en/pdf>

<sup>59</sup> <http://www.consilium.europa.eu/en/documents-publications/publications/european-union-drugs-strategy-2013-2020/>

COPOLAD Programme has launched an e-platform with specific sections for the EU-CELAC Cooperation Mechanism on Drugs, elaborated a report on Gender role in drug related areas, developed on line courses for civil servants and trained more than 6,000 professionals in drugs policies-related areas.

- Both **Myanmar and Philippines** faced a number of internal conflicts in 2017, which, in addition to the direct threat to civil populations and humanitarian disasters, carry an important risk of radicalisation. In both countries, the EU has been providing support for governance, the peace processes and long-term development in order to address the root causes of poverty and radicalisation. In Myanmar, the EU has also offered its assistance with the implementation of the Kofi Annan report on Rakhine State and has prepared an education programme that is scheduled to be adopted in 2018. A programme was also launched in 2017 to support the reform of the Myanmar police, applying international best practices and respect for human rights.
- DEVCO will continue to support initiatives contributing to peace, security and stability in **Afghanistan** and the region, including support to civilian policing and reform of the Ministry of Interior in Afghanistan. The importance of the nexus between humanitarian aid and development was at the forefront of EU response to the ongoing crisis in **Yemen**. In 2017, the EU launched four new operations with a total financial envelope of EUR 55 million aiming *inter alia* at strengthening the link between relief, rehabilitation and development. Also, conflict analysis was conducted to generate a common understanding of the situation on the ground and scenarios for EU engagement in coherence with the nexus approach. **Iraq** has been identified as one of the pilot countries for the humanitarian-development nexus, defined as a priority for DEVCO, ECHO and EEAS throughout 2017. In November 2017, a mapping exercise of all EU programming and actions in Iraq (including Member States') was completed as a key element of the joint needs analysis –the backbone of the Nexus concept.
- 2017 was marked by continuing violence by the Boko Haram terrorist group in the North East of **Nigeria**, further destabilising the Lake Chad region and causing a protracted humanitarian crisis, with 2 million internally displaced, over six million people in a food crisis situation and a recovery cost assessed at USD 6.7 billion –three quarters of which needed in Borno State alone. The EUR 225 million **Borno Package**, prepared in early 2017 in close coordination with DG ECHO and complemented by the EU Trust Fund for Africa and DCI (PRO-ACT) funds, represents the cornerstone of the EU's interventions in the North-East towards an integrated humanitarian-development approach. The package aims at providing immediate humanitarian assistance for the most vulnerable populations and development cooperation assistance to approximately 1.3 million internally displaced people, with a strong focus on women, children, young people and orphans. It ensures early recovery of basic services in areas of return or resettlement, providing primary health care services in particular to rural women and children under five. Social protection, livelihood and employment opportunities are also promoted through vocational and skills training for displaced people, while 3 million trees are being planted as part of improved agro-forestry systems. Last but not least, it includes strengthening public administration and financial management systems to improve public service delivery, crisis management and coordination of donor activities. Given the fast mobilisation and integrated approach, the Borno Package has received high praise from the UN and Nigeria has been chosen to be one of six countries to pilot a broader humanitarian-development Nexus approach in 2018 and beyond.
- The African Union has put in place a comprehensive framework for human rights, democracy and good governance. The Pan-African Programme, with the help of civil society organisations, supports the institutions that are part of this **African Governance Architecture**. The EU has thrown its support behind numerous pan-African bodies working to improve the rights and welfare of the continent's people and activities in the framework of four promising projects with a total value of EUR 10 million have successfully started in 2017. With the enforcement of the **African Charter on Human and Peoples' Rights**, people today feel more able to report acts of violation and abuse. As a result of this, a higher number of cases are being resolved and within a reasonable time frame. It is still work in progress, however, as just seven



African countries have signed up to Article 34(6) of the Protocol to the African Charter on Human and Peoples Rights, which enables non-governmental organisations and individuals to access the African Court on Human and Peoples' Rights directly. The pan-African programme calls on civil society and international organisations to raise awareness on a number of priority issues such as female genital mutilation, illicit financial flows, the rights of people living with disabilities as well as women's land rights among others. One such project, led by the International Commission of Jurists (ICJ), aims to help civil society organisations educate citizens about the AU mechanisms available for the protection of human rights, and how to use them more frequently and effectively. ICJ project activities in 2017 include but are not limited to: training and workshops for judges, training of journalists, assistance to prepare submissions, preparation and publication of parallel reports.

## 2017 Challenges

### Difficulty to operate in crisis situations

Throughout 2017's complex tenure, several crises - old and new -, exacerbated the already fragile and unstable contexts which affect many of the countries we work in. A large number of partner countries remain characterised by fragility, including political, conflict, corruption and weak governments. Continuous shrinking space for civil society, rule of law, democracy and human rights compromise results, while weakening our partners. Transnational issues, including terrorism and irregular migration, continued to evolve and grow. **Political and security crisis and/or incidents have impacted the work of EU Delegations in several countries in 2017.** All these underlying threats and demanding conditions represented major challenges for our partner countries, the programmes managed by DG DEVCO and for the work of the EU Delegations.

### Climate change challenges

Many of the regions are prone to climate change related disasters and stand particularly vulnerable to natural disasters and the adverse effects of climate change. For example the desertification in the Middle East and Central Asia, water shortages in East and Southern Asia, sea level increase and tropical cyclones in South East Asia and the Pacific region are seen as important challenges that require continuous exploration for innovative implementation modalities as well more effective cooperation modalities in different regions.

### Graduation of partner countries

A growing number of countries mostly in Asia and Latin America have graduated from receiving bilateral assistance. As major economies, their impact on global public goods and challenges including climate change is increasingly significant. They also have an important role and influence within their regions and beyond. The EU is continuously seeking to develop new and stronger partnerships in order to promote the implementation of the 2030 Agenda and to pursue shared interests, taking into account the need for tailored approaches and available instruments and reduced presence on the ground.

### Human resources and security challenges

EU Delegations face particular challenges in recruiting experienced and qualified staff which result in several-months long vacancies that are difficult to manage, especially given the already heavy workload. The profiles of staff do not always cover the required expertise in all areas of intervention and underline the limited flexibility in adjusting profiles of staff to the evolving needs in terms of sectoral expertise. The shift of more traditional development cooperation towards new innovative financing mechanisms such as blending, or towards new areas for cooperation such as organised crime and border management as an example, requires a different set of skills and experience that are

difficult to find (e.g. Budget support, Public Finance Management, financial engineering, or for specific priority sectors like: nutrition/agricultural research, water, forest/FLEGT, private sector, cities & climate change, etc.).

Difficulties in recruiting are especially amplified in countries under hardship or insecurity conditions. Difficulties in recruiting staff with special expertise corresponding to the wide array of sectors covered by DG DEVCO's operations, complex political environments, and lengthy or delayed application procedures are having serious consequences in terms of efficiency and business continuity. This causes disruptions in the completion of planned activities and puts extra pressure on our staff and on the implementation of our programmes.

In some of the countries under hardship conditions DG DEVCO continues having no access to the ground and no institutional partners to coordinate the work on the ground, most of the partners work under difficult conditions or have evacuated the country, and the conflicts continue to escalate dangerously.

### **Increase in the coherence of the European Commission' and European Investment Bank' actions**

The ACP Investment Facility is a revolving fund financed from the EDF envelope, directly entrusted to EIB (as described in Annex II of the Cotonou Agreement) and complemented with the EIB own resources. Activities are to be closely coordinated with the Commission and the European External Action Service (EEAS).

The Commission aims at ensuring coherence of the Investment Facility activities with EU's development strategy and objectives and insists that the EIB identifies projects in complementarity with Commission actions and where additionality can be clearly demonstrated.

However, the Commission has only a consultative role in the Investment Facility. The opinion of the European Commission is sought at identification stage on the conformity of projects with the relevant country/regional cooperation strategies or with the general objectives of the Investment Facility. In addition the Commission is as a non-voting Member in the Investment Facility Committee (role ensured by DG DEVCO) where Member States are voting Members.

### **Follow-up of the IAS recommendations**

Following AUC's failed pillar assessment in 2015, DEVCO Director-General requested the IAS of the European Commission to conduct an audit on the financial and operational management of the implementation of the APF. The IAS carried out an audit of the APF in the last quarter of 2015 and submitted its findings and recommendations to DG DEVCO in its final report in January 2016. The IAS audit report contained 7 recommendations:

- Recommendation 1 (Very Important) on the "Institutional Assessment and Monitoring by DG DEVCO of the partnership with the AUC";
- Recommendation 2 (Very Important) on the "Design and Effectiveness of the Remedial/Mitigating Measures at Contract level";
- Recommendation 3 (Very Important) on the "Governance and Coordination between DG DEVCO – EU Delegations – EEAS";
- Recommendation 4 (Very Important) on "Reporting on the APF and Management Representation";
- Recommendation 5 (Important) on "External Audits and Follow-Up of External Audit Findings";
- Recommendation 6 (Important) on "Payments to Troop Contributing Countries (TCCs)"; and
- Recommendation 7 (Important) on "Retroactivity: Impact on Sound Financial Management"

In 2016, DG DEVCO formulated an Action Plan to address the audit recommendations, which started to be implemented in March. DEVCO's progress in implementing the Audit Action Plan was subject to two IAS follow-up audits in February and September 2017. They resulted in the closing of Recommendations 4, 6 and 7, and the downgrading to "important" of Recommendations 2 and 3. As of the end of February 2018 DEVCO has completed the implementation of the audit action plan activities concerning Recommendations 2, 3 and 5, which are now ready for review.

Recommendation 1 of the audit report (very important) remains outstanding. In order for DEVCO to declare it ready for review, the AUC will need to pass the full pillar assessment successfully. The AUC and the EU have agreed a pillar assessment roadmap, which contains the actions that the AUC needs to put in place in order to address the institutional weaknesses identified in 2015 by the previous assessment. DG DEVCO has provided targeted technical assistance to the AUC in order to address those weaknesses. In the last review of the implementation of the roadmap (November 2017) the African Union made progress in two of the three non-compliant pillars i.e. accounting and sub-delegation. Procurement however remains an issue.

## 2. ORGANISATIONAL MANAGEMENT AND INTERNAL CONTROL

This section answers to the question how the achievements described in the previous section were delivered by the DG. This section is divided in two subsections.

The first subsection reports the control results and all other relevant information that support management's assurance on the achievement of the financial management and internal control objectives. It includes any additional information necessary to establish that the available evidence is reliable, complete and comprehensive; appropriately covering all activities, programmes and management modes relevant for the DG.

The second subsection deals with the other components of organisational management: human resources, better regulation principles, information management and external communication.

### 2.1 Financial management and internal control

Assurance is an objective examination of evidence for the purpose of providing an assessment 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. Its results are explicitly documented and reported to the Director-General. The reports produced are:

- **86 External Aid Management Reports (EAMR)** produced by EU Delegations, together with the statements of assurance signed by the Heads of Delegations. These statements include - as foreseen in the Financial Regulation - information on the effectiveness of the internal control systems put in place in the Delegations, as well as information on the management of the operations sub-delegated to them providing thus their assurance to the relevant Director in accordance with the sub-delegation received. In particular EAMR present the results of each Delegation for 25 KPIs which are grouped in 3 categories (sound financial management, effectiveness of the internal control system, effectiveness of the audit system) and form the basis of the assurance signed by the Heads of Delegations.
- **12 Sub-Delegated Authorising Officers' Reports** produced by DG DEVCO Directors and Heads of units having received a sub-delegation from the Director-General or his Deputies;
- **17 reports from Authorising Officers in other DGs** managing budget appropriations in cross-delegation;
- the **activity reports of the Authorising Officers by Sub-delegation** designated for the EU Trust Fund "Békou", for each window of the EU trust Fund Africa and the EU Trust Fund Colombia;
- **Management declarations** from IOs and Development Agencies;
- **Available pillars assessment reports**: IOs and National Agencies need to pass pillar assessments pursuant to the Financial Regulation in order to be able to sign delegation agreements under indirect management. These assessments are designed to check whether the European Commission can entrust budget implementation tasks to entities that demonstrate a level of financial management and protection of the EU's financial interest equivalent to that of the Commission;
- the 2017 **Report on Internal Control Standards** - compliance and effectiveness - issued by the Internal Control Coordinator;
- the **observations and recommendations** reported by the Commission Internal Audit Service (IAS);
- the Commission IAS's **conclusion on the state of DG DEVCO's internal control**;
- the 2017 **RER Study**;
- a **desk review of the results of the RER studies** and the ECA reports for the last 3 years (2014-2016)

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

This section reports the control results and other relevant elements that support management's assurance. It is structured into **(a) Control results, (b) Audit observations and recommendations, (c) Effectiveness of the internal control system**, and resulting in **(d) Conclusions as regards assurance**.

It covers the EU Budget, the EDF and the **EU Trust Funds "Bêkou", "Africa" and "Colombia"** managed by DG DEVCO.

The Director General of DG DEVCO is Delegated Authorising Officer for the **EU Trust Funds "Bêkou", "Africa" and "Colombia"**. The management of the window "North Africa" of the TF Africa is cross sub-delegated by the Director General of DG DEVCO to the Director General of DG NEAR.

Related activities and expenditure are therefore reported in the Annual Activity Report of DG DEVCO (including also the activity report of the TF Manager of "North Africa" window from DG NEAR) and covered by the Declaration of Assurance signed by the Director General.

- The **EU TF "Bêkou"** was established in July 2014 to prepare the transition from emergency response towards longer-term development assistance to the Central African Republic following the "Linking Relief, Rehabilitation and Development" approach. With nearly 240 M€ in pledges (of which 28% from external donors), and 15 programmes adopted, the EU TF Bêkou is playing a key role in building resilience of the Central African population and its State, in a volatile situation that needs constant adaptation and flexibility, two key features of the Fund.
- The **"EU Emergency Trust Fund for stability and addressing root causes of irregular migration and displaced persons in Africa"** was created at the EU-Africa Valletta Summit on Migration held in November 2015. With more than EUR 3.3 billion in resources this Trust Fund helps addressing the root causes of destabilization, forced displacement and irregular migration by promoting economic and equal opportunities, security and development in some of the most fragile and vulnerable countries across Africa in Sahel and Lake Chad, Horn of Africa, North of Africa regions.
- The **"EU Trust Fund for Colombia"** in support of the implementation of the peace agreement with FARC was adopted by the DCI committee and was launched on 12 December 2016. This Trust Fund having at its disposal at end 2017 approximately EUR 96.5 million ( out of which 24% coming from Member States) will mainly focus on integrated rural development that will bring major economic, political and social benefits, including for the stability of its neighbouring countries and the larger region. During its first year of operations, the Colombia Trust Fund approved 7 projects focusing on integrated rural development for a total of EUR 30.3 million.

EU TFs have been introduced by the Financial Regulation entered into force in 2013 according to which "in order to strengthen the international role of the Union in external actions and development and to increase its visibility and efficiency, the Commission can create and manage Union TFs for emergency, post-emergency or thematic actions" (Recital 68, FR) "under an agreement concluded with other donors" (Art. 187 - Union trust funds for external actions).

The Commission retains full responsibility for the establishment and the management of EU TFs for external actions. In this respect, the FR stipulates that:

- The Commission sets up the TF and chairs its board (composed of representative of the Commission and of the donors);

- The Accounting officer of each TF is the Accounting officer of the Commission;
- The TFs have to be managed in full compliance with the relevant provisions of the FR, and in particular in accordance with the principles of sound financial management, transparency, proportionality, non-discrimination and equal treatment Commission. The rules and procedures developed by the DG DEVCO for the management and implementation of its operations are equally applicable to the EUTF. The EU Trust Fund operates in the general system of internal control defined by the Commission.

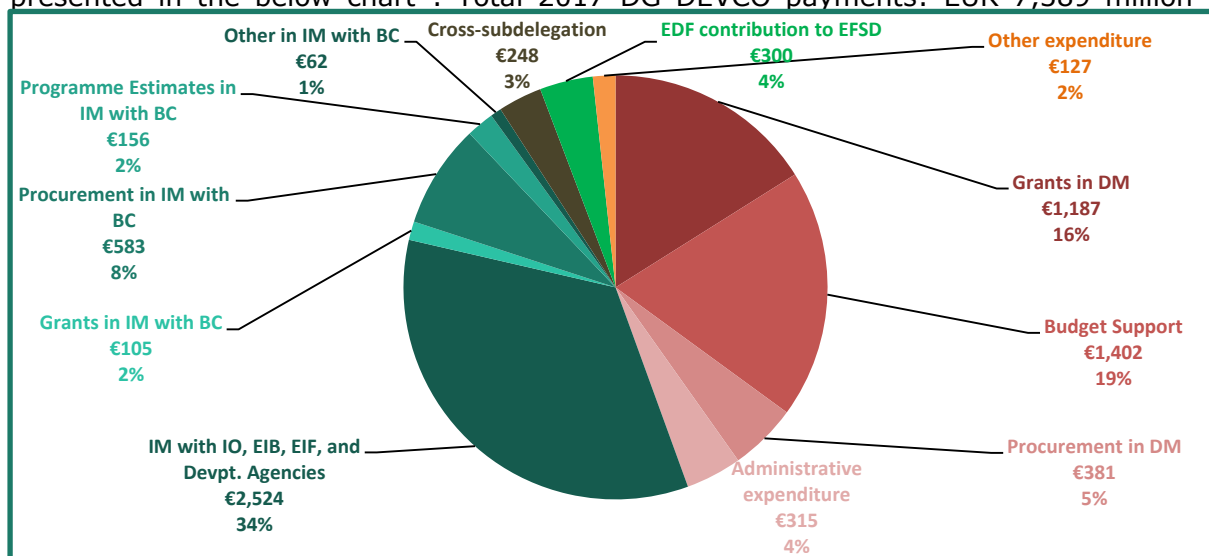
Once approved by the Operational Committee, actions are implemented in accordance with the implementing procedures provided for in the applicable Commission rules and regulations, including those applicable to EDF. The Trust Fund accounts are subject to an annual external audit.

