



**2014**

# **Annual Activity Report**

**Service of Foreign  
Policy Instruments  
(FPI)**

## FOREWORD OF THE HEAD OF SERVICE

This report presents the main results and achievements obtained by FPI in its fourth year of activity. In close coordination with the European External Action Service (EEAS) and under the direct authority of the High Representative/Vice President of the Commission, its mission is to help the EU achieve the objectives of its foreign and security policy. FPI is characterised by the diversity and complexity of its activities.

FPI's level of achievement in 2014, and its unique interaction with the diplomatic activities of the EEAS, underlined its specific role and usefulness: its main activities are to respond to international crises and conflicts. It operates in a difficult environment which requires a capacity for rapid and flexible response. Throughout the year, FPI demonstrated its commitment by delivering on important political priorities.

The launch of the new Partnership Instrument marks an important step in our cooperation with non-EU countries. It reflects both the changes in the world in recent years and the changes the EU has made in the way it responds to world challenges. For the first time, the EU has a financing instrument designed to promote and advance EU interests and to underpin its political agenda, especially towards strategic partners. FPI aims to demonstrate that this instrument can contribute to advancing the EU agenda with the strategic partners by translating political commitments into concrete actions.

FPI achieves its objectives while at the same time being a relatively “lean” service, using its resources efficiently, with low overheads and relying on support from other services. 2014 was a challenging year for FPI in terms of budget management and this trend continues in particular with the Partnership Instrument. Moreover, the lack of payment appropriations required difficult monitoring and mitigating measures which put an additional burden on the service.

Tung-Lai Margue

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## INTRODUCTION:

### The Service in brief

The Service for Foreign Policy Instruments (FPI) supports the EU's foreign and security policy and helps the European Union to pursue its interests and to project its image in the world. It does so (as described hereinafter) by implementing a number of financing instruments and foreign policy regulatory instruments (sanctions).

FPI is responsible for the operational and financial management of Common Foreign and Security Policy (CFSP) operations; Instrument contributing to Stability and Peace (IcSP) crisis response; Partnership Instrument (PI); Election Observation Missions (EOMs); and press and public diplomacy (PPD). In addition it is responsible for implementing the EU's foreign policy regulatory instruments such as sanctions, the Kimberley Process on conflict diamonds, and the Regulation prohibiting trade in certain goods which could be used for capital punishment, torture or other cruel, inhuman or degrading treatment or punishment (Regulation 1236/2005 of 27 June 2005). These instruments and their budgets contribute towards the implementation of the Lisbon Treaty, Article 21 (2) (c), under which the EU seeks to preserve peace, prevent conflicts and strengthen international security, in accordance with the purposes and principles of the United Nations Charter, the Helsinki Final Act and the Charter of Paris.

FPI works to achieve the security and foreign policy objectives of the EU pursued by the HR/VP, who is also assisted in this task by the EEAS. Sharing the same objectives, both services have in place working methods and procedures in all areas where they cooperate and they work together on a daily basis at all levels. FPI also coordinates closely with relevant Commission services. In doing so, the various EU actors remain attuned to assuring complementarity and coherence across the EU's instruments.

The management environment in which the Service operates is determined by:

- The **evolution of world events** including unforeseen events / crises: the Service's activities are shaped largely by external events and the evolution of the world political situation.
- The global scale and complexity of the **EU's relations with the rest of the world**: FPI's responsibilities require intensive coordination with the EEAS, the external relations services mentioned already as well as other Commission services. Maintaining business continuity and effective operations is a challenge in the face of complex and sensitive operations and high stakeholder expectations.
- Increasing **financial challenges**: the budget FPI manages has increased, with EUR 709 million in operational expenditure authorised in 2014 (appropriations for commitments) compared to EUR 682 million in 2013. Moreover operations in crisis situations by definition carry higher risks.

## The year in brief

Instruments managed by FPI are chiefly geared towards the world-wide preservation of peace, the prevention of conflicts and the strengthening of the international security. Worldwide insecurity continued its upward trend in 2014 with in particular a war fought in Europe following the destabilisation operations against Ukraine's sovereignty, territorial integrity and independence. Global instability, as measured by the number of conflicts (encompassing disputes, nonviolent crises, violent crises, limited wars, and wars), increased compared to 2013, from 414 conflicts worldwide to 424 of which 46 are classified as highly violent (21 wars and 25 limited wars). This reflects the worsening security situation in various parts of the world, in particular in our immediate neighbourhood with the Ukraine crisis, with the rise of the Islamic State of Iraq and Syria (ISIS) giving another dimension to the Syrian civil war, and the civil war in Libya. The Sahel region is still facing unique security challenges as well as West Africa where the threat posed by Boko Haram has been growing steadily, and where the Ebola outbreak required exceptional assistance measures. The Horn of Africa and the ongoing crisis in the Central African Republic and Sudan/South Sudan have combined to create a very volatile regional situation in north, central, west and east Africa. The EU has been active in most of these conflicts by mobilising its diplomatic efforts, along with the international community, and its instruments in particular EU restrictive measures (sanctions), CFSP operations and missions, and the Instrument contributing to Stability and Peace. FPI's instruments were therefore deployed throughout the year, responding in a timely manner to political priorities. Overall the budget authorised for FPI was used up (see Annex 3) at 97% for commitments and 98% for payment appropriations. For operational expenditure, EUR 529 million were paid, **84% of which related to crisis response or crisis management operations under CFSP and Instrument for Stability**.

In its CFSP operations FPI implemented decisions adopted by the Council in response to particular political and security issues. Under the Instrument contributing to Stability and Peace, FPI intervened to help prevent conflict, to respond to emerging or actual crises or to build the capacity of a wide range of peace-building actors. The Political and Security Committee (PSC) of the Council gives strategic guidance and political direction for CFSP operations, the main current ones being the CFSP missions in the field in Kosovo, Afghanistan, and Georgia. Two external events had an impact on CFSP operations: (1) following the political crisis in Ukraine, the EU decided to support Ukraine in the field of civilian security sector reform and to set up a new mission in this country and (2) the internal fighting in Libya forced the CSDP mission EUBAM Libya to cease activities in Libya and the international staff had to be relocated. These missions required a lot of support from FPI throughout the year due to the difficulties encountered as a result of the crisis situation in these countries. PSC was kept informed of the crisis response measures under the Instrument contributing to Stability and Peace, with a view to ensuring overall coherence. Operations focused on security sector reform in partner countries through building/reinforcing police and security forces, disarmament, demobilisation and reintegration of armed groups, and in the justice area. In terms of geographical coverage, Sub-Saharan Africa and the Middle East and North Africa (MENA) remained the major areas of interventions linked with the many cases of instability and crises occurring in those regions. Unsettling developments in Ukraine and the Ebola outbreak also necessitated mobilising the IcSP to ensure a rapid EU response. Important stabilisation projects are also underway to help consolidate

peace processes in Burma/Myanmar and Central Asia.

The successful launch of the new Partnership Instrument was one of the main challenges following the late adoption of the legal base in March 2014. This translated into the steering with the EEAS of the adoption of the multiannual indicative programming documents and the swift preparation and adoption of the ensuing Annual Action Plan 2014. Close cooperation with the EEAS geographic and thematic departments, Commission DGs (i.e. CLIMA, ENV, HOME, ENER, GROW, TRADE) and EU delegations was essential for this innovative instrument with ambitious objectives and lot of expectative on deliveries. The operational challenge required to ensure the recruitment of staff both at Headquarters and Delegations and to start the de-concentration process (including the appropriate financial circuits) for the first wave of delegations concerned (USA, Mexico, Brazil, Canada, Russia, China, India, Japan and Korea).

In the field of EU Election Observation Missions (EOMs), the overall objectives have remained the building of confidence, the enhancement of the reliability and transparency of democratic electoral processes, and the discouragement of irregularities, abuse and electoral violence. FPI ensured the timely deployment of 19 missions (7 full-fledged Election Observation Missions and 1 Election Assessment Team, 9 Election Expert Missions and 2 Election Follow-up Missions) and performed 7 Exploratory Missions.

Under the foreign policy regulatory instruments, FPI's role as lead service for the inter-service group (ISG) on sanctions saw the team deeply involved in developing and negotiating a package of restrictive measures in view of Russia's actions destabilising the situation in Ukraine. As regards the Kimberley Process (KP) on trade in rough diamonds, FPI successfully ensured adoption a proposal for amending Regulation (EC) 2368/2002, enabling Greenland to participate in the KP Certification Scheme through its OCT status with the EU.

In 2014, the drastic cut in payment appropriations in the context of the 2014-2020 Multiannual Financial Framework (MFF) had an impact on all external instruments, but FPI instruments were deeply impacted by the lack of payments due to the nature of their operations. FPI instruments operate mainly with a very short cycle of operations where high pre-financings are required up-front (CFSP, EOMs, IcSP). In the case of the IcSP, operations were paralyzed as from July 2014 by lack of payments as the reinforcement under the Amending Budget n°3 was blocked in the inter-institutional negotiations and was adopted only at the end of the year. An ad-hoc action plan was set-up through the Christmas break to process the last-minute payments reinforcement (EUR 50.8 million). CFSP and EOMs benefited from ad-hoc reinforcements in October to allow financing the launch of the new CSDP mission in Ukraine and the election observation in Tunisia. Financial contributions from some EU Member States were necessary in August to maintain the EOM in Mozambique and to overcome the payment credit problems. Strong monitoring and mitigation measures have been implemented throughout the year in all instruments to manage the shortfall. Member States were kept informed of the situation and its potential consequences through regular monthly updates at the Political and Security Committee (PSC).

Regarding organisational matters, FPI welcomed the arrival of the new Commission, the new European Parliament and the new HRVP Federica Mogherini. FPI internal changes also took place in May 2014, as unit FPI.4 was split into two units – FPI.4, dealing exclusively with the Partnership Instrument and FPI.5, dealing with Election Observation Missions and the EUVP programme. As a consequence of this new structure, an internal exchange of Heads of Unit occurred on 16 May 2015.