The Trust Fund Managers take into account reports and recommendations of the different control bodies, notably the IAS and Court of Auditors, for the purpose of providing an assessment of the effectiveness of risk management, control and governance processes, in addition to the results of the audits carried out at the level of contractors/beneficiaries.

## 2.1.1 Control results

This section reports and assesses the elements identified by management that support the assurance on the achievement of the internal control objectives<sup>60</sup>. The DG's assurance building and materiality criteria are outlined in the AAR Annex 4. Annex 5 outlines the main risks together with the control processes aimed to mitigate them and the indicators used to measure the performance of the control systems.

The breakdown by management modes of total payments made by DG DEVCO in 2017 is presented in the below chart<sup>61</sup>. Total 2017 DG DEVCO payments: EUR 7,389 million<sup>62</sup>.



DM= Direct Management; IM= Indirect Management, BC= Beneficiary country; IO= International Organisation

<sup>60</sup>Effectiveness, efficiency and economy of operations; reliability of reporting; safeguarding of assets and information; prevention, detection, correction and follow-up of fraud and irregularities; and 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 32).

<sup>61</sup> Payments made by the EU Trust Funds follow the same Internal Control Templates that all other operations implemented by DG DEVCO. Those payments are therefore included in the graph and split between the relevant ICTs. Payments made in the framework of financial instruments are included in ICT "IM with IO and Development Agencies". They account for a very limited part of DG DEVCO payments in 2017 (EUR 41 Million).

<sup>62</sup> Excluding General Budget and EDF contributions to EU Trust Funds (EUR 223 million) and including payments made by EU Trust Funds (EUR 413 million).

### 2.1.1.1 Control effectiveness as regards legality and regularity

DG DEVCO has set up internal control processes aimed at ensuring the 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 concerned.

#### ● General Objective of control

Regarding the legality and regularity of the underlying transactions, the control objective is to ensure that the estimated residual error is less than 2% at the end of the implementation of the programme.

Since 2012, DG DEVCO estimates an annual residual error rate by means of a RER study based on a methodology developed as a reply to a recommendation by the ECA<sup>63</sup>. The main purpose of the RER study is to provide a representative indicator for the determination of the materiality of potential weaknesses. The errors identified by the RER are systematically followed-up.

The sixth RER study was carried-out in 2017. The methodology is based on the examination of closed contracts, after the implementation of all ex-ante and ex-post controls. As a consequence, it results in an assessment of the errors not detected by the overall control system. The RER study for 2017 applied the methodology on the basis of a sample (drawn by monetary unit sampling) of 224 transactions. These transactions relate to contracts closed in the CRIS data base in the period September 2016 to August 2017. The multiannual nature of DG DEVCO's programmes is taken into account in this methodology, as the contracts closed during the said period and taken into account for the monetary unit sampling were authorised over a period of several years.

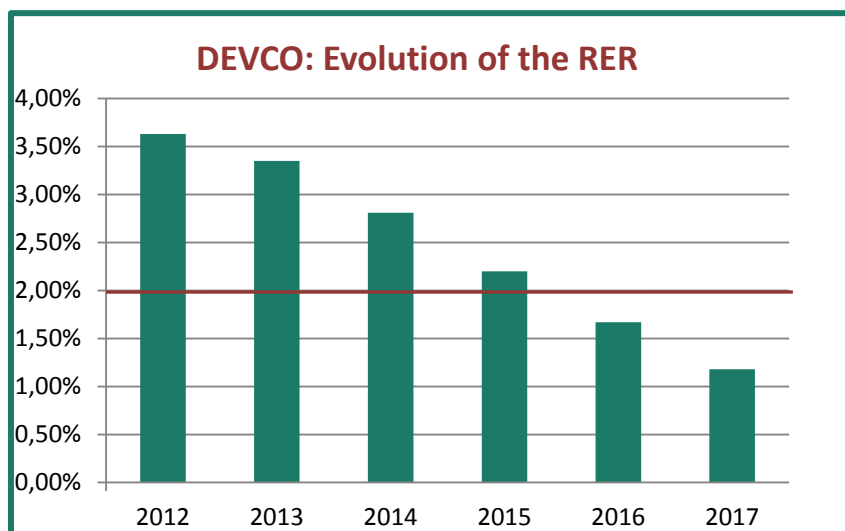
#### In 2017, the RER stands as follows:

<b>Confirmed errors:</b>	<b>0.49 points</b>
Of which Indirect Management with Beneficiary Countries:	0.42 points
<b>Error due to missing or inadequate documentation:</b>	<b>0.69 points</b>
Of which grants in direct management (mainly NGOs):	0.15 points
Of which Indirect Management with Beneficiary Countries:	0.52 points

As a consequence, the most likely estimate of the representative RER was 1.18%<sup>64</sup> compared with 1.67% in 2016, 2.2% in 2015, 2.81% in 2014, 3.35% for 2013 and 3.63% for 2012. The overall error rate should be seen in the light of the fact that a large part of the error is due to missing or inadequate documentation (altogether 0.69 percentage points) rather than confirmed errors.

<sup>63</sup> The RER study does not represent an assurance engagement (or audit) and therefore is not performed in accordance with International Standards on Auditing. It follows its own methodology which is described in the RER Methodology and Instruction Manual. The main differences with an audit are: reliance on previous supervision and controls; mainly desk review; estimation of errors in defined cases. The methodology and manual provide the framework for RER procedures and clearly describe the situations in which reliance should be placed on previous control work and where substantive testing should be undertaken. Previous control work may include financial and technical audits, audits performed in the framework of the European Court of Auditor's Declaration of Assurance (DAS), verifications, evaluations and technical supervisors' reports. Reliance on previous control work does not entail re-performance of audit procedures or examination of detailed working papers. This aspect of the RER Methodology is founded on cost-effectiveness considerations. Where the quality of previous control work is examined and deemed capable of supporting reliance, there remains the possibility that errors will not have been detected by that previous control work, as is the case for any similar engagement. In such a case, these errors will remain undetected where full reliance is placed on previous control work. Where there is no previous control work or where the quality of previous control work cannot be demonstrated to have reached the standards demanded by the RER Methodology, the study requires performance of detailed substantive procedures designed to reveal undetected errors.

<sup>64</sup> Upper error limit at 3.57% and lower error limit at 0.44%.



● Risk-differentiated assurance

The overall RER for 2017 is 1.18%, i.e. well below the materiality threshold of 2%. However, a risk-differentiated approach should take into account information that hints at areas for which the suspected error rate would be above this threshold.

For this purpose, a risk analysis was carried out on the basis of past RER and ECA results for a three-year period (covering reporting years 2014, 2015 and 2016). Indicative error rates have then been estimated by multiplying the overall error rate with the risk indices as follows:

Expenditure categories	Error rates
<b>Global average error rate</b>	<b>1.18%</b>
<b>I Direct Management - Grants</b>	<b>2.12%<sup>65</sup></b>
<b>II Direct Management – Budget Support</b>	<b>0.01%<sup>65</sup></b>
<b>III Direct Management – Procurement</b>	<b>0.28%<sup>65</sup></b>
<b>IVa Indirect Management with Beneficiary Countries (IMBC) Grants</b>	<b>1.86%<sup>65</sup></b>
<b>IVb IMBC Programme Estimates</b>	<b>1.53%<sup>65</sup></b>
<b>IVc IMBC procurement</b>	<b>0.39%<sup>65</sup></b>
<b>V Indirect Mgt. with IO and Development Agencies</b>	<b>1.95%<sup>65</sup></b>

**Conclusion for assurance**

There is one spending area with an indicative error rate above 2%: Direct Management - Grants.

The overall error rate is below 2% for the second consecutive year. Even if the error rate is below 2%, a reservation is issued concerning the spending areas with an indicative error rate of above 2%. This concerns Grants in direct management.

<sup>65</sup> Indicative error rate based on the multiplication of the respective risk index with the global average error rate



The sections below, describe the main implementation modalities used by DG DEVCO in 2017 for the delivery of External Aid. They present for each of them the characteristics and results of the applicable controls and conclude on the level of risk associated to each of these implementation modalities.

Main controls by Internal Control Template (ICT)						
Moment of Control	Control type	ICT 1 Grants in DM	ICT 2 Budget Support (DM)	ICT 3 Procurement in DM	ICT 4 IM with Beneficiary countries	ICT 5 IM with IO or Devpt Agencies
Prior to Contracting	Budget Support Eligibility Assessment	NA	100%	NA	NA	NA
	Ex-ante checks	100%	100%	100%	100%	100%
Contracting	Ex-ante checks	100%	100%	100%	100%	100%
Prior to Payment	Expenditure verifications contracted by fund recipients	All final payments of grants > EUR 100,000	NA	Only for fee-based service contracts	Only for fee-based service contracts	All final payments of grants > EUR 100,000
		Further pre-financing > EUR 5 million				Further pre-financing > EUR 5 million
Payments	Ex-ante checks	100%	100%	100%	100%	100%
Monitoring the Implementation	Service contracts for the supervision of works	NA	NA	Only for works contracts	NA	NA
Partly ex-ante/partly ex-post	Engagements under Annual Audit Plans	overall audit coverage ratio > 5%	NA	overall audit coverage ratio > 5%		
After implementation of all other controls	Annual RER Study	representative monetary unit sample				
Relative Weight of payment per ICT		ICT 1 Grants in DM	ICT 2 Budget Support (DM)	ICT 3 Procurement in DM	ICT 4 IM with Beneficiary countries	ICT 5 IM with IO or Devpt Agencies
Payments made in 2017 for each ICT (EUR million)		1,187	1,402	381	906 <sup>66</sup>	2,524
% of total of DG DEVCO payments in 2017 (EUR 7,389 million) <sup>67</sup>		16%	19%	5%	12%	34%

<sup>66</sup> Of which: grants (EUR 105 million), Programme Estimates (EUR 156 million), Procurement (EUR 583 million) and other (EUR 62 million)

<sup>67</sup> Excluding General Budget and EDF contributions to EU Trust Funds (EUR 223 million) and including payments made by EU Trust Funds (EUR 413 million).

## A) Direct Management

Under Direct Management, funds are channelled to the final recipients through contracts signed directly by the Commission as contracting authority.

### Grants in Direct Management (ICT 1)

#### General description:

Grants are financial contributions from the EU budget/EDF/EU TF awarded as donations to third parties in order to co-finance actions intended to achieve an objective forming part of the EU's aid development policy (action grants), or the functioning of a body pursuing an aim of European interest in the same field (operating grants). Grants are based on the reimbursement of the eligible costs, i.e. costs effectively incurred by the beneficiaries that are deemed necessary for carrying out the activities in question. The results of the action remain the property of the beneficiaries. In direct management, the entire grant process is managed by DG DEVCO staff.

Payments for grant contracts in direct management represented 16% of the total amount paid in 2017 on DG DEVCO Budget lines (General Budget, EDF and EU TF).

#### Controls in place:

##### Stage 1 – Prior to contracting

Grants are subject to Annual Work Programmes published on the DG DEVCO website and implemented through calls for proposals. Calls for proposals are based on a standard template developed by DG DEVCO and regularly up-dated in accordance with the Financial Regulation. Candidates are expected to present proposals for actions that correspond to stated objectives and fulfil the required conditions set in each call. All applications are examined and assessed on the basis of eligibility and evaluation criteria (selection and award) that were clearly announced in the calls for proposals. This includes an assessment, by an Evaluation Committee composed by DG DEVCO staff, of the technical and financial capacity of the candidate, as well as of the relevance, impact, sustainability and cost effectiveness of the proposals. In order to prevent any potential conflict of interest, each member of the Evaluation Committee must sign a declaration of impartiality and confidentiality. At the end of the evaluation process, DG DEVCO contacts all candidates to inform them of a final decision concerning their proposals.

##### Stage 2 – Contracting

DG DEVCO establishes and sign contracts with successful candidates. A standard grant contract model is used for all EU-financed grant contracts for external actions.

##### Stage 3 – Implementation

All payment requests and related reports are verified and approved by DG DEVCO staff (ex-ante controls). Before any operation is authorised, the operational and financial aspects are initiated and verified by two different (operational/financial) entities, unless for simplified payments (i.e. initial pre-financings). This is the "four eyes" principle of the Financial Regulation, which DG DEVCO, taking into consideration the specific high risk environment of external aid actions, reinforces by requiring controls by two separate agents for each of these two stages. Checklists and types of controls are regularly updated in accordance with the results of the risk analyses as well as changes in the regulatory environment.

The first pre-financing payment, which covers either 80% of the amount of the contract or 100% of the EU's part of the first annual budget, is paid after both parties have signed the contract. For multi-annual actions, an interim report (technical and financial) and

payment request are usually sent once a year. The balance is paid on approval of the final report. If it appears that actual eligible costs are lower than anticipated or declared, the grant is reduced proportionately.

When required by the grant contract, payment requests are accompanied by an expenditure verification report of an independent external auditor contracted by the beneficiary. DG DEVCO has developed standard Terms of Reference including a reporting model for expenditure verifications which are included in the standard grant contracts. They reinforce the verification of compliance with the contract terms including those relating to procurement by the beneficiary.

Under the current templates, expenditure verifications are compulsory for:

- Any request for payment of the balance in the case of grants of more than EUR 100,000;
- Any request for pre-financing payments per financial year in case of grants of EUR 5 million or more.

#### Stage 4 – Ex Post controls and follow-up

Additional audits to be carried out by external auditors can be contracted by DG DEVCO as part of DG DEVCO's annual audit and verification plans based on risk analyses. Moreover, payments for grants in direct management are included in the population of the RER study ordered each year by DG DEVCO on representative sampling of closed contracts. Findings from the risk based audits and from the RER study are systematically followed up by DG DEVCO which takes necessary actions for the recovery of non-eligible expenditures.

#### Control results and risk analysis:

- Desk review of the results of ECA reports and the RER studies from 2014 to 2016 shows that grant contracts in Direct Management have a high risk index value of 180 compared with the average index value of 100. The amount at risk for this ICT is EUR 21.2 million (of which EUR 1.5 million relating to funds sub-delegated to DG NEAR, see section on cross-sub delegations below).
- High risk index values are confirmed by the result of the RER study 2017 in which grants in direct management represent 15.2% of the overall error identified.
- High risk index values are also confirmed by the results of the audits contracted by the Commission. Indeed, 6.22% of the total amount audited in 2017 for grants in direct management was identified as non-eligible by the external auditors<sup>68</sup>. Grants in Direct Management represent 31% of the total ineligible amount identified in 2017 by external audits.

The root causes of these errors are related to the essential nature of the grants which are implemented by non-profit organisations often based in developing countries. These organisations sometimes lack the necessary expertise for the rigorous application of the general and specific conditions of the grant contracts. Root causes of errors lie also in the poor quality of some of the expenditure verification reports contracted by the fund recipients. Conclusions of these reports are often questioned by the ECA or by external auditors contracted by DG DEVCO. Contractual provisions not requesting grant beneficiaries to enclose the invoices and other supporting documents with their financial reports can also create difficulties for ECA and for external auditors in the verification of the expenditure.

Based on the above elements, the level of **risk associated to Grants in Direct Management** is assessed by DG DEVCO as **HIGH**. This is why the declaration of assurance of DG DEVCO will be qualified with a reservation for the expenditure made in the framework of grants in direct management (see point 2.1.4 below).

<sup>68</sup> Based on final audit reports received and registered in 2017.

Several actions were decided by DG DEVCO in 2017 in order to mitigate these risks:

- Revision of the Terms of Reference for expenditure verifications implemented by beneficiaries and contract services;
- Requesting supporting documents of randomly selected transactions related to requests for payment, and verifying them before approving the disbursement and/or clearing of expenditure;
- Simplification of procedures and contractual conditions for grants;
- Further raise awareness on frequently occurring errors in financial and document management for the implementation of grant contracts.

## Budget Support in Direct Management (ICT 2)

### General description:

Budget support is the transfer of financial resources from the Commission to the National Treasury of a partner country, following the respect of agreed conditions for payment. The financial resources received become part of the global resources of the partner country, and are consequently used in accordance with the public financial management system of the partner country.

As it contributes to financing the totality of a country's budget and not a specific subset of budgeted expenditures, Budget Support is accompanied by a dialogue on the overall stance of budget policy and the functioning of public financial management in a context of harmonisation and alignment. This dialogue frequently leads to agreement on capacity development measures.

The Commission implements budget support directly and performs all control functions: no implementation tasks are delegated to third parties.

Payments for Budget Support represented 19% of the total amount paid in 2017 on DEVCO Budget lines (General Budget, EDF and EU TF).

### Controls in place:

#### Stage 1 – Prior to contracting

In line with the legal framework, COM(2011) 638/2 ("The Future Approach to EU Budget Support to Third Countries") sets the four main budget support eligibility criteria as follows:

- a stability oriented macro-economic policy;
- a credible programme to improve public finance management (PFM);
- a well-defined national development policy (supported by the EU);
- transparency and oversight of the budget.

When designing budget support programmes, DG DEVCO relies on a framework based on clear policy objectives of the partner country, priorities and results to be achieved, their consistency with budgetary allocations, and the capacity of the partner to implement them. This framework is the basis for the policy dialogue with the partner country and the assessment of performance which ultimately trigger disbursements.

#### Stage 2 – Contracting

DG DEVCO signs standard Financing Agreements with partner countries benefitting from Budget Support. These FA include objectives, expected results, main activities, financing plan/budget, implementation modalities, monitoring of performance and criteria for disbursement.

### Stage 3 – Implementation

Disbursements only take place once agreed results (e.g. policy reforms or service delivery targets) have been achieved and the above mentioned budget support eligibility criteria are met. Thus the ex-ante transactional checks performed by Commission staff at the point of payment claims on continuing eligibility and fulfilment of disbursement performance criteria are fundamental to the budget support control structure. In such cases the Commission can withhold or reduce (variable) disbursements, often in a co-ordinated manner with other donors, until corrective measures are undertaken by the partner government.

An important element of the governance of budget support is the Budget Support Steering Committee (BSSC) composed of higher Management of DG DEVCO and the EEAS whose role is to enhance political and policy scrutiny and to ensure coherence of EU budget support operations. A risk management framework is also part of DG DEVCO's decision making process regarding budget support operations. Building on an identification of major risks and ways to mitigate them, the risk management framework systematically informs the policy dialogue with partner countries on the strategic level, as well as by focussing on key issues.

Eligibility criteria have to be met both prior to and throughout the subsequent life of a budget support programme. The continuous assessment of the eligibility criteria enables the Commission to ensure the legality of the programmes, through commitments to payments.

BSSC Activity	2012	2013	2014	2015 <sup>69</sup>	2016 <sup>70</sup>	2017 <sup>71</sup>
<b>New BS operations</b>	<b>18</b>	<b>56</b>	<b>41</b>	<b>36</b>	<b>40</b>	<b>41</b>
Good Governance and Development Contracts (GGDC), Fundamental Values assessment	10	5	3	6	4	0
State Building Contracts	4	6	12	9	10	8
Sector Reform Contracts	4	45	26	21	26	33
<b>Payments</b>	<b>84</b>	<b>141</b>	<b>100</b>	<b>70</b>	<b>59</b>	<b>105</b>
for guidance		84	76	70	53	103
for info		57	24 <sup>72</sup>		6	2
<b>Others</b>	<b>6</b>	<b>5</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>8</b>
<b>TOTAL decisions</b>	<b>108</b>	<b>202</b>	<b>144</b>	<b>110</b>	<b>104</b>	<b>154</b>
Risk Management Frameworks validation			61	71	90	85
<b>TOTAL including RMFs validation</b>	<b>108</b>	<b>202</b>	<b>205</b>	<b>181</b>	<b>194</b>	<b>239</b>

### Stage 4 – Ex Post controls and follow-up

Payments for Budget Support are included in the population of the RER study ordered each year by DG DEVCO on representative sampling of closed contracts. Findings from the RER study are systematically followed up by DG DEVCO which takes necessary actions for the recovery of non-eligible expenditures.

#### Control results and risk analysis

- Desk review of the results of ECA reports and the RER studies from 2014 to 2016 shows that Budget Support operations have a very low risk index value of 1 compared with the average index value of 100.

<sup>69</sup> 2015: BSSC for DCI and EDF (FAST for ENI excluded)- 22 payments and 1 new BS operation have not been submitted to the BSSC in 2015

<sup>70</sup> 2016: 53 payments and 8 new BS operation have not been submitted to the BSSC in 2016

<sup>71</sup> 2017: 2 payments have not been submitted to the BSSC

<sup>72</sup> In addition to the 24 payments, 32 other payments have been submitted for comments since September 2014

- Low risk index values are confirmed by the result of the 2017 RER study in which no errors were identified for Budget Support operations by the consultants.
- Low risk index value also results from a system of ex-ante controls put in place by DG DEVCO for Budget Support operations and which prevents any payment to be made unless all required pre-conditions and targets have been met by the beneficiary countries. The efficiency of the ex-ante control system is illustrated by the fact that BS Operations represent 51% of the amount of payment requests blocked by ex-ante controls in 2017.

Based on the above elements, the level of **risk associated to Budget Support Operations** is assessed by DEVCO as **LOW**. This is in line with the 2016 Annual Reports concerning EDF and the budget, wherein ECA mentioned that the nature of the instrument and of the payment conditions limit the extent to which transactions are prone to errors.

### Procurement in Direct Management (ICT 3)

#### General description:

Procurement contracts are commercial contracts concluded in writing between economic operators and one or more contracting authorities in order to obtain, against payment of a price paid from the General Budget/EDF/EU TF resources, the execution of works, the supply of goods or the provision of services. In direct management, procurement contracts with third parties are awarded and managed directly by DG DEVCO in accordance with the applicable rules and procedures.

There are three types of procurement contracts: service contracts (fee based or global price), supply contracts and works contracts.

Payments for procurement contracts in direct management represented 5% of the total amount paid in 2017 on DG DEVCO Budget lines (General Budget, EDF and EU TF).

#### Controls in place:

##### Stage 1 – Prior to contracting

The basic means of awarding contracts is competitive tendering. All contract awards must obey the principles of transparency, proportionality, equal treatment and non-discrimination.

Standard tender procedures are used according to predefined thresholds per type of contract. The selection of the contractor is made by an evaluation/selection committee composed of DG DEVCO staff on the basis of pre-defined eligibility, capability (selection) and award criteria. In order to prevent any potential conflict of interest, each member of the Evaluation Committee must sign a declaration of impartiality and confidentiality. At the end of the evaluation process, DG DEVCO contacts all tenderers to inform them of a final decision concerning their offers.

##### Stage 2 – Contracting

DG DEVCO establishes and signs contracts with successful tenderers. Standard contract models are used for each type of contract.

##### Stage 3 – Implementation

All payment requests and related reports are verified and approved by DG DEVCO staff (ex-ante controls). Before any operation is authorised, the operational and financial aspects are initiated and verified by two different (operational/financial) entities, unless for simplified payments (i.e. initial pre-financing). This is the "four eyes" principle of the

Financial Regulation, which DG DEVCO, taking into consideration the specific high risk environment of external aid actions, reinforces by requiring controls by two separate agents for each of these two stages. Checklists and types of controls are regularly updated in accordance with the result of risk analyses as well as changes in the regulatory environment.

Disbursement of pre-financing is subject to contractual conditions (e.g. if an advance exceeds a specified threshold, the Contractor must provide a financial guarantee for the full amount of the pre-financing payment). The release of intermediary and final payments is subject to verification/validation of expenditure<sup>73</sup>:

- Service contracts: All invoices must be accompanied by an interim or final report. All invoices for a fee-based contract must also be accompanied by an up-to-date financial report. Before payments are made for a fee-based contract, an external auditor who is a member of an internationally-recognised supervisory body for statutory auditing, notified by the Consultant must examine and verify the invoices and the financial reports sent by the Consultant to the Commission. DG DEVCO has developed standard Terms of Reference including a reporting model for expenditure verifications which are included in the standard service contracts.
- Supply contracts: The supplies shall not be accepted until the prescribed verifications and tests have been carried out. The supplies shall be taken over by the Contracting Authority when they have been delivered in accordance with the contract, have satisfactorily passed the required tests, or have been commissioned, and a certificate of acceptance has been issued or is deemed to have been issued by the project manager, i.e. the legal or natural person responsible for monitoring the execution.
- Works contracts: The works shall not be accepted until the prescribed verifications and tests have been carried out. The works shall be taken over by the Contracting Authority when they have satisfactorily passed the tests on completion and a certificate of acceptance has been issued or is deemed to have been issued by the Supervisor i.e. the legal or natural person responsible for monitoring the execution of the contract on behalf of the Contracting Authority.

#### Stage 4 – Ex Post controls and follow-up

Additional audits to be carried out by external auditors can be contracted by DEVCO as part of DG DEVCO's annual audit and verification plans based on risk analyses. Moreover, payments for procurement contracts in direct management are included in the population of the RER study ordered each year by DG DEVCO on representative sampling of closed contracts. Findings from the risk based audits and from the RER study are systematically followed up by DG DEVCO which takes necessary actions for the recovery of non-eligible expenditures.

#### Control results and risk analysis:

- Desk review of the results of ECA reports and the RER studies from 2014 to 2016 shows that procurement contracts in Direct Management have a low risk index value of 24 compared with the average index of 100.
- Low risk index value is also confirmed by the external audits carried out in 2017. Indeed, only 0.85% of the total amount audited in 2017 for procurement contracts in direct management was identified as non-eligible by the external auditors<sup>74</sup>.

Based on the above elements, the level of **risk associated to procurement contracts in Direct Management** is assessed by DG DEVCO as **LOW**.

<sup>73</sup> These payment requests may be subject to additional ex-ante audits contracted as part of DEVCO's annual audit plans by the Commission as deemed appropriate by the Authorising Officer by Sub-delegation.

<sup>74</sup> Based on final audit reports received and registered in 2017.

## B) Indirect Management

Indirect management is a management mode under which the final recipient receives EU funds through a contract concluded with an intermediary to which the tasks of selecting the final recipients and managing the resulting contracts<sup>75</sup> (so-called budget-implementation tasks) have been entrusted by the Commission.

### Indirect management with beneficiary countries (ICT 4)

#### General description

Under indirect management with beneficiary countries, either the beneficiary country or an entity designated by it is entrusted by the Commission with the budget implementation tasks. By default, this delegation is partial: it does not include the delegation of the budget-implementation task of carrying out payments.<sup>76</sup>

Payments for indirect management with beneficiary countries represented 12% of the total amount paid in 2017 on DG DEVCO Budget lines (General Budget, EDF and EU TF).

#### Description of the controls in place in Partial delegation

Despite the delegation to Partner Countries of the conduct of procurement and grant award procedures and of the management of the resulting contracts, controls described in Section 2.1 above apply to Indirect Management with Beneficiary Countries<sup>77</sup>. Within this scope of delegation, it is the Commission, and not the contracting authority, which makes all payments directly to the contractors and grant beneficiaries.

All contracts must be awarded and implemented in accordance with the procedures and standard documents laid down by the Commission for its external operations, in force at the time of the launch of the procedure in question (with ex-ante control by the Commission at regular steps during the procedure).

Ex-ante control means that the Commission has to give its prior approval at all important stages in a contract award procedure, as detailed in the Practical guide to contractual procedures for EU external actions (PRAG).

The endorsement of a contract prior to its conclusion by the Commission signals the Commission's agreement to the later financing of the contract, provided that no errors in the procurement and grant award procedures are discovered later. In the event of a failure to comply with the procedures, the Commission may at any time refuse its approval for a given operation and thereby refuse EU funding for the operation in question.

In addition, the Commission exercises control through audits or verifications of on-going and closed projects contracted as part of DG DEVCO's annual audit and verification plans.

The EU financial interests are therefore safeguarded, in addition to all the other possible means offered by the Financial Regulations, by the Commission's ex-ante control of individual transactions as well as subsequent controls or audits and resulting recovery of any unduly disbursed funds where the agreed procedures have not been respected, or where the activities were not eligible for EU financing.

<sup>75</sup> Entrusted entities can withhold up to 7% for the administration of funds.

<sup>76</sup> In addition to Partial delegation, the Commission has the possibility to delegate to the Partner Countries (PC) the power of carrying out payments to contractors and grant beneficiaries in the framework of programme estimates (PE) and of Partner Country managed Pool funds. For PEs, such payments relate to the ordinary operating costs of the PE, direct labour and small size contracts (i.e. below EUR 300,000). In 2017, total payments made for programme estimated amounted to EUR 170 million. For PC Pool funds, the full delegation of budget implementation tasks is conditional upon a prior successful pillar assessment of the PC-entity's systems and procedures (i.e. the same pillar-assessment as described below for indirect management with IOs and development agencies).

<sup>77</sup> Except for Budget Support Eligibility Assessment which by definition applies only to Direct Management



## Control results and risk analysis

- Desk review of the results of ECA reports and the RER studies from 2014 to 2016 revealed that Grants, Programme Estimates and Procurement contracts have a risk index of 158, 130 and 33, respectively.
- The analysis of the results of the external audits carried out in 2017 on operations implemented in Indirect Management with Beneficiary Countries shows that 3.94% of the total amount audited was identified as non-eligible by the external auditors<sup>78</sup>. In regard to amounts identified as non-eligible by external audits, grants and programme-estimates together account for 63%. The rate of non-eligible is 6.04% of the amount audited on grant contracts and 3.67% of the amount audited on programme-estimates. The contribution of this ICT to the overall 2017 RER is 0.94 percentage points.

The root causes of these errors lie in the nature of the programme-estimates which often cover very large numbers of small expenditures for which original supporting documents have to be provided by the imprest administrator and the imprest accounting officer designated by the beneficiary countries. Other difficulties relate to the respect of procurement procedures which have to be applied in the imprest part of the programme-estimates.

Based on the above elements, the level of **risk associated to operations in Indirect Management with Beneficiary Countries** is assessed by DEVCO as **MEDIUM**.

The following measures have been included in the action plan regarding this spending area:

- Develop a strategy for the reduction of the use of Programme Estimates and promotion of alternatives, in view of simplification and cost-effectiveness;
- Prepare a road-map towards systematic reinforcements of controls taking into account their expected benefits and costs;
- Revise the Terms of Reference (ToR) for expenditure verifications of Programme Estimates.

## Indirect management with IOs and Development Agencies (ICT 5)

### General description

Under indirect management with IOs and Development Agencies budget implementation tasks are entrusted by the Commission to this type of entities.

Payments for indirect management with IOs and Development Agencies represented 34% of the total amount paid in 2017 on DG DEVCO Budget lines (General Budget, EDF and EU TF).

### Description of the controls in place

#### Stage 1 – Prior to contracting

Candidate entities to be entrusted with budget-implementation tasks (the candidate delegate) have to demonstrate a level of financial management and protection of the EU financial interests equivalent to that of the Commission.

This is verified by carrying out an ex-ante assessment, a pillar assessment of the entity. Pillars are the broad areas covered by this assessment and include (1) internal control, (2) accounting and (3) independent external audit. Moreover, the assessment must also

<sup>78</sup> Based on final audit reports received and registered in 2017.

include at least one of the following, so that the entity can be entrusted with the corresponding budget-implementation tasks: (4) procedures and rules for grants, (5) for procurement, (6) for financial instruments, as well as (7) a specific pillar for sub-delegation for which the entities concerned have been assessed positively

## Stage 2 – Contracting

DEVCO establishes and signs agreements with the organisations assessed and identified under stage 1. A standard agreement model is used for all EU-financed operations under indirect management with IOs and Development Agencies.

## Stage 3 – Implementation

All payment requests and related reports are verified and approved by DEVCO staff (ex-ante controls). Before any operation is authorised, the operational and financial aspects are initiated and verified by two different (operational/financial) entities<sup>79</sup> unless for simplified payments (i.e. initial pre-financings). This is the "four eyes" principle of the Financial Regulation, which DEVCO, taking into account the specific high risk environment of external aid actions, reinforces by requiring controls by two separate agents for each of these two stages. Checklists and types of controls are regularly reviewed and updated to respond to feedback from risk analyses as well as changes to the regulatory environment.

## Stage 4 – Ex Post controls and follow-up

Additional verification missions to be carried out by external auditors can be contracted by DEVCO on the basis of a risk analysis. Moreover, payments for operations in Indirect Management with IOs and Development Agencies are included in the population of the RER study ordered each year by DEVCO on representative sampling of closed contracts. Findings from the risk based audits and from the RER study are systematically followed up by DEVCO which take necessary actions for the recovery of non-eligible expenditures.