## EXECUTIVE SUMMARY

The executive summary has four subsections:

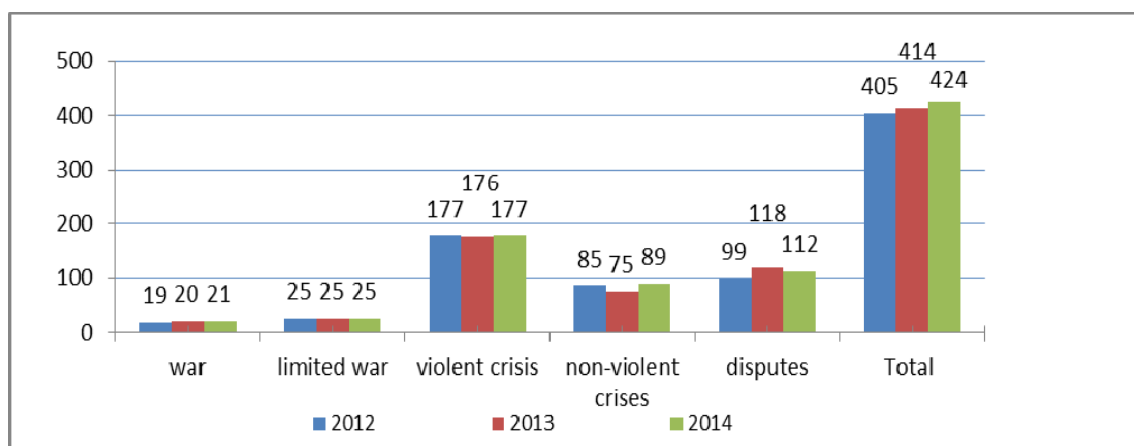
- Five most relevant key Performance Indicators for policies and management
- Policy highlights of the year (executive summary of part 1)
- Key conclusions on the effectiveness of internal control and financial management (executive summary on part 2 and 3)
- Information to the Commissioner

The Annual Activity Report is a management report of the Head of Service to the College of Commissioners. It is the main instrument of management accountability within the Commission and constitutes the basis on which the Commission takes its responsibility for the management of resources by reference to the objectives set in the management plan and the efficiency and effectiveness of internal control systems, including an overall assessment of the costs and benefits of controls.

## Key Performance Indicators

### KPI 1: number and intensity of conflicts

Result/Impact indicator (description)	Trend	Target (or milestones)	Latest known results as per Annual Activity Report
Number and intensity of conflicts worldwide: <ul style="list-style-type: none"> <li>wars (level 5)</li> <li>limited wars (level 4)</li> <li>violent crises (level 3)</li> <li>non-violent crises (level 2)</li> <li>disputes (level 1)</li> </ul> Source: Conflict Barometer, <a href="http://hiik.de/en/index.htm">http://hiik.de/en/index.htm</a>	☹️	Contribute to stabilization or decrease in the number and/or intensity of conflicts compared to the 2012 baseline: 405 conflicts of which: <ul style="list-style-type: none"> <li>19 wars</li> <li>25 limited wars</li> <li>177 violent crisis</li> <li>85 non-violent crises</li> <li>99 disputes</li> </ul>	2014: 424 conflicts of which: <ul style="list-style-type: none"> <li>21 wars</li> <li>25 limited wars</li> <li>177 violent crisis</li> <li>89 non-violent crises</li> <li>112 disputes</li> </ul>

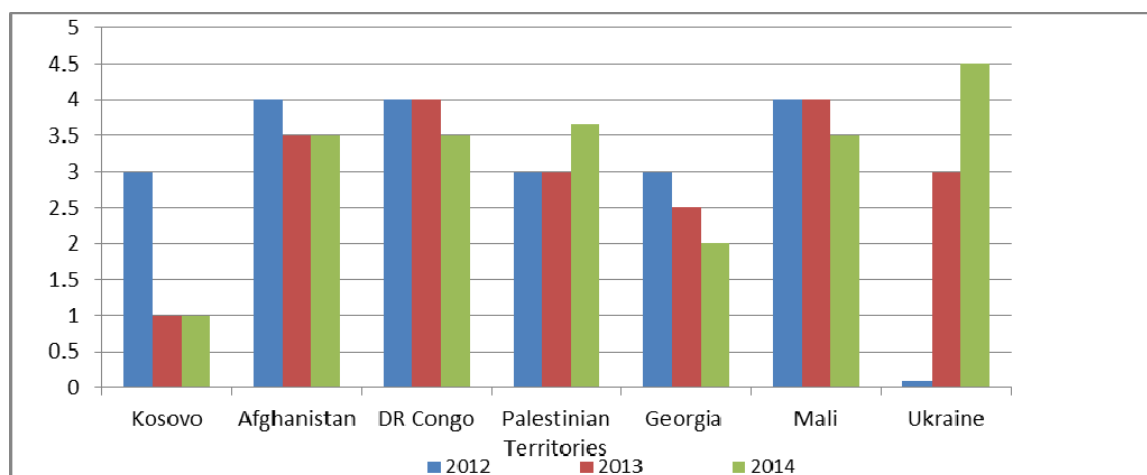


Level 5: war; Level 4: limited war; Level 3: violent conflict; Level 2: non-violent conflict; Level 1: dispute.



## KPI 2: intensity of conflicts in main CFSP operations

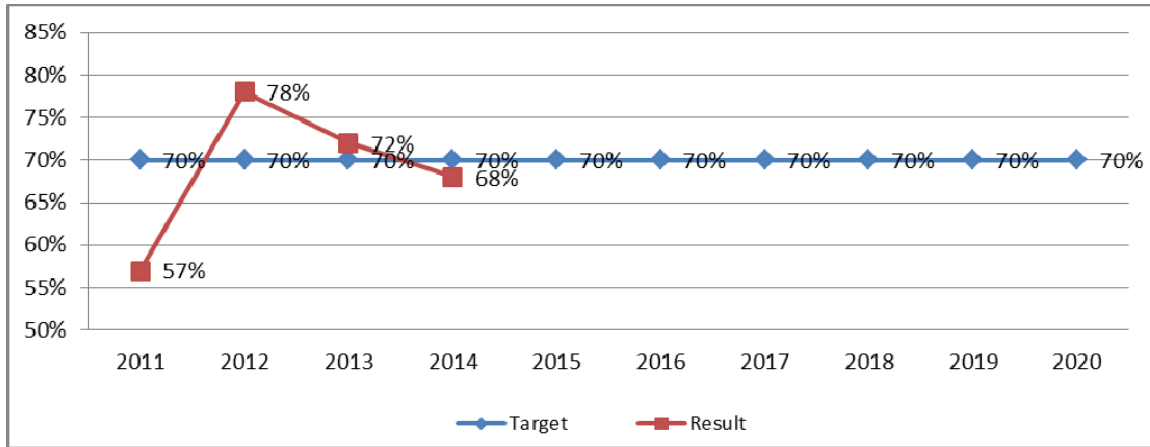
Result/Impact indicator (	Trend	Target (or milestones)	Latest known results as per Annual Activity Report
Intensity of the conflicts <b>where the main CFSP operations intervene</b>	☹️	Decrease in the intensity of the conflicts in: <ul style="list-style-type: none"> <li>- Kosovo</li> <li>- Afghanistan</li> <li>- DR Congo</li> <li>- Palestinian territories</li> <li>- Georgia</li> <li>- Mali</li> <li>- Ukraine</li> </ul>	General decrease in the intensity of the mentioned conflicts where CFSP missions intervene.  See graph below



The left-hand scale corresponds to the average conflicts intensity of the countries: Level 5: war; Level 4: limited war; Level 3: violent conflict; Level 2: non-violent conflict; Level 1: dispute.

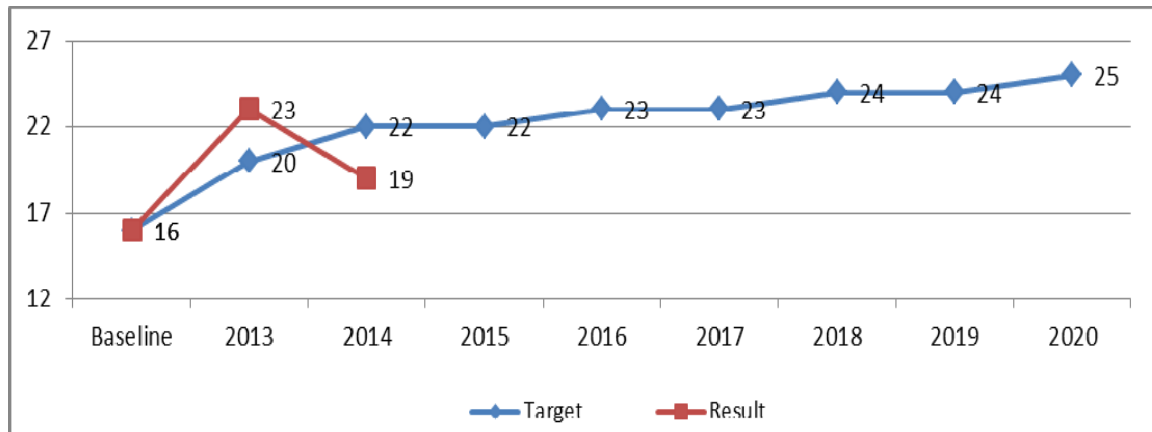
## KPI 3: Percentage of IfS/IcSP crisis response measures adopted within 3 months of a crisis context (date of presentation to PSC).