## Control results and risk analysis

- Desk review of the results of ECA reports and the RER studies from 2014 to 2016 shows that Operations in Indirect Management with IO and Development Agencies have a risk index value of 165 compared with an average index value of 100.
- It is also of interest to consider in this context the limited effect of ex-ante controls on payments with regards to operations in Indirect Management with IO and Development Agencies. Only 0.51% of the expenditure made in 2017 for these operations was identified as ineligible by ex-ante controls. It represents only 8% of the total amount of payment requests blocked by ex-ante controls. The contribution of this ICT to the overall 2017 RER is 0.06 percentage points.

An important factor when assessing DEVCO's relationship with IOs are certain peculiarities in the field of financial and operational reporting. Reports submitted by certain IOs do not allow for a meaningful assessment of whether or not the reported expenditure can be accepted. In a number of instances the reporting practice of the IOs concerned seems to go against the reporting obligations foreseen in the underlying agreements.

Based on the above elements, the level of **risk associated to operations in Indirect Management with IO and Development Agencies** is assessed by DEVCO as **MEDIUM**. As the indicative error rate for this spending area is below 2%, no reservation for the expenditure in relation to operations implemented in Indirect Management with IOs and Development Agencies is made.

<sup>79</sup> These payment requests may be subject to additional ex-ante verifications contracted as part of DEVCO's annual audit plans by the Commission as deemed appropriate by the Authorising Officer by Sub-delegation.

The following actions decided by DEVCO in 2017 should help mitigate these risks:

- Suspension of indirect management in case of repeated errors or breach of compliance with the rules for provision of documentation;
- Adaptation of the Terms of Reference for Verification Missions to IOs other than the WB and the UN;
- Raising awareness and monitoring action for the clearing of pre-financing paid to IO more than two years ago;
- Regular meetings with IOs to ensure continued cooperation in the provision of information for DAS and RER purposes;
- Creating of a focal point unit to coordinate relations with IOs at all levels.

### C) Cross-sub delegations

As in previous years, DEVCO has cross-sub-delegated funds on specific budget lines to other DGs. Being Commission departments as well, all concerned Authorising Officers by Delegation (AOD) are required to implement the appropriations subject to same rules, responsibilities and accountability arrangements.

The cross-delegation agreements require the AOD of these DGs to report on the use of these appropriations. In their reports, the AODs did not communicate any events, control results or issues which could have a material impact on assurance except DG NEAR who raises a reservation for the management of grants. The estimated amount at risk for the funds managed by DG NEAR was estimated to EUR 1.5 million and was added on top of the amount at risk for DEVCO in reservation 1.

The total payments made in 2017 in the context of cross-sub-delegation given by DEVCO to other DGs amount to EUR 248 million<sup>80</sup>.

**Based on the above analysis, a reservation is issued for the spending area where the indicative error rate is above 2%: direct grants (see section 2.1.4).**

#### ● Estimation of amounts at risk

In the context of the protection of the EU budget, at the Commission's corporate level, the DGs' estimated overall amounts at risk and their estimated future corrections are consolidated.

For DG DEVCO, the **estimated overall amount at risk** at payment<sup>81</sup> for the 2017 payments made is EUR 82.96 million. This is the AOD's best, conservative estimation of the amount of relevant expenditure<sup>82</sup> during the year (EUR 6226.97 million) not in conformity with the applicable contractual and regulatory provisions at the time the payment is made.

This expenditure will be subsequently subject to ex-post controls and a sizeable proportion of the underlying error will be detected and corrected in successive years. The conservatively **estimated future corrections**<sup>83</sup> for those 2017 payments made are EUR 13.08 million. This is the amount of errors that the DG conservatively estimates to identify and correct from controls that it will implement in successive years.

The difference between those two amounts leads to the estimated overall amount at risk at closure of EUR 69.88 million.

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<sup>80</sup> Including EUR 166 million EDF funds delegated to other DGs (EAC, ECHO, EACEA)

<sup>81</sup> In order to calculate the weighted average error rate (AER) for the total relevant expenditure in the reporting year, the estimated corrections were added to the error rate at closure. The latter was estimated by multiplying the global RER with the relevant expenditure in each spending area, weighted with its specific risk index.

<sup>82</sup> "relevant expenditure" during the year = payments made, minus new pre-financing paid out, plus previous pre-financing cleared

<sup>83</sup> This estimation is based on the historic average of the recovery orders issued by DEVCO in 2016 and 2017 for the reimbursement of undue payments identified by ex-post controls (i.e.: recovery orders encoded with recovery context "errors" or "irregularity"). Some adjustments were made in order to exclude the amounts of ex-post recoveries erroneously encoded with recovery context "Errors" or "Irregularity".

## Estimated overall amount at risk at payment and at closure<sup>84</sup>

Payments made (2017; EUR million)	Minus new prefinancing (2017; EUR million)	Plus cleared prefinancing (2017; EUR million)	= "relevant expenditure" (2017; EUR million)	Average Error Rate (weighted AER; %)	Estimated overall amount at risk at payment (2017; EUR million)	Average Recoveries and Corrections (adjusted ARC; %)	Estimated future corrections (for 2017; EUR million)	Estimated overall amount at risk at closure (EUR million)	
EU Budget	2,942.57 <sup>85</sup>	1,725.76	1,638.17		2,854.98				
• Of which DG's contribution to EUTF Africa	63.10	63.10	30.27		30.27				
• Of which DG's contribution to EUTF Bêkou	0.00	0.00	2.94		2.94				
• Of which DG's contribution to EUTF Colombia	10.00	10.00	1.04		1.04				
EU Budget excl. contributions to EU TF	2,869.47	1,652.66	1,603.92		2,820.73				
EDF	4,286.24 <sup>86</sup>	2,648.44	1,818.02		3,455.82				
• Of which DG's contribution to EUTF Africa	179.90 <sup>87</sup>	179.90	96.30		96.30				
• Of which DG's contribution to EUTF Bekou	0.00	0.00	10.95		10.95				
EDF excl. contributions to EU TF	4,106.34	2,468.54	1,710.77		3,348.57				
EU TF:									
• Bêkou	• 18.10	• 16.62	• 17.71		• 19.19				
• Africa	• 389.57	• 356.46	• 4.71		• 37.82				
• Columbia	• 5.58	• 4.92	• 0.00		• 0.66				
Sub-total	413.25	378.00	22.42		57.67				
<b>Total excl. contr. to EU TF</b>	<b>7,389.06</b>	<b>4,499.20</b>	<b>3,337.11</b>		<b>6,226.97</b>	<b>1.33%</b> <sup>88</sup>	<b>82.96</b> <sup>89</sup>	<b>0.21%</b> <sup>90</sup>	<b>13.08</b> <sup>91</sup>
								<b>69.88</b>	

<sup>84</sup> The amount at risk at closure is based on the RER study. It is therefore the starting point for the estimation of the average error rate at payment.

<sup>85</sup> Reconciliation with the amount of EUR 3,018.78 presented in annex 3A: EUR 2942.57 million + EUR 76.29 million (EDF and EU TF contribution to support expenditure paid by the general budget under BL 21.010407, 21.010408 and 22 01 04 03) = EUR 3,018.78 million.

<sup>86</sup> Reconciliation with the amount of EUR 4,157.8 million presented on table 2.1 of the annex 3B: EUR 4,286.24 million - EUR 30 million (contribution to EU TF Africa authorised by the Commission (ORDO visa) on 22/12/2016 (financial year 2016) but with bank value date on 04/01/2017. This amount was reported by DG DEVCO in the AAR 2016) - EUR 98.4 million (Revenue Decrease Consumption: Recovery Orders) = EUR 4,157.8 million.

<sup>87</sup> Including a contribution of EUR 30 million to EU TF Africa authorised by the Commission (ORDO visa) on 22/12/2016 (financial year 2016) but with bank value date on 04/01/2017. This amount was reported by DG DEVCO in the AAR 2016.

<sup>88</sup> 2017 Amount at risk at payment divided by the 2017 relevant expenditure.

<sup>89</sup> 2017 amount at risk at closure plus 2017 estimated future corrections.

<sup>90</sup> Average Recoveries and Corrections (%): Estimated future corrections (average 2016/2017) divided by total payments (average 2016/2017), i.e. 14.60/6984.1. In order to ensure the complete reliability of the estimation of future corrections and prevent the impact of data quality problems which might have occurred in the encoding of recovery contexts prior to 2016, DG DEVCO has decided to modify its methodology for the estimation of future corrections in the AAR 2017. Previously the period of reference taken into account for the estimation of future corrections was the past seven year. As from the AAR 2017, the estimation of future corrections is based on the historic recovery orders issued by DEVCO in 2016 and 2017 for the reimbursement of undue payments identified by ex-post controls (i.e.: recovery orders encoded with recovery context "errors", "irregularity" or "OLAF notified"). Furthermore, necessary adjustments were made in order to exclude amounts of ex-post recoveries erroneously encoded with recovery context "Errors", "Irregularity", "OLAF notified".

<sup>91</sup> ARC in % multiplied by the 2017 relevant expenditure

### 2.1.1.2 Cost-effectiveness and efficiency

Based on an assessment of the most relevant key indicators and control results, DG DEVCO has assessed the cost-effectiveness and the efficiency of the control system and reached a positive conclusion.

#### A) Cost-effectiveness of controls

DG DEVCO's control costs were estimated by using the same methodology as used for AAR 2016.

No changes were made to the methodology for the distribution of costs of control to internal control templates and control stages.

The total cost of controls for year 2017 is estimated by DEVCO at EUR 288.5 million. This represents 3.9% of total payments made by DEVCO in 2017.

Control cost 2017 in EUR million per management mode and per control stage							
Control Stages <sup>92</sup>	ICT1 - Grants in DM	ICT2 -BS (DM)	ICT3 - Procurement in DM	ICT4 - IM with Beneficiary Countries	ICT4 - IM with IO or Member States Agencies	Other	Total
Stage 1	18,55	10,39	12,01	13,36	28,61	13,78	96,71
Stage 2	9,28	0,46	6,01	6,68	14,31	6,89	43,62
Stage 3	18,58	11,09	39,04	10,28	23,62	8,61	111,21
Stage 4	7,66	1,31	4,68	5,61	12,52	5,17	36,95
<b>Total</b>	<b>54,07</b>	<b>23,25</b>	<b>61,74</b>	<b>35,93</b>	<b>79,06</b>	<b>34,45</b>	<b>288,50</b>

The following table presents an assessment of the most relevant **key indicators of the control results and their values** structured in line with the internal control templates in annex 5.

These indicators provide a complete overview of the controls in place and are reliable.

Internal Control Templates (ICT)							
<u>Cost effectiveness of controls (2017)</u>	ICT 1 - Grants in DM	ICT 2 - BS	ICT 3 - Procurement in DM	ICT 4 - IM with Beneficiary countries	ICT 5 - IM with IOs and Devpt. Ag.	Other	Total
Control costs / Paid amounts	4,56%	1,66%	16,22%	3,96%	3,13%	3,48%	3,90%
Control cost (EUR million)	54,07	23,25	61,74	35,93	79,06	34,45	288,5
Paid amounts (EUR million)	1186,98	1401,72	380,57	906,26	2523,65	989,88	7389,05
Undue payments prevented by ex-ante controls / Cost of ex-ante controls on payments	116,04%	584,40%	15,32%	229,18%	42,55%	26,13%	115,29%

<sup>92</sup> Stage 1: prior to contracting; Stage 2: contracting; Stage 3: Implementation; Stage 4: Ex Post controls and follow-up.

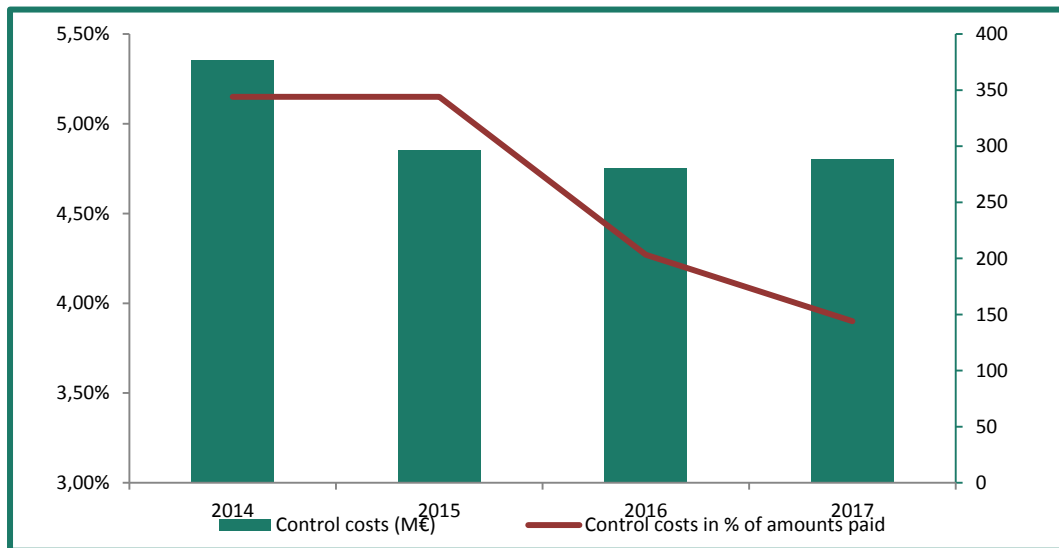
Internal Control Templates (ICT)							
<u>Cost effectiveness of controls (2017)</u>	ICT 1 - Grants in DM	ICT 2 - BS	ICT 3 - Procurement in DM	ICT 4 - IM with Beneficiary countries	ICT 5 - IM with IOs and Devpt. Ag.	Other	Total
Ineligible expenditure identified by ex-ante controls (EUR million)	21,56	64,81	5,98	23,56	10,05	2,25	128,21
Cost of ex-ante controls on payments (EUR million)	18,58	11,09	39,04	10,28	23,62	8,61	111,21
Ineligible expenditure identified by external audits contracted by the Commission / Cost of external audits contracted by the Commission	1068,33 %	NA	95,77%	744,81%	673,22%	NA	751,15%
Ineligible expenditure identified by external audits contracted by the Commission (EUR million)	30,02	0,25	0,68	17,95	48,27	1,23	98,4
Cost of external audits contracted by the Commission (EUR million)	2,81	NA	0,71	2,41	7,17	0,00	13.10
Recovery orders issued by DEVCO in 2017 for the reimbursement of undue payments / cost of stage 4 of controls (ex-post controls and follow-up)							45%
Recovery orders issued by DEVCO in 2017 for the reimbursement of undue payments							16.46 <sup>93</sup>
Cost of stage 4 of controls (ex-post controls & follow-up)	7,37	1,31	4,56	5,58	11,51	5,96	36,28

<sup>93</sup> Necessary adjustments were made in order to deduct the amount of recoveries of pre-financing or earned interests that were wrongly encoded with recovery context "Errors", "Irregularity" or "OLAF notified". Adjustments were also made in order to exclude the amount of recoveries on expense erroneously encoded with recovery context "Errors", "Irregularity" or "OLAF notified".

## Conclusion on the cost-effectiveness of DG DEVCO's controls

For this conclusion the following elements were taken into account:

- The total cost of controls estimated by DEVCO has remained fairly stable over the last three years<sup>94</sup>. The increase in 2017 is largely due to revised full time equivalent amounts. The cost as a percentage of the total amount paid continued to decrease in 2017.



- The **RER of DG DEVCO** for 2017 is estimated at 1.18%. This error rate is below materiality and down from 3.63% in 2012.

**The main benefit of DEVCO's control system is the prevention of errors. The fact that DEVCO's system is geared towards ex-ante controls and not ex-post controls can be explained by the nature of its operations.**

In 2017, DEVCO was in charge of operations implemented in more than 130 countries on five continents, supervised by more than 90 fund centres (Delegations and HQ services) involving thousands of fund recipients and other stakeholders involved in the implementation.

Most of these operations take place in a context which is much more error-prone than is the case for operations of other Commission DGs and Services, in countries and regions with a low level of development, deficient infrastructure and weak governance. However, these operations are needed and the EU has decided to play an active role in implementing them in line with a wide-ranging international consensus, not only at the level of governments but also at civil society level. Operations implemented by DEVCO are also necessary because of the EU's very own interest.

Due to the diversity of DEVCO's operations and the fact that it covers a vast geographical area, DEVCO has no other choice than to rely on a significant number of external partners for its operations. Funds usually are provided by means of pre-financing payments; expenditure is then incurred by DEVCO partners and subsequently cleared on the basis of reports. Relationships with partners are less stable than in other spending DGs and Services and/or a higher number of partners are located outside EU jurisdiction. All these factors lead to a very pronounced need to

<sup>94</sup> It has to be noted that the cost of control for 2016 has been revised from EUR 280.165.716 to 280.789.716 and 4.26% to 4.27% (full time equivalent amounts for national experts were not correctly applied).

focus on preventive controls.

Some **measurable benefits** of DEVCO's controls are captured in its information systems:

→ **KPI 21:** Total amount of EUR 128.2 million of undue payment was prevented by DEVCO's ex-ante controls in 2017. It represents 115% of the cost of the ex-ante controls. Ex-ante controls are particularly cost effective for Budget Support (ratio benefit/cost of 584%) and for Indirect Management with Beneficiary countries (ratio benefit/cost of 229%).

→ **KPI 25:** Total amount of EUR 98.4 million was identified as ineligible in the final audit reports received by DEVCO in 2017. It represents 751% of the estimated cost of external audits contracted by the Commission. External audits are particularly cost effective for Grants in Direct Management (ratio benefit/cost of 1068%), Indirect Management with Beneficiary countries (ratio benefit/cost of 745%) and Indirect Management with IO and Development Agencies (ratio benefit/cost of 673%).

→ **Recovery Orders:** Recovery Orders for a total amount of EUR 16.46 million were issued by DEVCO in 2017 for the reimbursement of undue payments (errors & irregularities). It represents 45% of the cost of ex-post controls and follow-up.

Taking into account the important non-quantifiable benefits of DEVCO's controls such as better value for money, deterrent effects, efficiency gains, system improvements and compliance with regulatory provisions, we consider that the benefits of controls largely exceed the related costs.

**Based on the above, the controls put in place by DG DEVCO are considered to be cost effective.**

DG DEVCO continuously gauges whether control resources should be re-directed towards more stringent controls where needed while having leaner and less burdensome controls where appropriate. At this juncture it is considered that the different risk-profiles and the different cost-payment ratios are reflected in DG DEVCO's ICTs to the extent possible (e.g. budget support operations are not subject to audits or verification under annual audit and verification plans; certain expenditure verifications are obligatory only for high risk ICTs).

## B) Control efficiency

The table below presents the most relevant **key indicators on the efficiency of controls and their values** structured in line with the internal control templates in annex 5. These indicators provide a complete overview of the controls in place and are reliable.

Control efficiency (2017)	Internal Control Templates (ICT)						Total
	ICT 1 - Grants in DM	ICT 2 - BS	ICT 3 - Procurement in DM	ICT 4 - IM with Beneficiary countries	ICT 5 - IM with IOs and Devpt. Ag.	Other	
Ineligible expenditure identified by ex-ante controls/Invoiced amount	2,25%	4,42% <sup>95</sup>	1,55%	2,51%	0,51%	0,28%	2,03%
Ineligible expenditure identified by ex-ante	21,56	64,81	5,98	23,56	10,05	2,25	128,21

<sup>95</sup> "The system of ex-ante controls put in place by DG DEVCO for Budget Support operations prevents any payment to be made unless all required pre-conditions and targets have been met by the beneficiary countries. The efficiency of the ex-ante control system is illustrated by the fact that BS Operations represent 51% of the amount of payment requests blocked by ex-ante controls in 2017. In the case of Budget Support the high rate of errors detected ex-ante is an indicator of reduced risk."



controls (EUR million)							
Invoiced amount (EUR million)	957.00	1466,53	386,10	937,62	1979,62	808.69	6312,55
Internal Control Templates (ICT)							
Control efficiency (2017)	ICT 1 - Grants in DM	Control efficiency (2017)	ICT 1 - Grants in DM	Control efficiency (2017)	ICT 1 - Grants in DM	Control efficiency (2017)	ICT 1 - Grants in DM
ICT part in ineligible expenditure identified by ex-ante controls	16,82%	50,55%	4,66%	18,38%	7,84%	1,75%	100,00%
Ineligible expenditure identified by external audits / Audited amount	6,22%	1.81%	0.85%	3,94%	4,97%	3,68%	4,83%
Ineligible expenditure identified by external audits contracted by the Commission (EUR million)	30,02	0,25	0,68	17,95	48,27	1,23	98.4
Audited amount (EUR million)	482,60	13,79	80,31	455,82	971,72	33.44	2037,67
ICT part in ineligible expenditure identified by external audits	30,51%	0,25%	0,69%	18,24%	49,05%	1,25%	100,00%
Time to pay (Art. 92.1 FR): % of payments made within contractual deadlines.							89.11%
Average time to inform applicants (Art. 128.2 FR)	41	NA	NA	NA	NA	NA	NA
% of applicants informed within 6 months of final submission deadline	95.78%	NA	NA	NA	NA	NA	NA
Average time to grant as from information notice (Art. 128.2 FR)	60.03	NA	NA	NA	NA	NA	NA
% of grants signed within 3 months of informing applicants	77.8%	NA	NA	NA	NA	NA	NA

## Conclusion on the efficiency indicators

### Ineligible expenditure identified by ex-ante controls on payments (KPI 21):

In 2017, the ex-ante controls have prevented the payment of a total amount of EUR 128.2 million of ineligible expenditure. This represents 2.03% of the total invoiced amount and is above the benchmark of 2% set by DEVCO for this indicator.

### Ineligible expenditure identified by external audits (KPI 25):

In 2017, the external audits contracted by the Commission have identified a total amount of EUR 98.4 million of ineligible expenditure. This represents 4.83% of the total audited amount and is above the benchmark of 2% set by DEVCO for this indicator.

### Time to pay:

In 2017, 89.11% of the payments were made within the contractual deadlines provided by the Financial Regulation. Those results are above the objective of 85% set by DG DEVCO for year 2017. They are in line with the Commission average of 89.9% of payments made within the contractual deadlines in 2017.

### Grants management<sup>96</sup>:

In 2017, 96% of the notifications for informing the applicants of the outcome of the evaluation of their application were transmitted by DG DEVCO within the time limit of six months set by the Financial Regulation. Furthermore, the average time taken by DEVCO in 2017 is 41 calendar days far below the time limit of 6 months.

In 2017, 78% of the grant contracts were signed by DEVCO within the time limit of three months set by the Financial Regulation for signing grant contracts as from the date of informing applicants of the outcome of the evaluation of their application. The average time taken by DEVCO for signing grant contracts in 2017 is 60 calendar days far below the time limit of 3 months.

These results have to be interpreted in the light of the provision of the Financial Regulation which states that those reference periods "may be adjusted in order to take into account any time needed to comply with specific procedures (..) and may be exceeded in exceptional, duly justified cases, in particular for complex actions, where there is a large number of proposals (...)".

This is typically the case of the Calls for Proposals managed in HQ and in particular under thematic operations. These calls are often complex, or sensitive, or with a large number of applicants, proposals and countries, or complex pilot initiatives that made the contracting phase more time consuming.

Based on the results of the efficiency indicators described above and taking into account the contextual elements impacting the indicators on time to pay and time to grant, we consider that the controls put in place by DG DEVCO are efficient. However, in order to ensure a better monitoring of the respect of the time limit set for the signature of grant agreements, DEVCO is considering the transformation of this indicator into a KPI as of 2018.

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<sup>96</sup> Results based on grant contracts implemented in direct management and whose calls for proposals are managed in PROSPECT.

### 2.1.1.3 Fraud prevention and detection

DG DEVCO has developed and implemented its own anti-fraud strategy (AFS) since 2014, elaborated on the basis of the methodology provided by OLAF. It has been updated in October 2015. The overall objective of the AFS is to reinforce DG DEVCO's capacity to prevent, detect and correct fraud. The AFS distinguishes specific fraud types and risks at DG level as well as mitigating measures with an action plan, and sets key objectives to reflect the DG's priorities. The results from the regular monitoring and awareness raising efforts were the following: an online anti-fraud training course was designed; anti-fraud issues are regularly discussed at regional seminars; in the note relating to ICS 2 (Ethical and Organisational Values) attention of all staff was drawn to the AFS; anti-fraud focal points in delegations were appointed with the remit to inform all colleagues about anti-fraud issues. The action plan was regularly monitored and the majority of actions have been implemented.

DG DEVCO systematically transmits cases of suspected fraud or irregularity to OLAF. At the end of 2017, DG DEVCO was aware of a total of 18 on-going investigations (compared with 19 at end of 2016).

<i>Status on 31/12/2017</i>	<i>Cases of suspected fraud and irregularity</i>	
	<i>transmitted before 2017</i>	<i>transmitted in 2017</i>
On-going Investigations	10	8
Closed with Recommendation	3	0
Closed without Recommendation	4	0

Management and the Cabinet are regularly informed about developments with regard to OLAF investigations concerning DEVCO.

The actions foreseen in the AFS Action Plan continue to be implemented. Concerning the objective of awareness raising, DEVCO's AFS is presented at the training "Award procedures, sanctions and fraud prevention in practice" attended by Delegation staff. Also, DEVCO's online training on its AFS is available for all DEVCO staff since 2016.

The current AFS is considered to be effective, based on the number of staff who have been trained/informed about the AFS at headquarters and in Delegations and the feedback received.

In 2018, on the basis of the Commission's Anti-Fraud Strategy's revision, DG DEVCO will take the opportunity to reassess the DG's priority risks, objectives and actions, and to review DG DEVCO's Anti-Fraud Strategy accordingly.

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

#### *Safeguarding of assets and information*

Pre-financings are considered as the main asset of DEVCO. On 31/12/2017, the total open pre-financing amounted to EUR 10,385 million. The nature of the actions under Heading 4 of the budget (EU as a global player) defines in itself the duration of contracts and pre-financings. Duration of 4 years between a commitment and the closure of a project cannot be considered as a very long period for low disbursement projects based on the completion of activities on the ground.

However, DEVCO is taking seriously the risk linked to a high level of pre-financings and has carried out monitoring actions over the last years towards the clearing or recovery with a particular focus on old pre-financings. A pre-financing is considered "old" if it was paid at least 24 months before the beginning of the reporting period. As a result of this

action, the total amount of old-pre-financing has decreased from EUR 3,848 million to EUR 3,068 million (reduction of 20%) between 01/01/2014 and 01/01/2018.

It resulted also in the reduction in the percentage of expired contracts in DEVCO's portfolio from 18.62% on 31/12/2013 to 14.96% on 31/12/2017. In real terms, the number of expired contracts has decreased from 2702 contracts on 31/12/2013 to 1789 contracts on 31/12/2017 (reduction of 34%).

As far as IT security is concerned, the standard Information Systems Security Policy of the Commission is applied (Decision C(2006) 3602).

**Reliability of reporting**

Regular monitoring is ensured by DG DEVCO in order to further improve the reliability and effectiveness of DEVCO's reporting system:

- Regular quality checks are performed including campaigns on contractual dates registered in DEVCO's information system. It allowed for the correction of encoding mistakes, reinforced portfolio management as well as the improvement of business rule and data definition.
- The Data Quality Dashboard is now available to all project managers on the Intranet of DG DEVCO helping them to detect potential data quality issues and make necessary corrections.
- The intranet page dedicated to Data Quality is updated on a regular basis in line with the data quality strategy and the priorities identified. A Vade-Mecum provides details on business and IT actions necessary in order to correct inconsistencies detected in the framework of the data quality campaigns or through the Data Quality Dashboard.

**2.1.2 Audit observations and recommendations**

This section reports and assesses the observations, opinions and conclusions reported by auditors in their reports as well as the limited conclusion of the Internal Auditor on the state of control, which could have a material impact on the achievement of the internal control objectives, and therefore on assurance, together with any management measures taken in response to the audit recommendations. It draws particular attention to all open recommendations rated "very important" or on their combined effect and which may require the issuance of a reservation.

The section is subdivided into three subsections: the **Internal Audit Service (IAS)**, the **2016 Annual Reports of the European Court of Auditors (ECA)**, and the **ECA's Special Reports** issued in 2017.

*Overview of the "Very Important" (VI) audit recommendations*

Body	Audit	VI open in January 2017	New VI issued in 2017	VI Implemented during 2017	In progress	of which overdue
(Former) IAC	Management system of audit recommendations	1		1	0	
	<b>Total IAC</b>	<b>1</b>		<b>1</b>	<b>0</b>	

Body	Audit	VI open in January 2017	New VI issued in 2017	VI Implemented during 2017	In progress	of which overdue
IAS <sup>97</sup>	Budget Support	1		1	0	
	Management of the APF	3		2 <sup>98</sup>	1	1
	Design and implementation of EU Trust Funds	2		0	2	2
	Payment deadlines	2		0	2	
	DEVCO's performance management system	1		0	1	
	Management of investment facilities (2017)		2	0	2	
	<b>Total IAS</b>	<b>9</b>	<b>2</b>	<b>3</b>	<b>8</b>	<b>3</b>
ECA Annual and Special Reports <sup>**99</sup>	AR 2015 (EDF)	1		1	0	
	AR 2016 (EDF)		2	1	1	1
	SR 30/2016 "Honduras"		4	1	3	
	SR 35/2016 "DRM"		3	3	0	
	SR 9/2017 "Human-trafficking" (2017)		3	0	3	
	SR 11/2017 "Bêkou TF" (2017)		3	0	3	
	<b>Total ECA</b>	<b>1</b>	<b>15</b>	<b>6</b>	<b>10</b>	<b>4</b>

### Internal Audit Service (IAS)

#### *Internal audits in 2017 (finalised by 31/1/2018)*

One audit was carried out in 2017 and finalised in January 2018, in accordance with the IAS strategic audit plan, and concerned the **"Management of Investment Facilities (financial instruments)"**. The objective of the audit was to assess the adequacy and effectiveness of the management and coordination activities of DG DEVCO in relation to the Investment Facilities. The Internal Auditor has concluded that deficiencies exist as regards the monitoring of project implementation and in the management and clearing of pre-financing and issued two "very important" recommendations in this respect.

The final report was released on 31/01/2018.

#### *Actions completed in relation to previous years' audit recommendations*

The IAS has performed a second follow-up of the 2014 internal audit on "Budget support" which led to the closure of the only remaining recommendation concerning the need to strengthen the focus on policy dialogue in the context of budget support operations, for which the relevant guidance has been updated accordingly.

As regards the 2015 audit report on the "Management of the APF", the "very important" recommendation on the reporting on APF-funded projects has been assessed as adequately implemented by the internal auditor, following transmission of DEVCO's 2016 annual report on the management of the APF to the Commissioner in charge and dissemination of its public version to all external stakeholders. Further to this follow-up audit, the IAS has also downgraded the level of risk of the recommendation relating to the design and effectiveness of remedial measures to "important", given the actions already in place. Although measures have effectively been introduced by DEVCO to strengthen oversight over actions taken in order to accelerate compliance with the pillar assessment requirements, the implementation of the long-term Technical Assistance has

<sup>97</sup> In accordance with its updated audit plan for 2016.

<sup>98</sup> The level of risk of one recommendation was actually downgraded to "important" by the IAS.

<sup>99</sup> The recommendations from these reports are divided into several sub-recommendations.

yet to be fully completed. It is most likely to be achieved during the second quarter of 2018.

Regarding past recommendations issued by the former IAC, the remaining ones from the audit report on the management system of audit recommendations have been fully implemented with the completion and dissemination to all services of reinforced procedural guidelines for the follow-up and reporting on recommendations received from audit and legislative bodies<sup>100</sup>.

### **State of Play of "very important" recommendations yet to be implemented<sup>101</sup>**

<b>Audit on investment facilities</b>	
Monitoring project implementation	An action plan is currently under finalisation by DEVCO services to address the accepted recommendations.
Pre-financing	
<b>Audit on payment deadlines</b>	
Encoding of payment requests	The implementation of the requested measures relating to the timely encoding of payment requests and a further enhancement of the monitoring of the payment workflow is ongoing. A specific Key Performance Indicator (KPI) on the registration of invoices within five calendar days has been set up and its performance is being duly monitored in the frame of the quarterly KPI analysis. Secondly, a review has recently been carried out in order to define reference times per actor in the financial circuit and propose solutions for further monitoring payment delays.
Monitoring of the payment process	
<b>Audit on performance management</b>	
Monitoring and reporting on performance	The implementation of the action plan is already advanced and on schedule, in accordance with the agreed target date. Instructions and templates are being developed with a view to enhancing the monitoring of the achievement of operational objectives as well as the overall performance reporting.
<b>Audit on the APF (and follow-up)</b>	
Institutional assessment & monitoring	The monitoring of the AUC-Commission "Aide Mémoire" and its action plan has been enhanced and is ensured at both political and operational levels. The launch of a new pillar assessment (PA) - following the outcome of the external review of the PA roadmap implementation - has now been agreed upon with the AUC to take place in the second quarter of 2018.
<b>Audit on EU Trust Funds</b>	
Governance process	Revised guidelines and templates for EUTF have been drafted in line with the requirements of both recommendations, while also taking into account those made in the Special Report 11/2017 <sup>102</sup> of the ECA. Further consultations to include new provisions from the Financial Regulation are ongoing. The revised guidelines and templates for EUTF will be formalised and published once the new Financial Regulation enters into force.
Performance measurement & management	

### **Limited conclusion**

The IAS concluded that the internal control systems audited are partially effective due to the fact that a number of "very important" findings remain to be addressed, in accordance with the agreed actions plans or by submission and implementation of an agreed action plan.

DG DEVCO is paying particular attention to the implementation of the:

<sup>100</sup> Ares(2018)259904 - 16/01/2018.