Result/Impact indicator (description)	Trend	Target (or milestones)	Latest known results as per Annual Activity Report
Percentage of projects adopted within 3 months of a crisis context	☹️	<b>Efficient crisis response: 70%</b> of projects adopted within 3 months of a crisis context (period from date of presentation to PSC)	<b>57% in 2011</b> <b>78% in 2012</b> <b>72% in 2013</b> <b>68% in 2014</b>



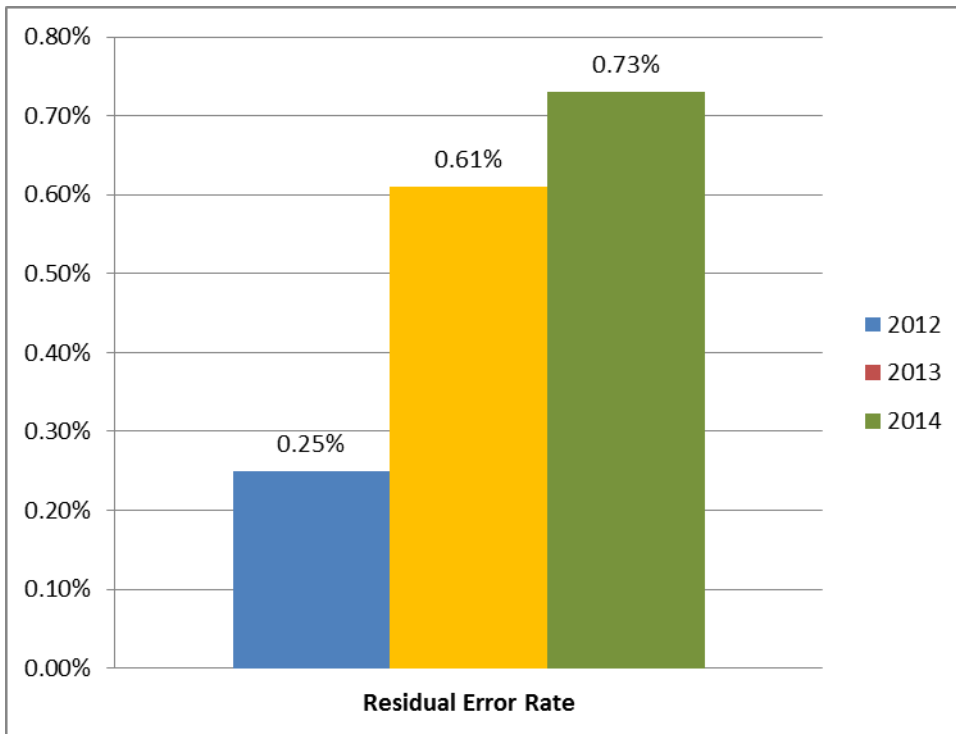
**KPI 4: Number of electoral processes and democratic cycles supported, observed, and followed by means of Election Observation Missions, Election Assessment Teams and Election Experts Missions.**

Result/Impact indicator (description)	Trend	Target (or milestones)	Latest known results as per Annual Activity Report
Number of electoral missions	☹️	2020: 25	2014: 19 (plus the corresponding 7 Exploratory Missions)



**KPI 5: Residual error rate**

Result/Impact indicator (description)	Trend	Target (or milestones)	Latest known results as per Annual Activity Report
Residual error rate	☹️	Below 2%	2014: 0.73%



## Policy highlights of the year (executive summary of part 1)

Most of the operations and budget managed by FPI are dedicated to contribute to the world-wide preservation of peace, the prevention of conflicts and the strengthening of the international security. This represents almost 80% of the budget available for commitments. Included are also the EU's regulatory instruments (sanctions). The other operations relate to the election observation missions and the new Partnership Instrument which was launched this year 2014.

### Common Foreign and Security Policy

The highlights in 2014 were the launching of two new CSDP missions, the closure of one mission and the downsizing of the largest CSDP mission. One new mission was launched in Mali (EUCAP Sahel Mali). This mission will deliver strategic advice and training for the three internal security forces in Mali. The second new mission was launched in Ukraine (EUAM Ukraine) to support the Ukrainian authorities in the civilian security sector reform. This mission will provide strategic advice for the development of effective, sustainable and accountable security services that contribute to strengthening the rule of law in Ukraine. One mission, EUPOL DR Congo, was closed and the largest CSDP mission, EULEX Kosovo, was downsized from a total of 2250 staff to 1600. When new CFSP actions are planned, EEAS and FPI (with other Commission services) review relevant interventions of all EU instruments, in order to ensure complementarity and coherence. As part of the comprehensive approach, there are instances when a CFSP action that has ended is complemented through other instruments (e.g. EUPOL Congo). Where possible practical co-operation between instruments is ensured<sup>1</sup>. With regard to the **objective** "Support to preservation of stability in Kosovo, Southern Caucasus, Afghanistan, Middle East and Africa through substantial CSDP missions", the EU Rule of Law mission (EULEX KOSOVO) continued to be one of the key elements ensuring stability in Kosovo, including through executive operations. With the EU mediated talks by the High Representative Catherine Ashton, Serbia and Kosovo reached a reconciliation agreement on 19 April 2013 which paves the way for the normalization of the relations and municipal elections for mayors and assembly deputies. For the first time since Kosovo's self-declared independence, the Serbian minority in Kosovo was able to participate in elections. The mission forms part of the broader effort undertaken by the EU to promote peace and stability in the Western Balkans and to support the Kosovo authorities as they undertake necessary reforms, in line with their and the regions overall European perspective. As regards EULEX's executive responsibilities, the mission has about 270 criminal investigations on-going. About 370 judgements in criminal cases and more than 140 decisions in civil cases have already been handed down. EULEX prosecutors have been involved in about 2270 cases. By investigating senior ministers, politicians, former Kosovo Liberation Army (KLA) commanders, business men and the secret services, the mission has challenged perceptions of

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<sup>1</sup> i.e. in the implementation of operations e.g. IfS support for the provision of armoured cars to the UN mission in Syria using a framework contract established for the CFSP.

impunity. In the sensitive, difficult and time-consuming areas of war crimes, organised crime and corruption, the mission has issued more than 90 verdicts.

In **Afghanistan**, the political and security situation remained volatile. EUPOL Afghanistan maintained its success in civilian police capacities – through the development of local training capacity and institutions - and improved co-ordination between the police and the judiciary in criminal investigations. The mission is part of the EU's long-term commitment and contributes to the EU's overall political and strategic objectives in Afghanistan. The Council extended the mandate of EUPOL Afghanistan until 31 December 2016.

In the Middle East, the EU Police Mission (EUPOL COPPS) continued its activities, while the Border Assistance Mission to the Rafah crossing point between Egypt and Gaza was relocated to Tel Aviv, because it could not implement its mandate because of the closure of the Gaza Strip. The Mission assists the Palestinian Authority in building the institutions of a future State of Palestine in the areas of policing and criminal justice, under Palestinian ownership and in accordance with the best international standards. The Council decided to extend the mission's mandate until 30 June 2015.

In the **Democratic Republic of Congo (DRC)**, EUPOL DRC ceased operations after successfully contributing to the set-up of a viable police service, including its link to a justice system that corresponds to the needs of the Congolese society. In the military sector, EUSEC DRC contributes to different aspects of army-related reform. EUSEC will definitely cease its operations in 2016.

EUBAM Libya supports the Libyan authorities in developing border management and security at the country's land, sea and air borders. Due to the political and security situation in Libya, EUBAM was relocated to Tunisia in August 2014. Because of the limited possibilities to advise, mentor and train its Libyan counterparts, the Mission was downsized to 17 staff. With this limited capacity, the Mission continued to support the Libyan Customs and Naval Coast Guard through workshops and seminars organised outside Libya.

EUCAP Sahel Mali was established in April 2014 to support the internal security forces in Mali. The Mission is an additional contribution to the EU's overall support to stability and institutional reform aiming for the full restoration of state authority throughout the country. The mission complements the military training mission EUTM and the EU's broader engagement in Mali and the Sahel region.

Three **EU Special Representatives (EUSRs)** ceased operations in 2014: EUSR African Union, EUSR Middle East Peace Process and EUSR Central Asia.

A number of new Decisions were implemented with regard to the **second objective**, "Support to the implementation of the Pillar 2 strategy on non-proliferation of weapons of mass destruction (WMD) in order to increase security in this area". These actions, entrusted to international organisations and other implementing partners, improved the universalisation and implementation of major arms control and disarmament treaties; strengthened efforts of the international community to counter illicit trafficking of small arms /light weapons (SALW) and the proliferation of WMD and their means of delivery; and enhanced nuclear security worldwide.

CFSP operations continued to contribute to increased stability and security in the world and gave the EU visibility as a relevant security actor, particularly in the civilian sphere.

## **Instrument contributing to Stability and Peace (IcSP)**

**Crisis response and crisis preparedness:** In 2014, EUR 185.4 million were committed encompassing some 30 new actions under the crisis-response component (EUR 166.4 million) and – under the action plan under the Conflict prevention, peace building and crisis preparedness component (EUR 19 million).

IcSP measures can complement EU humanitarian assistance, and contribute to the "Linking Relief, Reconstruction, and Development" (LRRD) approach. In addition, IcSP actions complement EU CSDP operations and other actions, and make critical contributions to an EU comprehensive approach in response to conflicts and crises. Under the ICSP Regulation<sup>2</sup>, the Commission reports to the European Parliament and Council on every Exceptional Assistance Measure (EAM) on the background rationale for intervention and complementarity of the Commission response under the IcSP.

Working in very close cooperation with the EEAS and reflecting the EU's foreign policy priorities, the IcSP allowed the EU to make timely interventions in some particularly high-profile crises. Volatile conditions across parts of (sub-Saharan) Africa saw an unprecedented number of IcSP supporting actions adopted. In West Africa, the IcSP was deployed through a EUR 16.5 million assistance package in response to the Ebola outbreak, in line with the EU's Comprehensive Response Framework for the Ebola Virus Outbreak in Western Africa, whilst the ongoing situation in the Central African Republic called for the extension of ongoing support measures. Across the MENA region, there was ongoing support to refugees from the Syrian crisis, to their host communities and some direct assistance to affected populations still within Syria itself. New measures were adopted to provide strategic communications support as well as a programme of measures designed to provide support through training for future transition in Syria. In Europe, political tensions in Ukraine called for support to the unforeseen elections early in the year.

Crisis preparedness actions continued to support EU efforts to mainstream conflict prevention in fragile and conflict prone countries and, in line with Council conclusions on conflict prevention, these actions contributed towards increasing emphasis on early action and strengthened capacity to design viable, operational and realistic options for preventive action. Measures included: continued investment in capacity-building of grass-root level civil society to engage in peace-building and conflict prevention actions across 19 conflict affected countries; support for a dialogue forum on peace-building issues between the EU and civil society; capacity building for local civil society in the African Great Lakes Region in relation to conflicts linked to the management of natural resources; support to the civilian component of crisis management missions; assistance to mediation and dialogues process in – amongst others - South Sudan, Philippines, Central African Republic, Ukraine; continued support to the League of Arab States

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<sup>2</sup> Regulation (EC) N°230/2014 of 11 March 2014, Article 7(5).

capacity to respond to crisis; post-disaster and post-conflict needs assessment support to Bosnia and Herzegovina, Solomon Islands, Ukraine and Gaza.

## **Foreign Policy Regulatory Instruments**

In its role as lead service for the Inter Service Group on **sanctions**, FPI has been deeply involved in developing and negotiating a package of restrictive measures in view of Russia's actions destabilising the situation in Ukraine. The "Russia" package consists of measures aimed at limiting access to EU capital markets for Russian State-owned financial institutions, an embargo on trade in arms, an export ban for dual use goods for military end-use and end-users, and restrictions on access to certain sensitive technologies particularly in the oil sector. In this context, FPI also prepared an investment and export ban as part of the EU's non-recognition policy in response to the illegal annexation by Russia of Crimea and Sevastopol. It may be worthwhile noting that FPI has shown its ability to table complex EU sanctions proposals in record time and ensure that the EU could quickly react to political developments such as the Ukraine crisis.

As regards the **Kimberley Process (KP)** on trade in rough diamonds, FPI successfully ensured adoption by the European Parliament and the Council of a proposal for amending Regulation (EC) 2368/2002, enabling Greenland to participate in the KP Certification Scheme through its OCT status with the EU. The new legislation associates Greenland with the EU for the purposes of their participation in the KPCS and thereby removes any obstacles for it to export rough diamonds. This will foster Greenland's ability to attract potential investors to its mining sector and therefore be beneficial for its economic development.

Furthermore, FPI ensured adoption by the Commission of a proposal for amending the **Anti-Torture Regulation** (Council Regulation (EC) 1236/2005). The proposed amendments aim to define appropriate modalities for export controls applied to prevent EU goods from being used for capital punishment in third countries. Importantly, over the past two years this work has already contributed to the postponement of death penalty executions in the United States (USA) as well as the effective self-regulation of the pharmaceutical industry.

## **Election Observation Missions**

2014 has been a challenging year for election observation, first of all in terms of financial uncertainties due to the unprecedented crisis in payment appropriations. As a consequence the planned EOM to Bolivia was converted to an Election Expert Mission and the EOM to Mozambique was funded via Member States' direct financial contributions. The EEM to Fiji was funded through DCI funds. Furthermore, the Election Assessment Team to Afghanistan carried out an audit of the national vote which was funded through the bilateral envelope. The payments appropriations problem was addressed in late Autumn with a EUR 10 million exceptional reinforcement adopted by the Budgetary Authority, which allowed FPI to carry out its activities in the last months of 2014, in particular for the elections in Tunisia.

Furthermore, election observation continued to operate under often quite volatile

political developments in the priority countries and subsequent tight implementation deadlines. This has been the case for the two missions to Kosovo (unstable political & security conditions), in Egypt, where the ownership of the process by the national authorities was an issue (unnecessary delays in the processing of the mission's telecommunications equipment in the customs) and in Afghanistan where the security situation was extremely challenging. Yet, FPI managed to fully and successfully implement the highly visible annual programme of election observation by deploying 19 missions and conducting 7 exploratory missions often under challenging security and logistics conditions.

## **Partnership Instrument (PI)**

The Partnership Instrument (PI) is one of the key innovations in Heading 4 of the Multiannual Financial Framework 2014-2020, package of instruments for financing external action. The new instrument reflects both the changes we have seen in the world in recent times and the changes we have made in the way we respond to the world challenges. FPI intends to demonstrate that this instrument can effectively contribute to advance the EU agenda with the strategic partners by translating political commitments into concrete actions. It has been designed to help underpin relations with countries with whom the EU has a strategic interest in promoting links, especially EU's strategic partners which play an increasingly important role in world affairs (Canada, Japan, the United States and the Republic of Korea) including the EU's strategic partners that are no longer eligible for bilateral development aid (Brazil, China, India and Mexico).

Further to the political agreement reached by the legislative authority at end-2013, the EEAS and the Commission prepared the Multi-annual Indicative Programme (MIP) 2014-2017 which was adopted on the 3rd of July 2014 after having conducted the strategic dialogue with the European Parliament on the 10th of March of 2014 and the comitology procedure with the member States. The Commission adopted the ensuing 2014 Annual Action Programme (AAP) on the 16 of October 2014.

The AAP 2014 includes 21 actions for a budget of EUR 107 million (N.B.: an amendment to the 2014 AAP is under way to include one additional programme "Support to EU-China aviation cooperation"). The actions adopted with the AAP 2014 are wide ranging and tackle various important issues at the core of the Partnership Instrument, from climate change to public procurement, from migration to market access, from underpinning policy dialogues to enhancing clean and sustainable energy. In addition, the PI envelope has contributed EUR 8.2 million to the "Erasmus + Programme" to support cooperation in higher education enhancing student and staff mobility with partner countries covered by the former Instrument for Cooperation with Industrialised countries<sup>3</sup> as well as Russia. The instrument also covers public diplomacy (including

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<sup>3</sup> USA, Japan, Canada, the Republic of Korea, Australia and New Zealand; certain Asian industrialised countries and territories (Singapore, Hong Kong, Macao, Taiwan and Brunei) as well as the Gulf Cooperation Council (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates).



cultural diplomacy) and outreach activities to promote the Union's values and interests. Such a wide range of areas has required coordinating and engaging actively with different parts of the Commission bringing in their valuable expertise to the planning process.

Given the late adoption of the AAP 2014 which has resulted from the delayed adoption of the PI legal basis, all contracts implementing it will be signed in 2015.

## **Information outreach on the Union's external relations**

As a result of the Service Level Agreement (SLA) concluded between FPI and EEAS on 14.12.2013, the implementation of most of the activities under this budget line by the EEAS started on 1<sup>st</sup> January 2014. The related activities concern mainly the annual press and information budgets for some 135 EU Delegations throughout the world to implement actions that suit the bilateral environment and also act to reinforce the image of the EU as a global player. FPI remains responsible for the preparation and adoption of the Annual Work Programme (financing decision), and for the overall control of this activity in keeping with the implementation responsibilities delegated to the Director / Head of service by the Commission.

The information and communication activities of FPI were limited to the regular updating and functional development of the FPI website and the management of the EU Visitors Programme. Finally, this budget covers the financing of television programmes in the Farsi language on the Euronews channel.

### **European Union Visitors Programme (EUVP)**

FPI continues to implement the EU Visitors Programme (jointly with the European Parliament) as a unique framework for introducing the EU institutions to key contacts from third countries in collaboration with the EU Delegations. 2014 has witnessed an evolution of the programme with the Management Committee taking a strategic decision for more focus on high profile visitors. Overall, the selection of EUVP visitors in 2014 has reflected this choice and their visit's programmes have been accordingly adapted, necessitating detailed and precise research for their best possible interlocutors. In 2014 the EUVP welcomed 145 visitors from all over the world with different professional profiles. Main themes of the visits have been human rights, defence of democracy, women and children's rights, youth and education, press and freedom of expression and international trade.

## **Key conclusions on resource management and internal control effectiveness (executive summary of part 2 and 3)**

In accordance with the governance statement of the European Commission, (the staff of) FPI 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. As required by the Financial Regulation, the Head of Service of FPI as authorising officer by delegation 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.

FPI assessed the effectiveness of its key internal control systems during the reporting year and concluded that the internal control standards (ICS) are implemented effectively. Furthermore, FPI took measures to further improve the efficiency of its internal control. For details, see in Part 3 below.

In addition, FPI systematically examined the available control results and indicators, including those aimed at supervising 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. These elements have been assessed to determine their impact on management's assurance as regards the achievement of control objectives. Please refer to Part 2 for further details and to part 4 for the reservation on one ABB activity (CFSP).

In conclusion, despite the reservation, management has a 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 Head of Service, in his capacity as Authorising Officer by Delegation has signed the Declaration of Assurance.

## Information to the Commissioner

The main elements of this report and assurance declaration, including the reservation envisaged, have been brought to the attention of the High Representative of the Union for Foreign Affairs and Security Policy/Vice-President of the European Commission Federica Mogherini.

# 1. POLICY ACHIEVEMENTS

## 1.1 Achievement of general and specific objectives

Policy Area: 19 – Foreign Policy Instruments		<input checked="" type="checkbox"/> Spending programme (IcSP and CFSP)
<b>General objective 1: Contribute to the implementation of the Lisbon Treaty (Article 21 (2) (c)) by which the EU seeks to preserve peace, prevent conflicts and strengthen international security, in accordance with the purposes and principles of the United Nations Charter, with the principles of the Helsinki Final Act and with the aims of the Charter of Paris.</b>		
<b>Impact indicator:</b> Number and intensity of conflicts worldwide: <ul style="list-style-type: none"> <li>• wars (level 5)</li> <li>• limited wars (level 4)</li> <li>• violent crises (level 3)</li> <li>• non-violent crises (level 2)</li> <li>• disputes (level 1)</li> </ul> Source: Conflict Barometer <a href="http://hiik.de/en/index.htm">http://hiik.de/en/index.htm</a>		
<b>Baseline</b> <b>2012</b>	<b>Milestone</b> <b>2017</b>	<b>Target</b> <b>2020</b>
405 conflicts of which: <ul style="list-style-type: none"> <li>• 19 wars</li> <li>• 25 limited wars</li> <li>• 177 violent crises</li> <li>• 85 non-violent crises</li> <li>• 99 disputes</li> </ul> Source: Conflict Barometer <a href="http://hiik.de/en/index.htm">http://hiik.de/en/index.htm</a>	Decrease in the Intensity of the conflicts where the main CFSP and IfS operations intervene.	Contribute to stabilization or decrease in the number and/or intensity of conflicts compared to the 2012 baseline.

Note: The indicator is based on the “Conflict Barometer” of the Heidelberg Institute for International Conflict Research (HIK) which measures the number of crises in the world and quantifies crises by intensity of conflict as: *wars (level 5)*; *limited wars (level 4)*; *violent crises (level 3)*; *non-violent crises (level 2)*; *disputes (level 1)*. **This indicator is used on a trial basis and will need to be evaluated over a longer time period if it is appropriate for the assessment of the EU’s impact on global crises.**

This does not mean there is a causal link between CFSP, IfS or IcSP interventions and any particular outcome as regards the world overall level of conflict or in the country/region concerned by the intervention. A direct link between outcomes and specifically EU interventions is difficult to ascertain: for example, IfS or IcSP responses often require a collective effort based on partnerships with other donors, civil society actors, multilateral and regional partners.