<sup>101</sup> According to the IAS contribution to the 2017 AAR process.

<sup>102</sup> SR 11/2017 The Bêkou EU trust fund for the Central African Republic: a hopeful beginning despite some shortcomings'.

- remaining "very important" recommendation stemming from the **audit on the "Management of the African Peace Facility (APF)"**, for which a new date of launching of the pillar assessment exercise has been agreed with the AUC for the second quarter of 2018.
- two "very important" recommendations relating to the **audit on the "design and implementation of EU Trust Funds"**; revised guidelines and templates for EUTF have been drafted. Further consultations to include new provisions from the Financial Regulation are ongoing. The revised guidelines and templates for EUTF will be formalised and published once the new Financial Regulation enters into force. For the existing EUTF's the recommendations are taken into account by the Trust Fund managers in their operational procedures. For example, non-contributing Member States are fully informed about the use of funds through regular activity and financial reports, as well as about planned activities and related budgets in line with the provision of the Guidelines.
- recommendations addressing monitoring issues stemming from the:
  - **audit on payment deadlines** – several data quality campaigns on payments with long suspension periods have been launched. Reference time per actor in the financial circuit and a monitoring system of payment delays are identified and proposed by a dedicated review. The long-term solution identified (i.e. monitoring the payment time by implementing the single integrated corporate system "Compass/Syigma" in OPSYS should progressively be put in place according to the planning for the deployment of OPSYS "Track II". In the meantime, intermediary measures for monitoring reference times by payment step will be implemented in the Portfolio Management Dashboard by June 2018. Following the measures already taken, 89.1% of the invoices processed by DEVCO in 2017 were paid within the contractual deadlines.
  - **audit on performance management systems** – 4 out of 6 sub-recommendations that are included under this very important recommendation have already been implemented. They are related to ensuring that the Annual Activity Report reports on concrete results and on progress to the achievement of the specific objectives, that difficulties encountered are reported upon, that a regular monitoring of outputs indicators is done, that the EAMRs and the AOSD reports report on the objectives set in the corresponding Management Plans. The remaining 2 sub-recommendations are due at the end of 2018 being dependent on the schedule of development of OPSYS IT System.
  - **audit on Investment Facilities** – DEVCO management has been regularly informed on the results regarding financial and operational performance of projects/IFIs through established mechanisms: the EAMRs (External Assistance Management Reports), the monitoring results of the Results Oriented Monitoring (ROM) System, the results of the aggregated analysis carried-out by the relevant unit on the state of play of projects shared in the frame of the Budget Steering Committees. The blending project cycle and guidance provided to our implementing partners (IFs) have already strengthened project monitoring in the new blending framework. DEVCO will continue applying ongoing measures and systems to ensure the quality and timeliness of the reports submitted by the IFIs.

### 2016 Annual Reports of the European Court of Auditors (ECA)

The ECA published its General Budget and EDF Annual Reports for the year 2016 in September 2017. Chapter 9 of the 2016 Annual Report on the EC Budget found an estimated error rate for expenditure transactions in the policy group "Global Europe" of 2.1%, which is 0.7 percentage points lower than the estimation for the financial year 2015. The ECA estimated the level of error concerning EDFs payments at 3.3%, which is 0.5 percentage points lower than the one estimated for 2015.

DEVCO's supervisory and control systems were assessed as partially effective in both annual reports on the General Budget and on the EDF. The ECA also stresses the fact that DEVCO has extended the reservation in the 2016 AAR in order to also cover grants and programmes estimates under indirect management as high-risk spending areas, stating that it is in line with its recommendations and observations in this and previous Annual Reports.

In its 2016 Annual Report on the European Development Funds (EDF), the ECA issued the following recommendations:

- Recommendation 1: strengthen the monitoring of old open expired EDF contracts in order to further reduce their number.
- Recommendation 2 ("very important"): complete the revision of the terms of reference for all its audits and expenditure verifications by the end of 2017.
- Recommendation 3 ("very important"): extend the actions in its 2017 action plan to also cover grants and programme estimates under indirect management in the AAR reservation.
- Recommendation 4: consider reducing the extent of the RER substantive testing of individual low-risk budget support transactions and reallocating the saved resources to increase the substantive testing of project-related transactions.
- Recommendation 5: further improve the calculation of the 2017 corrective capacity by addressing the shortcomings identified in this annual report.

All these recommendations were accepted.

The first recommendation is being currently addressed through an increased monitoring of open expired contracts, via the KPI dashboard, and regular follow-up campaigns.

As regards the revised Terms of Reference for audit and expenditure verifications performed by beneficiary-contracted auditors, important progress was made. As part of the ongoing revision, changes that will increase the relevance and quality of audit reports were already introduced recently to the Terms of Reference for financial audits. Also, Terms of Reference for verifications of operations implemented by international organisations other than those of the World Bank and United Nations groups were developed. It is intended that the overall revision will lead to the reduction of the number of different terms of reference and to the simplification of the remaining texts.

Concerning the other "very important" recommendation, DEVCO has distinguished between forms of aid with different risk profiles, following a risk analysis based on the RER study and the Court of Auditors' error rate. This allowed specific actions to be defined and included in the action plan adopted in 2017 and which target the new high-risk expenditure areas as identified through the reservation made in the 2016 AAR.

The approach suggested by the European Court of Auditors in its recommendation regarding the issue of the RER testing was discussed with the contractor in charge of the RER study who is taking it into account.

The last recommendation was implemented in the 2017 AAR exercise. The 2017 corrective capacity is being computed based on 2016 and 2017 figures. A report with consistency checks of the multiple fields of ABAC's recovery context tab has been developed in order to monitor data coherence.

Finally, the Court of Auditors also analysed the progress made in implementing the recommendations made in its 2013 EDF report, and has assessed all five recommendations as implemented in full.

### **ECA's Special Reports**

The ECA issued two Special Reports in relation to DEVCO in 2017:

devco\_aar\_2017\_final



- **09/2017 EU support to fight human trafficking in South/South-East Asia**

In the report the ECA found that the EU was partially effective in supporting the fight against human trafficking in South/South-East Asia. The Court made recommendations to further develop the human trafficking strategic framework and to optimise the impact of projects by integrating them into a comprehensive framework.

- **11/2017 The Bêkou EU trust fund for the Central African Republic: a hopeful beginning despite some shortcomings**

The ECA concluded that both the choice to set up the Bêkou trust fund and its design were appropriate in the given circumstances, that it has attracted aid and that most of its projects have delivered their expected outputs. The Court also considered that the fund provides enhanced visibility for the EU in the Central African Republic which is a major asset when it comes to EU external activities.

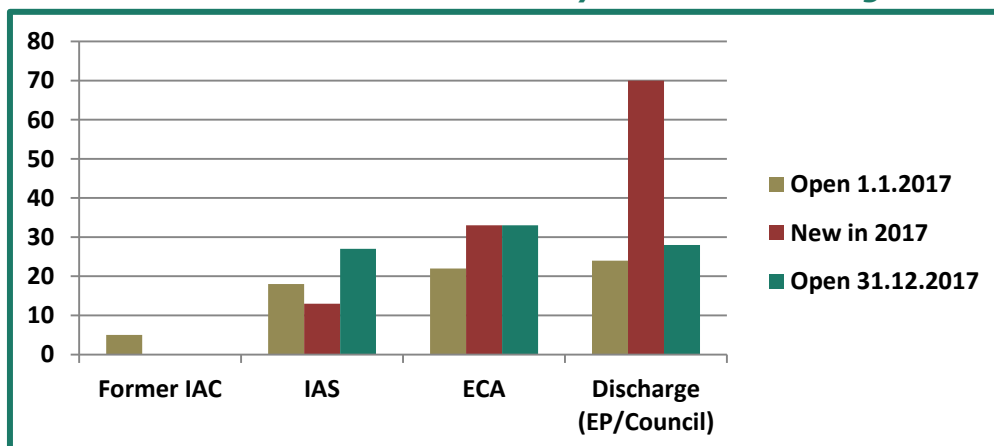
The ECA has identified room for improvement with regard to coordination amongst stakeholders, the selection procedures and monitoring and evaluation mechanisms which remain to be fully developed. The situation has evolved in a positive way since the audit as regards the general coordination.

## CONCLUSIONS ON AUDIT RESULTS AND FOLLOW-UP OF RECOMMENDATIONS

Efforts have been pursued in order to monitor audit recommendations for which the implementation is still in progress, and to keep their number at a low level in spite of the increase of performance audits carried out by the Court of Auditors and the growing number of recommendations addressed to DEVCO. Three "very important" recommendations stemming from the Court of Auditors' 2016 Annual Report and from the internal audit report on EU Trust Funds are overdue, with respect to the initial target date for their implementation, but their current state of play does not lead to any significant assurance-related concern.

As regards the remaining issues related to the management of the APF, the completion of the pending actions is being closely monitored. The conclusion of the second follow-up audit conducted in 2017 was that the risk to which the European Commission is exposed in implementing EC-funded operations through the African Union Commission (AUC) has been partially mitigated, despite the action plan in place. This assessment supports the decision to maintain the reservation made in the 2016 Annual Activity Report but to limit it to the operations managed by the AUC with a large content of procurement.

**Number of recommendations issued by audit and discharge bodies**



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

The Commission has adopted a set of internal control standards, based on international good practice, aimed to ensure the achievement of policy and operational objectives. In addition, as regards financial management, compliance with these standards is a compulsory requirement.

DG DEVCO has put in place the organisational structure and the internal control systems suited to the achievement of the policy and control objectives, in accordance with the standards and having due regard to the risks associated with the environment in which it operates.

#### **o General environment**

The operational environment of external aid financed by the EU Budget, the EDFs, and the EU Trust Funds is characterised by:

- ➔ a high level of risk in the "developing country" context due to the geo-political, social, institutional and administrative environment frequently associated with instability.
- ➔ geographically dispersed activities (covering 86 Delegations managing funds for External Aid around the world);
- ➔ a high number of operations and associated financial transactions;
- ➔ the diversity of implementing organisations and partner countries with their diverse management and control capacities (ranging from small local NGOs to IOs);
- ➔ eight different cooperation instruments for the 2014-2020 period;
- ➔ a diversity of aid delivery methods (traditional projects, budgetary support, sectoral policy support programmes, contributions to global instruments, blending etc.).

Management assesses on a continuous basis the effectiveness of the internal control systems, in order to determine whether they work as intended and ensuring that any control weaknesses in the system are detected, analysed and considered for improvement.

In addition, management performs specific assessments to ascertain whether the internal control systems and their components are present and functioning.

The purpose of these management assessments is to provide reasonable assurance that the internal control standards adopted by the Commission are implemented and functioning in the DG, that the assessment findings are evaluated and that any deficiencies are communicated and corrected in a timely manner, with serious matters reported as appropriate.

#### **o ICS in Headquarters**

In order to monitor the compliance with ICS, DEVCO carried out a desk review to assess the conformity with the baseline requirements as defined by the central Commission services. The result was that the standards are implemented and functioning. The result was that all requirements were implemented.

In relation to the effectiveness of ICS implementation, DEVCO carried out a survey with Deputy Heads of Units, Heads of Units, Directors, Deputy Directors-General and the Director-General asking 55 questions grouped around the 15 ICS.

The overall results of the ICS effectiveness management survey in Headquarters show that 71.2% of the respondents assessed control measures in DEVCO as effective and confirmed the generally satisfactory perception ("positive assessment") of management of the functioning of the internal control system. If replies expressing a "positive assessment with changes needed" are added, the percentage is 89.5%.

The Internal Control Standards which achieved the highest positive assessments across the organisation were ICS 13 "Accounting and Financial Reporting" and ICS 9 "Management Supervision".

At the other end of the scale, ICS 3 "Staff Allocation and Mobility" achieved - as in previous years - the lowest effectiveness rating, followed by ICS 6 "Risk Management Process".

## o ICS in Delegations

The information from Delegations relating to ICS stems from an EEAS survey, complemented by information in the External Assistance Management Reports (EAMR).

Delegations expressed their views on the effectiveness of ICS implementation and these were translated into six Key Performance Indicators (KPI).

While for 2017 all KPIs are again in the green area, i.e. well above the benchmark of 80%, the KPI with the lowest score was KPI 14 (human resources, regrouping ICS 3 and 4).

## CONCLUSION ON INTERNAL CONTROL STANDARDS

DG DEVCO has assessed the internal control systems during the reporting year with a desk review and surveys on the internal control standards and has concluded that the internal control standards are implemented and functioning as intended. This is in line with the RER result for 2017 and the progress made for the KPIs. However, in its contribution to the present report the IAS concluded that control systems are partially effective. This view is based on the systems audited by the IAS. It hints at weaknesses in ICS 5 (Objectives and Performance Indicators) and/or ICS 9 (Management Supervision). Also, in its 2016 Annual EDF Report, the European Court of Auditors issued an adverse opinion on the legality and regularity of payments underlying the accounts. The implementation of the action plans following present and past reservations and the specific action plans relating to the individual audit findings intend to improve the control system.

### 2.1.4 Conclusions as regards assurance

This section reviews the assessment of the elements reported above (in Sections 0, 2.1.2 and 2.1.3) and draws conclusions supporting the declaration of assurance and whether it should be qualified with reservations.

The information reported in Section 2.1 stems from the results of management and auditor monitoring contained in the reports listed. These reports result from a systematic analysis of the evidence available. This approach provides sufficient guarantees as to the completeness and reliability of the information reported and results in a comprehensive coverage of the budget delegated to the Director-General of DG DEVCO.

Therefore, under the prevailing risk environment and from a managerial point of view, DG DEVCO's AOD can sign the Declaration - even with reservations concerning the error rate and the APF.

## o Positive elements building assurance

### A functioning accountability chain (EAMR/SDAO/AAR) and satisfactory KPI results for 2017

The accountability and reporting chain in DEVCO is organised as a pyramid through which the statements of assurance signed by each Head of Delegation set the basis of the assurance provided by the other (sub)-delegated authorising officer at the upper levels of the pyramid. All Authorising Officers by (sub)-delegation substantiate their statements of assurance in their annual reports taking into account the results achieved for 25 Key Performance Indicators (KPI) regrouped in three categories: sound financial management, effectiveness of the internal control systems and effectiveness of the audit system. The KPI results are automatically assessed versus the benchmarks through a "traffic lights" system.

At global level, performance further improved in 2017 with 24 out of 25 KPIs in line with the benchmarks compared with 21 out of 24 KPIs in 2016:

- 11 green out of 12 KPIs in the category "sound financial management and effective use of European Commission Resources": accuracy of financial forecasts for payments, accuracy of financial forecasts for contracts, accuracy of initial annual financial forecast for decisions, RAL absorption period, % of projects with red traffic light for implementation progress, % of projects with red traffic light for achieving results, Reduction of Old Pre-financing, Expired Contracts as a % of the contract portfolio, Reduction of Old RAL, % of payments paid within the contractual deadline and % of invoices registered within 7 days.
- 9 green KPIs out of 9 in the category "effectiveness of internal control systems": ICS - Missions & Values, ICS - Human Resources, ICS 4- Planning and Risk Management, ICS - Operations & Control Activities, ICS - Information & Financial Reporting, ICS - Evaluation & Audit, % contracted of project evaluations in the AEP and Ineligible amounts identified by ex-ante controls as a % of amount claimed, percentage of project visited by DEVCO staff and/or the HOD.
- 4 green KPIs out of 4 in the category "effectiveness of audit system" (implementation of audit plans and ineligible amounts identified by audits).

The only KPI not meeting the benchmark in 2017 is the one on the flexibility arrangements for the use of staff in Delegation which were not respected in 3<sup>103</sup> out of 86 Delegations. Improvement for this KPI will be part of DEVCO's priorities for 2018.

Very good results have been achieved at Delegation level with an increased number of Delegations meeting targets for most of the KPIs in 2017:

% of green KPIs	2016		2017	
	Nbr of Delegations	%	Nbr of Delegations	%
<b>Total Delegations</b>	<b>86</b>		<b>86</b>	
80% and more	36	42%	55	64% <sup>▲</sup>
60% and more	80	93%	82	95% <sup>▲</sup>
Less than 50%	1	1%	0	0% <sup>▼</sup>

At the end of 2017 and thanks to the action plans implemented during the year, only 4 Delegations have achieved the benchmarks for less than 60% of their KPIs compared to

<sup>103</sup> Kenya, Lesotho and Tanzania

6 Delegations at the end of 2016 and 9 at the end of 2015.

Overall Green KPI Result for	2016	2017
Barbados	58%	71%
Central African Republic	52%	68%
Congo (DRC)	52%	83%
Eritrea	67%	58%
Mauritania	71%	58%
South Sudan	60%	50%
Sudan	59%	67%
Timor Leste	59%	79%
Yemen	45%	50%

### Full coverage of expenditure by the control mechanisms

The control instruments in place cover the entire budget expenditure managed by DEVCO: EU Budget, the EDF and the Trust Funds: Bekou, Africa and Colombia. No part of the budget is left out of the control strategy.