**Nonetheless this may be a useful indicator of the EU’s global impact as a stabilising force.** As a global player, the EU often has certain credibility and is perceived as a more neutral actor, lending it a competitive advantage when intervening in many conflicts to offer assistance in preventing conflict or avoiding escalation. Thus, an impact can be achieved when a response is provided at EU level, as a combined effort provides increased leverage over local authorities and international partners.

Policy Area: 19 – Foreign Policy Instruments		<input checked="" type="checkbox"/> Spending programme (Partnership Instrument)
<b>General objective 2: To advance and promote Union and mutual interests, the Partnership Instrument shall support measures that respond in an effective and flexible manner to objectives arising from the Union's bilateral, regional or multilateral relationships with third countries and address challenges of global concern and ensure an adequate follow-up to decisions taken at multilateral level.</b>		
Impact indicator: Number of relevant agreements and/or negotiation processes launched/ongoing with EU's strategic partners, regional organisations and at multilateral level		
<b>Baseline 2014</b>	<b>Milestone N/A</b>	<b>Target 2020</b>
Number of relevant existing agreements and of negotiation processes ongoing (e.g. FTAs, PCAs, MoUs, Joint Action Plans, etc.) with EU's strategic partners (Brazil, Canada, China, India, Japan, Mexico, Republic of Korea, Russian Federation and USA), regional organisations and at multilateral level.		Increase in the number of relevant agreements and/or negotiation processes launched/ongoing with EU's strategic partners (Brazil, Canada, China, India, Japan, Mexico, Republic of Korea, Russian Federation and USA), regional organisations and at multilateral level
Data source: EEAS website on relations between the EU and strategic partners (Brazil, Canada, China, India, Japan, Mexico, Republic of Korea, Russian Federation and USA), international and regional organisations, for example:  <a href="http://eeas.europa.eu/lac/index_en.htm">http://eeas.europa.eu/lac/index_en.htm</a> ; <a href="http://eeas.europa.eu/na/index_en.htm">http://eeas.europa.eu/na/index_en.htm</a> ; <a href="http://eeas.europa.eu/asia/index_en.htm">http://eeas.europa.eu/asia/index_en.htm</a> ; <a href="http://eeas.europa.eu/russia/index_en.htm">http://eeas.europa.eu/russia/index_en.htm</a> ; <a href="http://eeas.europa.eu/organisations/index_en.htm">http://eeas.europa.eu/organisations/index_en.htm</a> .		

Policy Area: 19 – Foreign Policy Instruments		<input checked="" type="checkbox"/> Spending programme (EIDHR)
<b>General objective 3: Supporting and consolidating democratic reforms in third countries, by enhancing participatory and representative democracy, strengthening the overall democratic cycle, and improving the reliability of electoral processes, in particular by means of election observation missions.</b>		
Impact indicator: Number of electoral processes and democratic cycles supported, observed, and followed by means EU of Election Observation Missions (EOM), Election Assessment Team (EAT), Election Expert Missions (EEM) and Election-Follow-up Missions (EfM) Defined by: the yearly priority list for Election Observation and the yearly AAP for Election Observation.		
<b>Baseline Average 2010-2012</b>	<b>Milestone 2017</b>	<b>Target 2020</b>
16	23	25
		Transparent and democratic election processes organised by institutions enjoying the public confidence through strengthening of the overall democratic cycles in third countries by means of election observation missions.

### 1.1.1 ABB Activity 19.02 – Instrument contributing to Stability and Peace (IcSP)

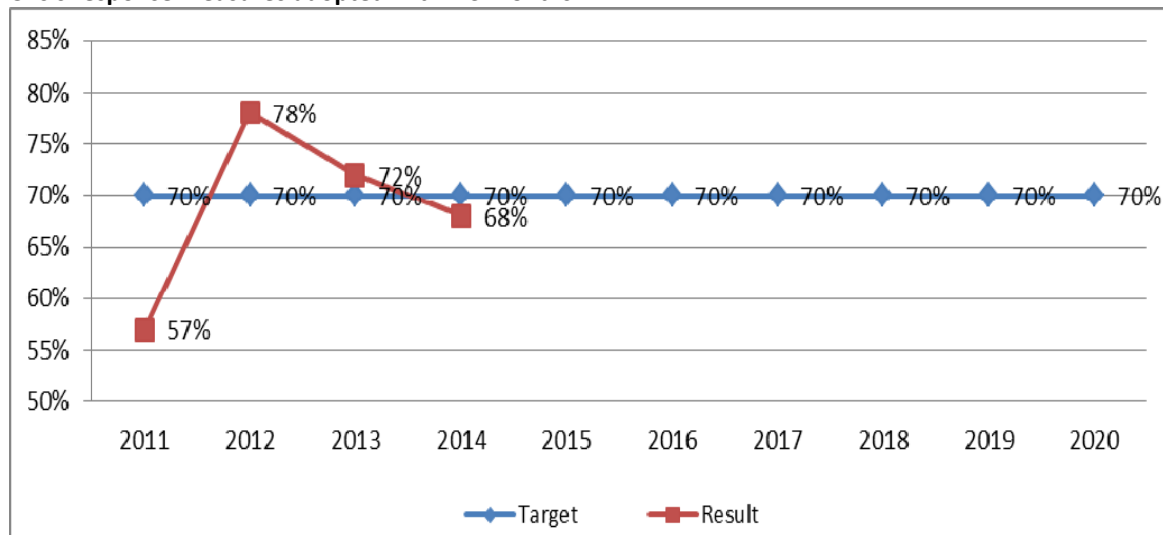
The IcSP is a key external assistance instruments enabling the EU to take a lead in helping to prevent and respond to actual or emerging crises around the world. Under this instrument, FPI committed a total of EUR **185.5 million** of which **EUR 166.4** under the **Response to crisis and emerging crisis** component (Article 3) and **EUR 19.0** million under the **Conflict prevention, peace building and crisis preparedness** (Article 4). The latter is based on the 2014-2020 Strategy Paper and the 2014-2017 Multi-Annual Indicative Programme prepared by the EEAS and adopted by the Commission<sup>4</sup>.

Many of the measures adopted under this instrument are part of an overarching EU comprehensive approach to conflict and crisis response and, as such, are designed in collaboration with the EEAS, DEVCO, ECHO and NEAR as well as other Commission services. Through regular notes presented to the Political and Security Committee, the Council was kept informed on the planning of new Article 3 crisis response measures and also updated on the implementation of ongoing measures. The Working Group on Conflict, Security and Development of the Foreign Affairs Committee of the European Parliament convened regularly with representatives from Commission services and the EEAS.

<b>General objective 1: Contribute to the implementation of the Lisbon Treaty (Article 21 (2) (c)) by which the EU seeks to preserve peace, prevent conflicts and strengthen international security, in accordance with the purposes and principles of the United Nations Charter, with the principles of the Helsinki Final Act and with the aims of the Charter of Paris.</b>			
<b>Specific objective 1: In a situation of crisis or emerging crisis, to swiftly contribute to stability by providing an effective response designed to help preserve, establish or re-establish the conditions essential to the proper implementation of the Union's external policies and actions in accordance with Article 21 TEU.</b>		<input checked="" type="checkbox"/> Programme-based (IcSP)	
Result indicator: Percentage of projects adopted within 3 months of a crisis context (period from presentation to PSC).			
The indicator measures the swift mobilization of resources to implement projects for short-term crisis response and conflict prevention where other financial instruments are not available and/or where the IcSP needs to contribute to a comprehensive response.			
Base line 2011	Trend	Latest known results	Target 2020
57%	☺	<b>2011:</b> 57% <b>2012:</b> 78% <b>2013:</b> 72% <b>2014:</b> 68 %	<b>70%</b> of projects <b>adopted within 3 months</b> of a crisis context (period from date of presentation to PSC)

<sup>4</sup> Commission Implementing Decision C(2014) 5607 of 11.8.2014, adopting the Thematic Strategy Paper 2014-2020 and accompanying Multiannual indicative Programme 2014-2017 of the Instrument contributing to Stability and Peace.

**Crisis response measures adopted within 3 months**



Under this objective, **30 actions** were launched in 2014. The following are examples of a few of these timely EU responses to many high-priority crises on the EU's political agenda that year:

- Ebola/West Africa:** The initial response to the Ebola epidemic from the authorities of the three most affected countries (Liberia, Sierra Leone and Guinea) included severe restrictions on movement, closing of borders as well as curfews and lockdowns. In several cases, these measures led to clashes and hostility, including against health workers, security forces and government officials. Since these restrictions on movement often were needed to contain the epidemic, it was important to ease the tensions. Activities funded by the IcSP include: identification of communities and villages with a high potential for increased tensions linked to public health restrictions and restrictions on movement imposed in the Ebola context (in particular in border areas); capacity-building on peaceful ways to prevent and resolve tensions arising in the border areas; training and mentoring of civilian border security forces; reinforcement of Ebola surveillance in border areas and support to cross-border dialogue at official and local community levels.

As part of the EU's comprehensive approach to the Ebola outbreak, the immediate IcSP support was also provided towards preparedness efforts in neighbouring countries which due to proximity faced a heightened Ebola risk.

Following the recognition of Ebola as a threat to peace and stability in UN Security Council Resolution 2177, a tri-partite Needs Assessment (UN-WB-EU), supported by the IcSP, was launched in late 2014 in the three most affected countries in order to identify actions (short-term and longer-term) addressing shortcomings in the countries' health systems but also countering the impact of the Ebola crisis on society as a whole. Some EUR 16.5 million have been committed for this crisis.

- Central African Republic (CAR):** The ongoing crisis in CAR has resulted in thousands of people being killed, a widespread violation of human rights, the disruption of governance, a breakdown in the social fabric and large scale displacements of people, especially those from the Muslim communities. Following the Brazzaville agreement for the cessation of hostilities at the end of July, the transition authorities formed a new government facing enormous challenges. The EU

mobilization to support addressing these challenges required a comprehensive approach across instruments. An EU Military mission was deployed, patrolling the streets in trouble spots, mainly in Bangui. Establishing such a mission entailed a review of how available EU instruments, mainly EDF and IcSP, could support/pave the way for the Mission's efforts to contribute to a safe and secure environment.

The Instrument has provided support in the form of an ongoing community stabilisation project in the 3<sup>rd</sup> and 5<sup>th</sup> "arrondissements" in Bangui which made important strides in helping communities to rebuild trust through joint activities that include the restoration of community infrastructure in the neighbourhoods patrolled by EUFOR. To support the transition and recovery process, it was deemed paramount to extend such activities beyond the borders of Bangui and focus on the most fragile mixed communities in some of the more rural provinces. An ongoing IcSP action providing support towards establishing new national police entities in trouble spots was expanded. In addition, support was bolstered through a series of follow-on actions aimed at helping with the facilitation of a political dialogue and peace process and the support to capacity building of administrative structures and authorities responsible for securing Housing, Land and Property (HLP) rights of the displaced. A workshop was held with the support of the IcSP-funded ERMES facility in Bangui with representatives from all CAR constituencies with agreement reached that a political solution, preceded by a cease-fire, would be the only viable way forward, with the President endorsing the conclusions of the workshop. New IcSP actions in 2014 totalled EUR 20.6 million.

- **Ukraine:** Anti-government protests following the decision of the government in November 2013 to suspend preparations towards the signing of an Association Agreement with the EU were followed by heightening tensions in the ensuing months that eventually led to violent events and resulting in more than 100 people killed in February 2014. After the change of leadership in March 2014, the European Commission announced a substantial EU support package of short and medium term measures to stabilise the country's economy, assist with political transition and encourage reforms. In line with the European Council Conclusions and the Foreign Affairs Council conclusions on Ukraine, the IcSP was initially mobilised towards increasing public confidence in the preparation and organisation of the May 2014 Presidential elections coupled with support to the OSCE Special Monitoring Mission (SMM) in Ukraine.

Later in the year, following the escalation of clashes between armed groups and government forces, the Instrument also provided assistance towards the needs resulting from significant population displacements. This support includes a wide range of activities from capacity building enabling the Ukrainian authorities to implement a national IDP (Internally Displaced Persons) registration system to self-employment grants and income-generating provisions linked to small-scale community development projects (such as schooling and health facilities) all implemented in a balanced way seeking to alleviate tensions between IDPs and host populations. Reconciliation and confidence-building measures aim to promote inclusive community dialogue to the benefit of entire communities, a particular emphasis being placed on the needs of women and children. New IcSP actions in 2014 amount to EUR 16.5 million.

- **Syria:** After almost four years of fighting, the situation in Syria has developed into the largest humanitarian crisis in recent history, displacing half of the Syrian population and directly affecting the stability of neighbouring countries. On the political front, there seems to be a stalemate with no immediate prospects for a negotiated solution putting an end to the conflict. Local initiatives to reduce the level of violence and broker agreements between armed parties constitute a noteworthy development gaining increasing attention, including support by the UN Special Envoy Staffan de Mistura. IcSP measures were agreed to support mediation and negotiation efforts to establishing backchannels and relationships with the conflict parties. Furthermore, support is provided to local mediation initiatives aiming to strengthen local cooperation and improve the delivery of basic services. The action aims to support the involvement of Syrian local actors, including parties to the armed conflict, representatives of civil society, political and religious actors, as well as international stakeholders (including the UN, in dialogue on the reduction of violence and perspectives for a peaceful settlement of the conflict).  
The growing role of ISIL (Islamic State in Syria and the Levant) added a dangerous new dimension to the conflict. In cooperation with other EU member states, new support measure was agreed in support of strengthening the resilience of communities inside Syria and other countries in the region (in particular countries of origin of foreign fighters) to counter the appeal of extremist groups and reinforce social cohesion. Activities include the design and dissemination of communication campaigns and interactive mass media programmes, in addition to direct assistance to Syrian civil society groups engaged in countering violent extremism.  
A further IcSP component supports efforts towards preparing a future transitional justice process in Syria, through the continued support to ongoing investigations into potential war crimes committed by parties to the conflict. The measure reflects the October 2014 Foreign Affairs Council conclusions on the ISIL crisis in Syria and Iraq in that "The EU welcomes efforts by actors working on the ground to ensure that human rights abuses and violations are being documented and evidence preserved."  
These measures run concurrent to ongoing support measures both inside Syria and in neighbouring countries. In Turkey, Iraq, but mainly Jordan and Lebanon, these include support to authorities in their reception and hosting of the ever-growing number of Syrian refugees. Direct assistance to refugees, for example through the provision of cash rental subsidies and improvement of living conditions and the governance structures of the camps, the provision of alternative education and in the sphere of psycho-social support. In Lebanon, there has been significant support to the local healthcare sector, which is under huge strain. Within Syria itself, access and other conditions for providing non-humanitarian support are clearly more challenging. Nevertheless, the Instrument was still able to provide some direct assistance in the form of primary healthcare, increased food security and basic education.  
In 2014, new IcSP measures amounted to EUR 21.6 million directly targeting Syria and EUR 17 million to handle the considerable influx of refugees in Turkey.



**General objective 1: Contribute to the implementation of the Lisbon Treaty (Article 21 (2) (c)) by which the EU seeks to preserve peace, prevent conflicts and strengthen international security, in accordance with the purposes and principles of the United Nations Charter, with the principles of the Helsinki Final Act and with the aims of the Charter of Paris.**

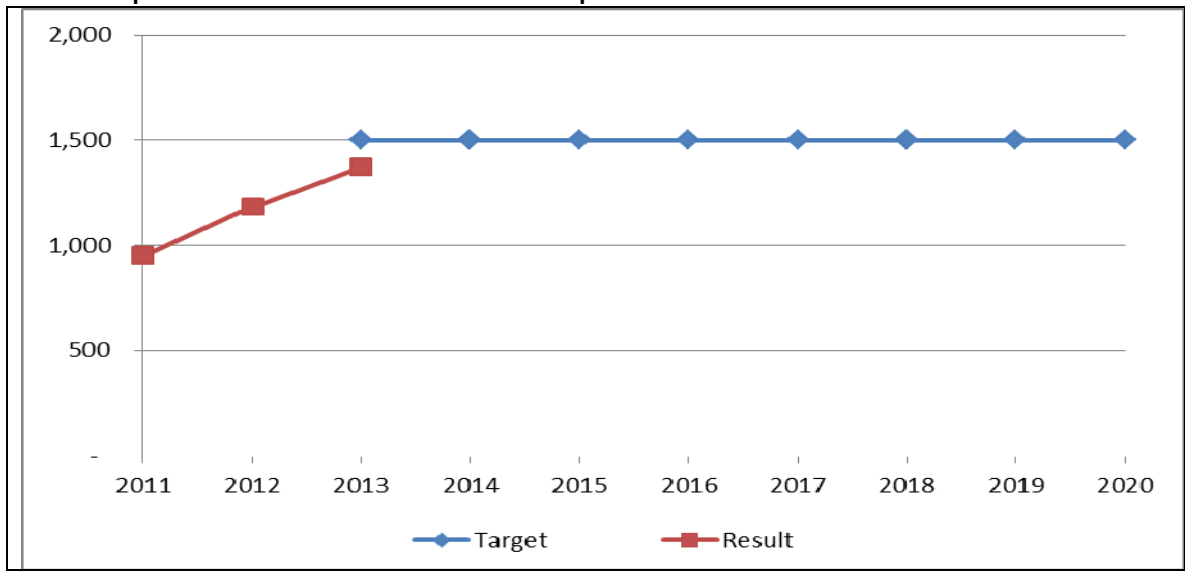
**Specific objective 2: To contribute to the prevention of conflicts and to ensure capacity and preparedness to address pre- and post-crisis situations and build peace.**

Programme-based (IcSP)

Result indicator: Number of processes and entities with strengthened capacity of EU and beneficiaries attributable to IcSP funding to prevent conflicts, address pre- and post-crisis situations and build peace.

Base line 2011	Trend	Latest known results	Target 2020
952	☺	<b>2011:</b> 952 <b>2012:</b> 1183 <b>2013:</b> 1373 <b>2014:</b> to be known in the course of the year 2015 (late adoption of the legal base and AAP 2014). Contracting will take place in 2015.	<b>1,500 processes and entities</b> with strengthened capacity of EU and beneficiaries attributable to IFS/IcSP funding to prevent conflicts, address pre and post conflict situations and to build peace.

**Number of processes and entities with enhanced capacities**



Under this objective, **EUR 19 million** were committed for activities supporting **Conflict prevention, peace building and crisis preparedness**, in the framework of the so-called "Peace-building Partnership". Focus was put on actions under priorities b), d) and e) of Article 4, namely in the areas of civil society capacity building; gender and transitional justice; building local and international mediation capacity; and strengthening the role of civil society within the Kimberley Process (Conflict Diamonds). In doing this the EU worked with a wide range of stakeholders, such as United Nations (UN) organizations as well as international and local civil society actors, particularly those working on developing local infrastructures for peace. The main achievements in 2014 were:

- Investment in **civil society at grass-root level** increased its capacity to engage in peace-building and conflict prevention actions across 19 conflict affected countries,

notably in the areas of mediation and dialogue; media and conflict; fragility and conflict, human security; and women, peace & security.