As regards detective and corrective elements in the control strategy, external audits by the Commission and the recipients of funds cover a significant amount of the funding managed by DEVCO. They contribute therefore substantially to assurance as regards both the legality and regularity of external aid and the sound and efficient management of the funds.

Ex-ante transactional checks for 100% of payments add up as well to the assurance provided.

Moreover, preventive actions are in place, in the form of guidance and core training. This has been instigated with the aim of raising awareness and providing practical knowledge, both at the level of financial managers and beneficiaries, on the terms and conditions of sound and efficient use of financial resources, as well as legality and regularity of financial transactions.

Institutional compliance assessments provide reliable, overall positive elements of assurance concerning the capacity and reliability of the actors involved in the implementation of DEVCO funding at centralised, decentralised and shared management levels.

The eligibility assessments for Budget Support also provide relevant input for assurance.

### Confirmation of the soundness of the control system on the basis of the RER results and the analysis of errors found

Given the high-risk environment, it is clear that the control system needs to anticipate a significant occurrence of potential error in transactions and build in a high level of prevention, detection and correction controls as early as possible in the payment process. This means in practice that DEVCO's control architecture places most reliance on ex-ante checks by both external auditors and Commission staff in the field before final project payments are made. DEVCO therefore performs a high level of ex-ante controls both in terms of the coverage and in the nature of these controls, going well beyond the financial safeguards required by legislation.

In light of the results of the RER study 1.18%, i.e. well below materiality, the conclusion is that the main elements in the control strategy are operating in a satisfactory manner (no major flaws in the design of the control system), even if improvements are possible and already being implemented in many cases (see point on higher risk areas below).

These elements do not compromise the overall soundness of the control system, even if they have an impact in its effectiveness in the field, as assessed by the ECA. A large part of the overall error rate as estimated by the 2017 RER study related to inadequate or missing documentation rather than to confirmed errors.

### **A satisfactory follow-up of audit results**

Sustained efforts have been made by DEVCO services throughout 2017 to address past internal (IAC/IAS) and external (ECA) audit recommendations. Only four recommendations classified as "very important" have their implementation being overdue with respect to their original target date. The efforts to implement the few outstanding recommendations, in particular those bearing a potential risk for the assurance process will be continued in 2018.

### **An overall effective implementation of the Internal Control Standards**

Based on a desk review and surveys on the internal control standards DEVCO concluded that the internal control standards are implemented and functioning as intended. This is in line with the RER result for 2017 and the progress made for the KPIs. However, in its contribution to the present report the IAS concluded that control systems are partially effective. Also, in its 2016 Annual EDF Report, the European Court of Auditors issued an adverse opinion on the legality and regularity of payments underlying the accounts. The implementation of the action plans following present and past reservations and the specific action plans relating to the individual audit findings intend to improve the control system.

### **An anti-fraud strategy in place**

The current DEVCO anti-fraud strategy (AFS) was examined in 2015 and it was concluded that no substantial amendments were needed. In 2018, on the basis of the Commission's Anti-Fraud Strategy's revision, DG DEVCO will reassess the DG's priority risks, objectives and actions and review DG DEVCO's Anti-Fraud Strategy accordingly.

### **A favourable assessment of control efficiency and cost effectiveness**

Total cost of controls for year 2017 is estimated by DEVCO at EUR 288.5 million. It represents 3.9 % of total payments made by DEVCO in 2017. Taking into account the risky environment in which DEVCO operates and the complex set up for the implementation of External Aid, we consider the total cost of control is reasonable.

Costs effectiveness of DG DEVCO's controls is also demonstrated by the benefits of the controls. The RER of DG DEVCO for 2017 is estimated at 1.18%, below materiality and continuing the decreasing trend. A total amount of EUR 128.2 million of undue payment was prevented by DEVCO's ex-ante controls in 2017 (KPI 21). A total amount of EUR 98.4 million was identified as ineligible in the final audit reports received by DEVCO in 2017 (KPI 25).

Recovery Orders for a total amount of EUR 16.46 million were issued by DEVCO in 2017 for the reimbursement of undue payments (errors & irregularities)

In addition, there are significant non-quantifiable benefits of DEVCO's controls such as better value for money, deterrent effects, efficiency gains, system improvements, and compliance with regulatory provisions.

### **Progress in terms of assurance building**

As reported in the 2016 Annual Management and Performance Report (COM/2017/0351 devco\_aar\_2017\_final

final), DG DEVCO made notable progress concerning the better segmentation of the assurance building per type of expenditure.

## o Elements deserving attention and corrective measures taken

### Follow-up of past reservations

Reservations were made by DEVCO in its Annual Activity Reports for 2012, 2013, 2014, 2015 and 2016, due to the significant occurrence of errors in the underlying transactions (legality and regularity) as shown by the RER (i.e. the level of errors which remain undetected and uncorrected by the end of the management cycle) of 3.63% in 2012, 3.35% in 2013, 2.81% in 2014, 2.2% in 2015 and 1.67% in 2016.

Following the AARs, several action plans were drawn up in order to address the weaknesses in the internal control system. The latest was set up in the summer of 2017 (relating to the 2016 AAR): it contains actions from the previous action plans that were not fully implemented, as well as other actions that became part of the control system but that will be strengthened, and newly-defined targeted actions.

### Error rates in higher risk areas

Special attention should be paid to spending areas previously or currently associated with a higher risk. In the action plan specific actions have been included for each of them.

#### A. Actions targeting Grants in both Direct and Indirect Management:

- Revision of the Terms of Reference for expenditure verifications implemented by beneficiaries and contract services;
- Requesting supporting documents of randomly selected transactions related to requests for payment, and verifying them before approving the disbursement and/or clearing of expenditure;
- Simplification of procedures and contractual conditions for grants;
- Further raise awareness on frequently occurring errors in financial and document management for the implementation of grant contracts.

#### B. Actions targeting Indirect Management with Beneficiary Countries - Programme Estimates:

- Develop a strategy for the reduction of the use of Programme Estimates and promotion of alternatives, in view of simplification and cost-effectiveness;
- Prepare a road-map towards systematic reinforcements of controls taking into account their expected benefits and costs;
- Revise the Terms of Reference (ToR) for expenditure verifications of Programme Estimates.

#### C. Actions regarding Indirect Management with IOs:

- Reinforce the mandate of the focal point for coordination of relations with international organisations at all levels (including control relations);
- Adapt the Terms of Reference (ToR) for verification missions to International Organisations emphasising legality and regularity;
- Continue and reinforce cooperation with International Organisations in view of sustainable reduction of errors;
- Adaptation of the pillar assessments to the requirements of the FR revision;
- Adaptation of the delegation agreement template to the requirements of the FR revision.

One of the causes of errors are overly-detailed conditions for grants and indirect management that go beyond what is legally required and with no added value regarding performance and results. The deletion of such unnecessary elements in the Practical Guide (PRAG) and the PAGO template concerning elements that go beyond what is legally required and do not add value to the assurance process was already undertaken. Upon proposal by DG DEVCO further simplifications related to grants and indirect management were included in the Commission proposal for a new Financial Regulation and adopted by the Legislator. There are regular meetings amongst Finance-Contract-Audit Units in order to discuss the most common sources of errors and ways to avoid them. The financial management toolkit for grant beneficiaries and the manuals for different contract types are further promoted; training activities are undertaken and adapted.

### **African Union Commission (AUC) management of European Funds**

Based on the fact that the APF allocations under the EDF had doubled over a period of 10 years (with indications for further increases) and that the majority of these funds transited via one organisation DG DEVCO re-launched in 2015 an Institutional Assessment (pillar assessment) of the Implementing organisation (AUC).

It concluded that three pillars (accounting, procurement and sub-delegation) out of the six assessed were not compliant. Subsequently the Director-General instructed his services to carry out an internal consulting report in order to provide an overview of the management and control systems put in place for the APF. The results of this report confirmed the institutional weaknesses of the implementing partner and the difficulties to adapt our procedures to complex peace and security operations.

As part of the actions taken in order to improve the management of the APF the Director-General requested the IAS of the European Commission to conduct an audit on the financial and operational management of the implementation of the APF. The IAS submitted its findings and recommendations to DG DEVCO in January 2016. The IAS concluded that the control system put in place by DG DEVCO for the management and operational monitoring of the APF was not sufficiently effective in protecting the legality and regularity of the EDF expenditure under the APF. Based on these findings, DG DEVCO decided to include a reservation regarding the management of the APF in the 2015 AAR. The reservation was renewed in the 2016 AAR due to the lack of substantial progress achieved by the AUC in the weaknesses identified during the failed pillar assessment.

In 2016, DG DEVCO formulated an Action Plan to address the audit recommendations, which started to be implemented in March. DEVCO's progress in implementing the Audit Action Plan was subject to two IAS follow-up audits in February and September 2017. The Action Plan has been successfully implemented in most areas (Recommendations 4, 6 and 7 were implemented and Recommendations 2 and 3 downgraded to "important"). In addition, at the end of February 2018 DEVCO has completed the implementation of the audit action plan activities concerning Recommendations 2, 3 and 5, which are now ready for review.

However, Recommendation 1 of the audit report (very important) remains open. In order for DEVCO to declare it ready for review, the AUC will need to pass the full pillar assessment successfully. The AUC and the EU have agreed a pillar assessment roadmap, which contains the actions that the AUC needs to put in place in order to address the institutional weaknesses identified in 2015 by the previous assessment. DG DEVCO has provided targeted technical assistance to the AUC in order to address those weaknesses. In the last review of the implementation of the roadmap (November 2017) the African Union made progress in two of the three non-compliant pillars i.e. accounting and sub-delegation. Procurement, however, remains an issue.

As a consequence DG DEVCO has decided to postpone the launching of a new pillar assessment to 2018 and to express a reservation also in this year's AAR.



However, knowing that more than 70% of APF funds disbursed in 2017 concerned payments to troop contributing countries under AMISOM and that audited ineligible expenditures of AMISOM remained below 1% and together with the implementation of the rest of mitigating measures that DEVCO has designed and applied to all contracts signed with the AUC, it is fair to state that this has substantially reduced the EU's financial risks. In conclusion, DEVCO considers that the reservation concerning the APF can be adjusted by transforming it into a reservation limited to AUC managed programmes that involve a significant level of procurement (be it under the APF or under the PANAFRICAN programme).

#### **IAS conclusion on the state of internal control**

The IAS concluded that the internal control systems audited are partially effective since a number of "very important" recommendations, as explained above, remain to be addressed, in line with the agreed action plans or by submission and implementation of an agreed action plan.

### **OVERALL CONCLUSION**

**In conclusion, management has reasonable assurance that, overall, suitable controls are in place and working as intended; risks are being appropriately monitored and mitigated; and necessary improvements and reinforcements are being implemented. The Director-General, in his capacity as Authorising Officer by Delegation has signed the Declaration of Assurance, albeit qualified by a reservation concerning**

**A reservation is issued concerning the spending areas with an indicative error rate above 2%. This concerns Grants in direct management.**

**In addition, a reservation on the AUC managed programmes that involve a significant level of procurement is made.**

## 2.1.5 Declaration of Assurance and reservations

*I, the undersigned,*

*Director-General of DG DEVCO*

*In my capacity as authorising officer by delegation*

*Declare that the information contained in this report gives a true and fair view<sup>104</sup>.*

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

*This reasonable assurance is based on my own judgement and on the information at my disposal, such as the results of the self-assessment, ex-post controls, the limited conclusion of the Internal Auditor on the state of control, the observations of the Internal Audit Service and the lessons learnt from the reports of the European 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.*

*However the following reservations should be noted:*

*Reservations concerning the error rate relating to Grants in Direct Management and programmes managed by the African Union Commission that involve a significant level of procurement.*

**Brussels, 28 March 2018**

**Stefano MANSERVISI**

**(signed)**

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<sup>104</sup> True and fair in this context means a reliable, complete and correct view on the state of affairs in the DG.

## Reservation 1

DG	DEVCO
Title of the reservation, including its scope	Reservation concerning the error rate being above 2%.
Domain	Grants in direct management
Programme and amount affected ("scope")	All ABB activities in which the domain is used. The corresponding payments made are EUR 1,187 million.
Reason for the reservation	Significant occurrence or errors in the underlying transactions (legality and regularity).
Materiality criterion/criteria	The materiality criterion is the RER, i.e. the level of errors which remain undetected and uncorrected by the end of the management cycle. The control objective is to ensure that the RER is below 2% at the end of the management cycle. As long as the RER is not (yet) below 2% at the end of the reporting year a reservation should be made.
Quantification of the impact (= actual exposure")	The estimated amount at risk for the EU and EDF budgets is calculated by multiplying the most likely estimate of the overall RER 1.18% by the risk index of the spending areas concerned and by the value of relevant expenditure made by DEVCO in these areas in 2017. For the areas where the indicative error rate is above 2%, the actual exposure (EU and EDF budgets combined) for 2017 is estimated at EUR 21.2 million (of which EUR 1.5 million relating to funds sub-delegated to DG NEAR).
Impact on the assurance	Legality and regularity of the affected transactions. The assurance is affected within the scope of the quantified budgetary impact.
Responsibility for the weakness	Units/Delegations in charge of the respective contracts for which a residual error was found.
Responsibility for the corrective action	<p>The action plan following last year's reservation includes the following elements:</p> <p><b>A.</b> Actions targeting Grants in both Direct and Indirect Management</p> <ul style="list-style-type: none"> <li>• Revision of the Terms of Reference for expenditure verifications implemented by beneficiaries and contract services;</li> <li>• Requesting supporting documents of randomly selected transactions related to requests for payment, and verifying them before approving the disbursement and/or clearing of expenditure;</li> <li>• Simplification of procedures and contractual conditions for grants;</li> <li>• Further raise awareness on frequently occurring errors in financial and document management for the implementation of grant contracts.</li> </ul> <p><b>B.</b> Actions targeting Indirect Management with Beneficiary Countries - Programme Estimates</p> <ul style="list-style-type: none"> <li>• Develop a strategy for the reduction of the use of Programme Estimates and promotion of alternatives, in view of simplification and cost-effectiveness;</li> <li>• Prepare a road-map towards systematic reinforcements of controls taking into account their expected benefits and costs;</li> <li>• Revise the Terms of Reference (ToR) for expenditure verifications of Programme Estimates.</li> </ul> <p><b>C.</b> Actions regarding Indirect Management with IOs:</p> <ul style="list-style-type: none"> <li>• Reinforce the mandate of the focal point for coordination of relations with international organisations at all levels (including control relations);</li> <li>• Adapt the Terms of Reference (ToR) for verification missions to International Organisations emphasising legality and regularity;</li> <li>• Continue and reinforce cooperation with International Organisations in view of sustainable reduction of errors;</li> <li>• Adaptation of the pillar assessments to the requirements of the FR revision;</li> <li>• Adaptation of the delegation agreement template to the requirements of the FR revision.</li> </ul> <p><b>D.</b> Cross-cutting actions:</p> <ul style="list-style-type: none"> <li>• Increase consistency and coherence of the functioning of audit and verification</li> </ul>

	<p>tasks;</p> <ul style="list-style-type: none"> <li>• Revise the ToR for audits and verifications with the objective of reducing the number of different ToR and their simplification.</li> </ul> <p>Depending on the actions the responsibility for their implementation lies either with DEVCO management, the DEVCO Resources Directorate, EU Delegations or the DEVCO Finance, Contracts and Audit Units. Although the present reservation relates to grants in direct management only, the actions relating to the other spending areas will also be continued.</p>
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## Reservation 2

<b>DG</b>	DEVCO
<b>Title of the reservation, including its scope</b>	African Union Commission (AUC) managed funds involving a significant level of procurement during year 2017.
<b>Domain</b>	Indirect management with an international Organisation (AUC)
<b>ABB activity and amount affected ("scope")</b>	EDF and DCI: Payments made by DEVCO in 2017 in the context of the APF (EDF) and the PANAFRICAN Programme (DCI) in indirect management with the AUC for contracts with a significant level of procurement. The corresponding amount of payments made is EUR 7.2 million.
<b>Reason for the reservation</b>	<p>The APF is the key EU financial instrument to support cooperation with Africa in the area of Peace and Security by financing African-led Peace Support Operations (PSOs), capacity building to implement the African Peace and Security Architecture (APSA) and initiatives under the Early Response Mechanism (ERM).</p> <p>The APF has been fundamental in helping the African organisations having a peace and security mandate to begin taking ownership of conflict resolution on the continent – both in terms of their ability to respond to crises through the deployment of PSOs (often where the UN cannot), and improving their capacity to do so.</p> <p>Based on the fact that the APF allocations under the EDF have doubled over a period of 10 years (with indications for further increases) and that the majority of these funds transit via one organisation and in line with the provisions of the 2012 Financial Regulation, DG DEVCO re-launched in 2015 an Institutional Assessment (pillar assessment) of the Implementing organisation.</p> <p>It concluded that three pillars (accounting, procurement and sub-delegation) out of the six assessed were not compliant.</p> <p>Subsequently the Director-General instructed his services to carry out an internal consulting report in order to provide an overview of the management and control systems put in place for the APF. The results of this report confirmed the institutional weaknesses of the implementing partner and the difficulties to adapt our procedures to complex peace and security operations.</p> <p>As part of the actions taken in order to improve the management of the APF the Director-General requested the IAS of the European Commission to conduct an audit on the financial and operational management of the implementation of the APF. The IAS carried out an audit of the APF in the last quarter of 2015 and submitted its findings and recommendations to DG DEVCO in its final report in January 2016.</p> <p>The IAS acknowledged the number of controls that have been set up to address the known weaknesses in the management and control system of the Organisation concerned, identified in the various pillar assessments, but concluded that the control system put in place by DG DEVCO for the management and operational monitoring of the APF was not sufficiently effective in protecting the legality and regularity of the EDF expenditure under the APF.</p>

Based on these findings, DG DEVCO decided to include a reservation in the AAR 2015. The reservation was renewed in the 2016 AAR due to the lack of substantial progress achieved by the AUC in the weaknesses identified during the failed pillar assessment.