- A new phase of the **Civil Society Dialogue Network (CSDN)**, a forum for dialogue on peace-building issues between the EU and civil society actors, was launched in 2014. A total of 16 dialogue meetings were organised in order to enhance civil society input to the EU's policy making processes in relation to crisis prevention activities.
- The third and final phase of the "**EU-UN Partnership on land, natural resources and conflict prevention**" (**NRC**) was completed in December 2014. Based on the methodologies developed during the earlier phases, this project helped to strengthen the capacity of local civil society in the African Great Lakes Region (Burundi, Rwanda, Uganda and DRC) to understand conflict dynamics and employ conflict-sensitive development solutions to contentious issues, such as competition/conflict around access to land and natural resources. This project was – for the second time – praised in the UN's Secretary General Report on Peacebuilding in the aftermath of conflict (2014 – first time in 2012)
- The first phase of the **European Union's Police Services Training Programme (EUPST)** aiming to build the capacity of police officers from the EU, non-EU countries contributing to CSDP missions as well as African Union countries taking part in international crisis management missions was successfully completed in November 2014. Over a three year period, EUPST has built the capacity of over 2,400 police officers from 68 countries (including 16 non-EU CSDP contributing countries and 28 African Union (AU) member states) to jointly perform civilian policing functions in international crisis management missions of the EU, UN and AU. In total, 7 training exercises were implemented in Spain, France, Kenya, Cameroon, the Netherlands and Italy contributing to closer harmonization of training approaches and identification of best practices. Building on the success of this programme, a new phase is currently being developed to start in 2015.
- The **ERMES (European Resources for Mediation Support) facility**, launched in January 2014, provides the EU with a new facility to support global peace mediation efforts by supporting third parties through quick response engagements as well as capacity-building efforts. In 2014, ERMES was mobilised, amongst others, in: a) South Sudan (to help with the formation of a national dialogue and reconciliation process in South Sudan, in support of the talks in Addis Ababa and in view of a potential peace agreement), b) CAR, upon request of CAR President Samba-Panza, for the organisation of a workshop gathering representatives from all CAR constituencies to exchange views on the crisis in CAR. The workshop succeeded in laying the groundwork for a resumption of political dialogue and helped strengthening the articulation and complementarity between the process of top-level political dialogue and the long-term reconciliation process. Ultimately it also contributed to the signature of a cease fire agreement in Brazzaville, Congo; c) the Philippines to organise an inter-faith conference on the peace and reconciliation in Mindanao; d) Ukraine, to support the authorities' efforts to develop the design of a nation-wide and inclusive dialogue process on decentralisation; e) ASEAN, for the organisation, co-led by the EU and Brunei, of a preventive diplomacy and mediation

training for the ASEAN Regional Forum (ARF) to contribute to the implementation of the "ARF Preventive Diplomacy Work Plan".

- An improved capacity of **the League of Arab States (LAS)** to better prepare for and respond to crises was confirmed with the completion of a first phase of cooperation in April. The Secretariat in Cairo now has the technical capacity to perform effective crisis related early warning using the Regional Crisis Centre, developed and equipped with EU support. 665 staff from Secretariat departments and LAS member states benefitted from more than 15 training seminars and 25 workshops covering policy areas of immediate interest including humanitarian assistance, disaster risk reduction, post-crisis needs analysis (PCNA), mediation and gender and conflict. Further support to build the regional capacity of the LAS to address multiple political and security challenges will be pursued in 2015.
- In terms of support to **post-disaster and post-conflict needs assessment (PDNA-PDNA)**, the EU provided politically valuable and targeted support in the following crisis situations: the PDNA missions in Bosnia and Herzegovina and Serbia response to the floods of March 2014 enabled the EU to lead the tripartite partners (World Bank and UNDP) in delivering a full politically endorsed PDNA in time for the Brussels Donors Conference in July 2014. Another PDNA deployment was carried out in the Solomon Islands in response to the floods at the beginning of 2014 while 2 major. PCNA deployments took place in Ukraine in August 2014 and in Gaza in September and October 2014.

### **Foreign Policy Regulatory Instruments**

As regards **sanctions**, one of the three **Foreign Policy Regulatory Instruments** where FPI represents the EU, FPI prepared and negotiated Joint Proposals for Council Regulations made jointly by the Commission and the High Representative for Foreign Affairs and Security Policy, and prepared Commission Regulations on CFSP restrictive measures. FPI also **represented the Commission in relevant Council groups**, in particular the Foreign Relations Counsellors working party (RELEX) (typically meeting twice a week), as well as special RELEX/Sanctions meetings with officials and experts from capitals throughout each semester. In 2014, FPI prepared a total of 29 proposals for (amending) Council Regulations on sanctions, including those related to Russia's actions destabilising the situation in Ukraine. Furthermore, FPI prepared 19 Commission Implementing Regulations concerning the **Al Qaida sanctions** regime, which transposes decisions taken by the UN Al-Qaida Sanctions Committee into EU law.

FPI continued its management of the **sanctions database** to assist the financial sector in identifying persons and organisations that are the object of EU financial sanctions (asset freezing). An essential upgrading is underway due to new technology requirements, information flows and user needs of the various stakeholders, so that the database can remain an effective tool for implementing financial sanctions. Further updating is also required to ensure compliance with the new EU Data Protection Regulation. Preparatory works for such updating began in 2013 in order to meet the objective of having the new database in place by early 2015.

As regards the **Kimberley Process (KP)**, the EU as represented by FPI continued to **chair the KP's Working Group on Monitoring (WGM)**, which is one of the most important KP

working bodies as it deals with country compliance issues) and to play an active role in the other KP committees and working groups. In its capacity as Chair of the WGM, FPI has been instrumental in achieving concrete results in the debate on strengthening KP implementation as well as in creating a positive momentum for the all-important decision by the UN Security Council to **lift the embargo on diamond exports from Côte d'Ivoire**. Moreover, as WGM Chair FPI managed to rally KP participating countries behind joint efforts to ensure that **diamonds from the Central African Republic (CAR) are not introduced into the legitimate trade**, while encouraging the country's KP authorities to implement their work plan for addressing issues of non-compliance with KPCS minimum requirements and strengthening the internal control system.

Furthermore, FPI prepared proposals for a Council Decision and for amending the KP Regulation (Council Regulation (EC) No 2368/2002) with a view to **enabling Greenland to import and/or export rough diamonds** through the EU, creating the presumption that for the purposes of the KPCS, the territory of EU and Greenland is considered as one entity without internal borders and thus applies the EU rules on the movement of rough diamonds from/to this joint territory. These proposals were adopted by the Council and the European Parliament on 20 February 2014.

And as for the **Anti-Torture Regulation** (Council Regulation (EC) 1236/2005), in 2013 FPI had completed its review of the trade restrictions imposed on certain goods which could be used for capital punishment or for torture or other cruel, inhuman or degrading treatment or punishment. These restrictions were imposed in 2005 and have as their sole purpose to help prevent EU involvement in violations of human rights in third countries. In January 2014, the Commission proposed that the European Parliament and the Council **amend these trade restrictions**, notably in order to define appropriate modalities for export controls applied to prevent EU goods from being used for **capital punishment in third countries**.

In July 2014, the Commission also published **new lists of goods** subject to these trade restrictions. Some descriptions of goods were broadened and new goods were added. As a result exports and imports of e.g. bar fetters, restraint chairs, certain whips and cage and net beds are now prohibited. New export controls were imposed on spit hoods, electric discharge (shock) weapons that cover a wide area and equipment for the dissemination of incapacitating or irritating chemical agents covering a wide area.

### 1.1.2 ABB Activity 19.03 – Common Foreign and Security Policy (CFSP)

FPI's management of each CFSP action is based on specific decisions adopted by the Council under the CFSP provisions of the Treaty on European Union (TEU). There is no over-arching instrument (basic act) adopted for the full period of the multiannual financial framework. Actions are either CSDP civilian crisis management missions, European Union Special Representatives (EUSRs) or actions in the field of non-proliferation of Weapons of Mass Destruction (WMD) and small arms and light weapons (SALW). The main performance indicators are the degree of intensity of the conflicts where the main CFSP operations intervene and the number of countries having ratified international conventions in non-proliferation and disarmament.

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<b>Specific objective 1: Support to preservation of stability through substantial CSDP missions and EUSR's mandates.</b>		<input checked="" type="checkbox"/> Programme-based CFSP
Indicator 1a: Degree of achievement of the objectives as defined in the respective Council Decision / Joint Action.		
Indicator 1b: Intensity of the conflicts assessed according to the Conflict Barometer (when relevant). (1- dispute; 2 – non-violent crises; 3 - violent crises; 4 - limited war; 5 - war.)		
Baseline 2012	Milestones * 2017	Current situation//Target ** 2020
1) CSDP Mission – EU Monitoring Mission in Georgia.  conflict intensity 2012: 3	200 monitors are sent by EU Member States to monitor compliance with the August 2012 Six Point Agreement.  Milestone: 1,75	Current: Intensity of conflict down to level 2 in 2014 (from 2.5 in 2013)  Target: Contribution to long term stability in Georgia and the surrounding region.  Human rights are respected, including freedom of movement and rights of internally displaced people and refugees.  Target : 1
2) CSDP Mission – EU Rule of Law Mission in Kosovo.  Conflict intensity 2012: 3	War crimes, terrorism, organised crime, corruption, inter-ethnic crimes, financial and economic crimes and other serious crimes are properly investigated, prosecuted, adjudicated and enforced.  Cooperation and coordination structures between police and prosecution authorities are created.  Kosovo Anti-Corruption Strategy and Anti-Corruption Action Plan are developed and implemented.  Milestone: 2,5	Current Intensity of conflict down to level 1 in 2014 (same as 2013)  Target: Kosovo has an independent and multi-ethnic justice system and a multi-ethnic police and customs service.  Rule of law in North Kosovo is restored.  Relations between Pristina and Belgrade are normalised.  Target : 1