The IAS audit report contained 7 recommendations:

- Recommendation 1 (Very Important) on the "Institutional Assessment and Monitoring by DG DEVCO of the partnership with the AUC";
- Recommendation 2 (Very Important) on the "Design and Effective of the Remedial/Mitigating Measures at Contract level";
- Recommendation 3 (Very Important) on the "Governance and Coordination between DG DEVCO – EU Delegations – EEAS";
- Recommendation 4 (Very Important) on "Reporting on the APF and Management Representation";
- Recommendation 5 (Important) on "External Audits and Follow-Up of External Audit Findings";
- Recommendation 6 (Important) on "Payments to Troop Contributing Countries (TCCs)"; and
- Recommendation 7 (Important) on "Retroactivity: Impact on Sound Financial Management"

In 2016, DG DEVCO formulated an Action Plan to address the audit recommendations, which started to be implemented in March. DEVCO's progress in implementing the Audit Action Plan was subject to two IAS follow-up audits in February and September 2017. They resulted in the closing of Recommendations 4, 6 and 7, and the downgrading to "important" of Recommendations 2 and 3. As of the end of February 2018 DEVCO has completed the implementation of the audit action plan activities concerning Recommendations 2, 3 and 5, which are now ready for review.

Recommendation 1 of the audit report (very important) remains outstanding. In order for DEVCO to declare it ready for review, the AUC will need to pass the full pillar assessment successfully. The AUC and the EU have agreed a pillar assessment roadmap, which contains the actions that the AUC needs to put in place in order to address the institutional weaknesses identified in 2015 by the previous assessment. DG DEVCO has provided targeted technical assistance to the AUC in order to address those weaknesses. In the last review of the implementation of the roadmap (November 2017) the African Union made progress in two of the three non compliant pillars i.e. accounting and sub-delegation. Procurement however remains an issue.

As a consequence DG DEVCO has decided to postpone the launching of a new pillar assessment to 2018 and to express a reservation also in this year's AAR.

However, knowing that more than 70% of APF funds disbursed in 2017 concerned payments to troop contributing countries under AMISOM and that audited ineligible expenditures of AMISOM remained below 1% and together with the implementation of the rest of mitigating measures that DEVCO has designed and applied to all contracts signed with the AUC, it is fair to state that this has substantially reduced the EU's financial risks, meaning that the scope of the reservation can be limited to AUC managed programmes that involve a significant level of procurement (be it under the APF or under the PANAFRICAN programme).

The present reservation is based on these findings.

<b>Materiality criterion/criteria</b>	The control system does not address adequately the identified weaknesses, having a material impact on sound financial management and legality and regularity aspects.
<b>Quantification of the impact (= actual exposure")</b>	For the actual exposure under the APF and PANAF programme in 2017, the amount at risk is estimated by multiplying the relevant expenditure with the upper error limit of the 2017 RER study and the specific risk index for indirect management with IOs. The respective amount at risk is estimated at EUR 5.5 million.

	The measures foreseen in the action plan will substantially limit the risks.
Impact on the assurance	The impact of the identified weaknesses is limited to the management of the APF and the PANAFRICAN PROGRAMME projects managed by the African Union Commission. These weaknesses do not call into question the functioning of the overall control system of DEVCO; internal control objective affected: 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 32): significant control system weaknesses confirmed by the IAS.
Responsibility for the weakness	The weaknesses identified in the control system put in place by DG DEVCO include: → Although the AUC has progressed in the implementation of the roadmap put in place to comply with the required pillar assessments, the last two follow-up reviews of the roadmap (January and May 2017) show that the AUC needs to address high risk weaknesses related to procurement and further strengthen its internal controls in order to reach full compliance with the international standards. This was further substantiated by the AUC own reporting of the pillar assessment roadmap (November 2017).
Responsibility for the corrective action	<p>DG DEVCO set up in February 2016 a dedicated Task Force to ensure rapid and effective implementation of the IAS recommendations. The Task Force includes all relevant Commission services (DEVCO, BUDG, Legal Service, SG) and the EEAS. Its main mandate was to prepare and follow-up on the IAS recommendations via an Action Plan; to negotiate with the AUC an "Aide-Mémoire" and related monitoring tool and to follow-up on its implementation; and to engage in a dialogue with the AUC to guarantee a more efficient cooperation. Both the "Aide-Mémoire" and the Action Plan were approved in April 2016. In parallel, the Task Force undertook an in-depth review of new projects and programmes in order to integrate appropriate remedial/mitigation measures in the decisions and contractual documents.</p> <p>Several joint monitoring mechanisms have been set up between the AUC and DEVCO, most notably quarterly Steering Committees, monthly technical VTCs as well as the hiring of external consultants to monitor the implementation of the pillar assessment roadmap. During the last Steering Committee of May 2017, a revised Aide- Mémoire was signed to formalize these additional control measures agreed with the AUC..</p> <p>DG DEVCO reported to the IAS in January and August 2017 on the progress made in the implementation of the Action Plan. The main actions implemented include:</p> <ol style="list-style-type: none"> <li>1. Institutional assessment and monitoring by DEVCO of the partnership with the concerned Organisation. This entailed in particular an assessment of progress made by the AUC with regards to the implementation of the pillar assessment roadmap, as well as the regular monitoring by the task force of the AUC's compliance with the commitments undertaken in the "Aide-Mémoire".</li> <li>2. Design and effectiveness of the remedial/mitigating measures at contract level. All contracts with the AUC include a set of remedial measures, which are routinely submitted to the task force for prior approval. Additionally, technical assistance has been deployed in order to address the most important weaknesses in AUC's financial management systems.</li> <li>3. Governance and coordination between DEVCO, EU Delegations and the EEAS. A new inter-services arrangement was signed between DG DEVCO and the EEAS in January 2017 clarifying the respective responsibilities related to the APF.</li> <li>4. Reporting on the APF and management representations. A list of appropriate reporting arrangements has been defined, including types of reports to be issued, content, frequency and responsible unit. The 2016 report was submitted to the Commissioner on the APF's main operational highlights and financial management issues, and the 2017 report has been finalised and is being validated by DEVCO management.</li> </ol>

**5. External audits.** APF Audits are followed up on a weekly basis during sector meetings. A formal reminder policy has been adopted in July 2017 to monitor AUC/RECs submission of reports. Audit ToRs have been amended to ensure a more accurate audit methodology.

**6. Payments to Troop Contributing Countries (TCCs):** the 2014-2016 APF Action Programme was amended in order to align payments to TCCs based on a lump sum approach.

**7. Retroactivity of financing.** The implementation of retroactivity principles in projects managed by the AUC was clarified through the adoption of standard provisions annexed to the "Aide-Mémoire".

A new pillar assessment of the AUC is expected to take place in 2018. Its results will be duly analysed and further measures will be taken as appropriate. The overall effort to improve the management and governance of the APF has significantly increased, most importantly as follows:

- Recruitment of seven new contractual agents in headquarters in the Operations and the Finances and Contracts Units;
- Recruitment of two new contractual agents in the Delegation to the African Union in the Operations and the Finances and Contracts sections;
- Creation of a new position at the EEAS for which recruitment will be filled in March 2018.
- Hiring external consultancy services for the follow-up of the implementation of the "Aide- Mémoire" by the AUC.

## 2.2 Other organisational management dimensions

This section contains the reporting on the key achievements achieved by the DG DEVCO under the "Organisational Management" objectives, indicators and expected outputs presented in the SP 2016-2020 and MP 2017. These achievements are grouped around the fields of Human Resources, Better regulation principles, information management aspects and external communication activities.

A complete reporting on all outputs identified in the 2017 MP and on all objectives and indicators set up in the SP is presented in the tables of Annex 2.

This section also contains the examples of economy and efficiency mentioned in the 2017 MP of the DG.

### 2.2.1 Human resource management

In the framework of the implementation of the HR Delivery Model, as detailed in the Communication on Synergies and Efficiencies of April 2016, DEVCO former HR unit has been dismantled. DEVCO has appointed an HR Business Correspondent and kept a residual team of HR experts, whereas most of the staff members have joined the Account Management Center (AMC) established in DG HR. The HR Business Correspondent is responsible for defining HR strategy and taking HR decisions in agreement with the management of the DG, whereas HR services are currently undertaken by the Account Management Centre.

In line with the HR modernisation project, DEVCO has adopted an HR Strategy end of 2017. Particular attention has been given to the outcome of the latest staff survey and in particular to policies regarding contract agents in Delegation and career paths for DEVCO staff in general.

Mobility between the Commission services and the EEAS has been too limited over recent years, but the adoption in September 2017 of the Joint EC-EEAS Paper "Career Development in the EU's External Relations Area." is expected to reverse this trend. By providing for a balanced interchange of staff, the institutions would enhance staff performance, draw on a wider body of expertise, improve interinstitutional cooperation and enhance flexibility.

On 19 July 2017, the College adopted a renewed approach to its commitment to reach at least 40% female managers by the end of 2019 by adopting quantitative targets of first female appointments to be made per Directorate-General at middle management level with DG specific target. For DEVCO, the target is 8 first female appointments. With the appointment of four new women as Head of Unit in 2017, half of the target adopted by the College has been already reached, thus significantly addressing the low level of women in middle management position.

### 2.2.2 Information management aspects

The progress in the use of electronic signature in ARES and the gradual elimination of parallel paper signatories has contributed to speed up processes, enhance security (as supported by EU login) and improve the efficiency of workflow circuits. Since the generalisation of the use of the ARES e-signatory on 2015 in DEVCO, a significant progress has been achieved (elimination of parallel paper circulation by 50% in 2015, by 58% in 2016 and by 60% in 2017).

The consolidation and further advancement of electronic circuits and the reduction of paper circulation to the strictly legally necessary requires, however, a firm commitment of all actors and notably the strong support of top and middle management.



A higher filing rate in Ares and the progressive opening of files between HQ and Delegations and between DEVCO and other Commission departments enhances the sharing and reuse of the information within DEVCO (including sections in EU Delegations) and with other DG and contributes to the alignment of DEVCO with the Commission strategy on Data, Information and Knowledge Management, whose Steering Committee counts with the participation of DEVCO as a member.

The integration of DEVCO IT systems into the Commission common repository and the elimination of the local storage of documents ensure compliance with the IT Rationalisation strategy of the Commission. PROSPECT and PADOR (as well as BASIS) were integrated in 2016. In 2017, the integration of the PFMBD (Portfolio Management Dashboard) was completed and the obstacles to access documents of EU Delegations by HQ were removed. There were also discussions on the future integration of the Audit Module and ROM. Other candidate IT systems that are expected to be integrated are EVAL and the EAMR.

As regards OPSYS, preliminary works have taken place in 2017 regarding the implementation of the filing plan for the contract module. Progress is on hold awaiting the redefinition of the OPSYS deployment phases.

In the field of knowledge management, a mid-term review of the Learning and Knowledge Development Strategy 2014-2020 (LKDS) Action Plan was led with a view to take stock of its implementation, to re-align the actions with the organisation's priorities and to take into account the new corporate Commission framework. The LKDS mid-term review was preceded by an in-depth analysis of KM and Learning needs in DEVCO. As a result, a renewed Action Plan for 2018-2020 was agreed and sent to Management for endorsement.

In 2017, DEVCO developed the open learning platform, the "DEVCO Academy" and tested it successfully. The learning platform will be ready for the external launch in early 2018.

Throughout 2017, the management of the Intra-ACP Research continued. All projects funded through the ACP Science & Technology I programme, the 10 projects funded by the Caribbean and Pacific component of the ACP Research for Sustainable Development programme and almost all the 21 projects funded by the ACP Science & Technology II programme have been concluded.

### **2.2.3 External communication activities**

On external communications, strong progress was made on digital communications in 2017, with more web visitors coming to our site, in particular thanks to our regular and engaging social media content. On several occasions throughout the year we have made a significant impact through our online communication efforts, whether for the launch of the new European Consensus on Development, the launch of the European External Investment Plan or of the Spotlight Initiative. These have particularly benefited from our stronger focus on video (and live) content. Another highlight of the year was the launch of our worldwide blogging competition which led to the application of 500 candidates and the selection of four young bloggers who from January to May 2018 will report on EU-funded development projects around the world. The competition video itself reached almost 2 million young people.

### **2.2.4 Examples of economy and efficiency mentioned in the 2017 MP of the DG**

#### **A. OPSYS**

OPSYS is a programme that will gradually offer improved operational processes and tools to DEVCO/NEAR/FPI staff, allowing them to efficiently manage their portfolio of

projects/programmes throughout the full cycle of operations.

The system is a good practice example contributing towards enhanced economy and efficiency both in terms of programme management (a one stop shop which will enhance coherence, collaboration and results orientation) and also in terms of system's set-up (DG DIGIT as the single IT supplier).

During 2017, the management and governance of the OPSYS Programme were reshuffled in order to strengthen the IT development and delivery process. A Memorandum of Understanding (MoU) was signed between DG DEVCO and DG DIGIT in July. It establishes a new set-up covering the budget, the implementation and the governance of the OPSYS Programme, with business functions concentrated in DG DEVCO and the role of single IT supplier being played by DG DIGIT. All three Relex family services (DEVCO, NEAR and FPI) promote a common business approach to the external action cycle of operations. DIGIT acts as a single provider of IT in the framework of a corporate and harmonised approach.

The implementation of the OPSYS Programme was reorganised in the form of 3 complementary tracks covering:

- Track 1: Results and Monitoring,
- Track 2: Contracts and Procurement,
- Track 3: Programming, Actions and Decisions.

By the end of 2017, all tracks had governance structures in place with regular meetings of user groups and project steering committees, as well as approved governance documents (3 business cases and 2 project charters). Implementation of the first two tracks started in the spring of 2017 with an Agile cycle of development (4 programme increments by the end of 2017).

The first functional IT product (including results encoding at action or contract level) was tested with pilot Delegations and HQ units in November 2017. The speed of IT development increased markedly from October 2017 onwards.

A detailed Work Plan for 2018 was prepared in close collaboration between the 5 DGs (DEVCO, NEAR, FPI, DIGIT, RTD) during the 4th quarter and adopted by the OPSYS Governance Board in January 2018.

## **B. Regionalisation**

In order to increase efficiency, optimise the use of staff and generate economies of scale, DG DEVCO has reviewed its network of staff in Delegations, by pooling certain tasks in a limited number of Delegations. This regionalisation process is being implemented gradually, in line with mobility and rotation exercises. In 2017 the following EU Delegations were regionalised (or semi-regionalised): Laos, India, and Timor-Leste.

The list of regionalised or semi-regionalised Delegations is presented below:

- EU Delegation in Brazil covers the activities of DG DEVCO in Argentina, Chile, Uruguay and Venezuela.
- EU Delegation in Dominican Republic covers the financial and contractual aspects of DG DEVCO activities in Dominican Republic, Cuba and Jamaica.
- EU Delegation in Barbados covers the financial and contractual aspects of DG DEVCO activities in Barbados, Guyana and in Trinidad & Tobago.
- EU Delegation in Nicaragua covers the financial and contractual aspects of DG DEVCO activities in Nicaragua, El Salvador, Honduras and Mexico.
- EU Delegation in Peru covers the financial and contractual aspects of DG DEVCO activities in Peru and in Ecuador.
- EU Delegation in Kazakhstan covers the financial and contractual aspects of DG DEVCO activities in Kazakhstan and in Uzbekistan.
- EU Delegation in Thailand covers the financial and contractual aspects of DG DEVCO activities in Thailand, China, India, Laos and in Timor Leste.

- EU Delegation in Kenya covers the financial and contractual aspects of DG DEVCO activities in Kenya and in Somalia.
- EU Delegation in Senegal covers the financial and contractual aspects of DG DEVCO activities in Senegal and in Gambia.
- EU Delegation in South Africa covers the financial and contractual aspects of DG DEVCO activities in South Africa, Lesotho and Swaziland.

This section covers also the Better regulation component which is reported upon in Annex 2.