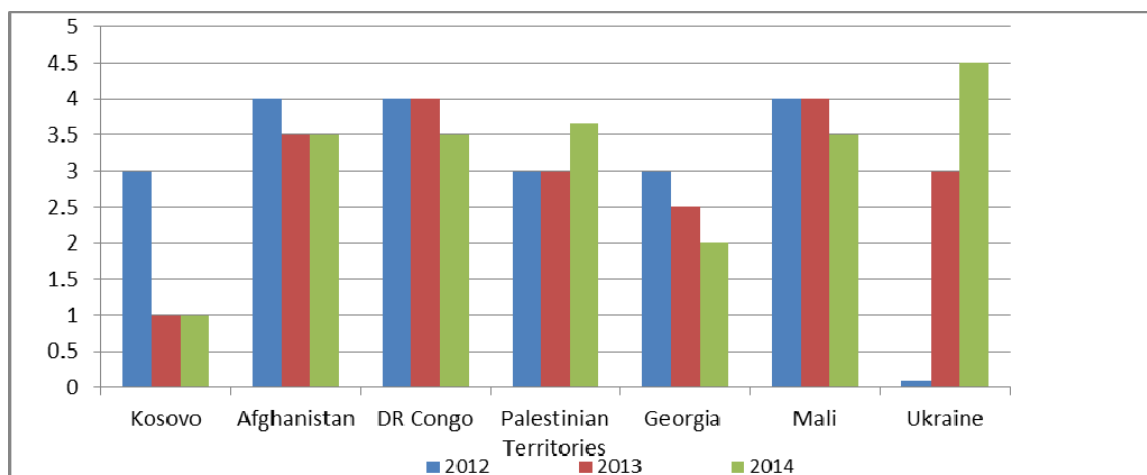
<p>3) CSDP mission: EUBAM Libya</p> <p>Average conflict intensity 2012: 3,6</p>	<p>The cross ministerial working group on border management is set up and continues working.</p> <p>The Tripoli Action Plan on border security is implemented.</p> <p>Training policies and curricula are adopted by border management agencies.</p> <p>Full operational capacity foresees over 110 international staff</p> <p>Milestone: 3,25</p>	<p>Current average intensity of conflict up to level 4 in 2014 (from 3.5 in 2013). This is due to the conflict of opposition groups which increased from 4 to 5 (war). This triggered the re-location of the Mission to Tunis and the downsizing of the staff and activities</p> <p>Target: A national Integrated Border Management Strategy is developed and implemented by Libyan authorities.</p> <p>The roles and tasks of law enforcement agencies working in border management are defined.</p> <p>Target: 3</p>
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<p>4) CSDP mission: EU Police Mission for the Palestinian Territories (EUPOL COPPS)</p> <p>Average conflict intensity 2012: 3,5</p>	<p>The strategic and regulatory framework of Palestinian Civilian Police (PCP) is reviewed in line with international standards.</p> <p>New legislation on criminal justice is drafted.</p> <p>Milestone: 3,4</p>	<p>Current average intensity of conflicts: up to 3.7 in 2014 (from 3 in 2013). The increase is due to the escalation in 2014 to level 5 (war) of the conflict with the Hamas.</p> <p>Target: Sustainable and effective policing arrangements are established under Palestinian ownership.</p> <p>A sustainable criminal justice sector compliant with international standards is set up under Palestinian ownership.</p> <p>Strengthening and defining the position of the Palestinian Civil Police (PCP) position within the security sector and its staff are defined;</p> <p>The capacity of the PCP administrative and internal support administrations is strengthened;</p> <p>The accountability and oversight of the Palestinian Civil Police is strengthened;</p> <p>The Criminal Justice Institutions (CJIs) are better organised and deliver better outputs;</p> <p>Access to justice, fair trial, and protection of victims and witnesses in the criminal justice is improved;</p> <p>The capacities of the Palestinian Anti-Corruption Commission (PACC) and of the Corruption Crimes Court (CCC) to fight corruption are strengthened.</p> <p>Target: 3</p>
<p>5) CSDP Mission: EU Police Mission Afghanistan</p> <p>Average conflict intensity 2012: 4</p>	<p>Training management is handed over to Afghans following training provided to 10,700 police officers.</p> <p>An Afghan-led Police-Prosecutor Cooperation Manual is developed and in use following training provided to 1000 prosecutors and police officers.</p> <p>Police districts are reformed into a more community-based policy model.</p> <p>Around 260 police plans and policies are developed and implemented.</p> <p>Milestone: 3,8</p>	<p>Current Intensity of conflict down to level 3.5 in 2014 (stable compared to 2013)</p> <p>Target: Sustainable and effective policing arrangements are established under Afghan ownership, which will ensure appropriate interaction with the wider criminal justice system.</p> <p>Target: 2,5</p>

<p>6) CSDP Mission: EUBAM (European Union Border Assistance Mission) Rafah</p> <p>Average conflict intensity 2012: 3,5</p>	<p>Improved security situation in Palestine.</p> <p>Milestone: 3.4</p>	<p>Current Intensity of conflict down to level 3</p> <p>Target: Proper implementation of the Framework, Security and Customs Agreements concluded between parties on the operation of Rafah terminal.</p> <p>Target: 3</p>
<p>7) CSDP Mission: EUCAP SAHEL Niger</p> <p>Average conflict intensity 2012: 3</p>	<p>Regional Joint Centres are operational.</p> <p>Members of the country's internal security forces are trained.</p> <p>Police are able to carry out forensics investigations.</p> <p>Full deployment and operationality of the mission (50 experts)</p>	<p>Current Intensity of conflict maintained at level 3 in 2014 (same as 2013)</p> <p>Target: Nigerian security forces are able to interoperate.</p> <p>Criminal investigation capacities are developed in line with the criminal justice system.</p> <p>Sustainability of human resources and logistics of Nigerian security force is achieved.</p>
<p>8) CSDP Mission: EUCAP Nestor</p>	<p>Training courses are delivered to coast guards in Djibouti, Seychelles and Tanzania.</p> <p>The legal and regulatory framework on the judiciary and land-based coastal police capability is revised or established in Somalia.</p>	<p>Maritime capacities, including maritime security agencies, are efficiently organised, and have achieved self-sustainability in training.</p> <p>Somalian coastal police capabilities are developed.</p> <p>National legislation and the rule of law are strengthened.</p>



<p>9) EUSEC RD Congo</p> <p>conflict intensity 2012 (average): 4</p>	<p>Advancement of restructuring of Congolese security sector</p>	<p>Current average intensity of conflicts down to level 3.5 in 2014 (from 4 in 2013).</p> <p>Target: A system of Human resources is implemented; A military training system is in place.</p>
<p>10) CSDP Mission in Mali</p> <p>conflict intensity 2012 (average): 4</p>	<p>Stabilisation of situation and increase of security in Mali.</p>	<p>Current average intensity of conflicts down to level 3.5 in 2014 (down from level 4 in 2013)</p> <p>Target: Approval of new legal framework for the security forces.</p> <p>All staff of the security forces is registered in his/her relevant base and database updated daily by staff duly trained.</p> <p>Training of 1000 members of the security forces.</p> <p>Decrease in the intensity of the conflict.</p>
<p>11) CSDP Mission in Ukraine</p> <p>Intensity of the conflict: level 3 – violent conflict (2013)</p>	<p>Stabilisation of situation and increase of security in Ukraine.</p> <p>The level is likely to be increased in the next barometer.</p>	<p>Current average intensity of conflicts up to level 4.5 in 2014 (from 3 in 2013).</p> <p>As the civilian security sector reform strategy is being developed, sufficient resources have been made available for the elaboration of concrete coordinated plans for its implementation.</p> <p>The SSR Vision and Strategy, plans and implementation are disseminated to the public and to relevant public employees.</p> <p>The Mission participates in relevant international fora in Ukraine.</p> <p>Ukrainian mechanisms for effective coordination and cooperation are included within Ukrainian SSR.</p> <p>Decrease in the intensity of the conflict.</p>



The left-hand scale corresponds to: Level 5: war; Level 4: limited war; Level 3: violent conflict; Level 2: non-violent conflict; Level 1: dispute (Source: Conflict Barometer: <http://hiik.de/en/index.html>)

FPI committed a total of EUR 289.3 million for CFSP missions and EU Special Representatives (EUSRs) under Specific Objective 1. The bulk was committed to finance **11 CSDP missions** (EUR 273.6 million): EULEX Kosovo (EUR 89.8 million), EUPOL Afghanistan (EUR 75.4 million), EUMM Georgia (EUR 18.3 million),; EUCAP Nestor (EUR 17.9 million); EUAM Ukraine (EUR 15.8 million); EUCAP Sahel Niger (EUR 9.2 million). EUBAM Libya (EUR 26.2 million). The remainder (EUR 20 million) went to missions in Mali, Democratic Republic of Congo (DRC) and Palestine. **Here is an overview:**

- **11 EU Special Representatives** ( total budget: EUR 15.6 million) were active in: Afghanistan, the African Union (until June 2014), Bosnia and Herzegovina, Central Asia (until March 2014), Horn of Africa, Human Rights, Kosovo, Sahel, the South Caucasus and the crisis in Georgia, the Southern Mediterranean region (until June 2014). Each EUSR has a specific mandate to promote the EU's policies and interests in troubled regions and countries and to play an active role in efforts to consolidate peace, stability and the rule of law.
- **EU Rule of Law mission EULEX KOSOVO:** the biggest CSDP mission has been one of the key elements ensuring stability in Kosovo, including through executive (police) operations. The objective is to maintain civilian law and order, to improve the rule of law and to support the government in administering the territory through mentoring, monitoring and advising activities. Following a major downsizing exercise, the mission staff decreased from 2250 to 1600. The mission under its executive mandate is active in the areas of law enforcement, customs, and administration of justice. There was a **significant decrease in the intensity of the conflict** following the EU mediated talks and the reconciliation agreement reached in April 2013. The level has remained at 1 in 2014.
- **EU Police Mission in Afghanistan:** in the context of the international community's efforts to support the Afghans in taking responsibility for law and order, **EUPOL** operates within a coordinated EU approach that includes local political guidance provided by the EU Special Representative and a reconstruction effort managed through the EU delegation. EUPOL adds significant value as the only multilateral actor able to provide highly-qualified civilian policing and rule of law expertise in

spite of the volatile political and security situation. The mission has 565 staff in the field in line with its target deployment capacity. Results point to slightly improved civilian policing capacity and improved police-judiciary coordination. **The conflict level is down from level 4 to level 3.5.**

- **EUMM Georgia:** set-up in 2008 following the Russia-Georgia war in 2008, the mission monitors compliance by all sides with the EU-brokered “Six-Point Agreement” between Georgia and Russia and the Agreement on Implementing Measures (2008). Its mandate consists of stabilisation, normalisation and confidence-building, as well as reporting to the EU in order to inform European policy-making and thus contribute to the future EU engagement in the region. First and foremost, the mission is working to prevent the renewal of an armed conflict. It continues to be fully operational with 270 international and over 120 local staff to conduct routine inspections within the stipulated zone that includes Georgia, South Ossetia and Abkhazia. The EU efforts to stabilize the region in the CFSP field include also the European Union Special Representative (EUSR) for the South Caucasus and the crisis in Georgia. **The conflict has continued its downward trend at 2 in 2014 (2.5 in 2013 and 3 in 2012).**
- **In the Middle East:** CFSP activities contribute to the wider efforts of the European Union in support of Palestinian state-building in the context of working towards a comprehensive peace based on a two-state solution. These include the **EU Police Mission (EUPOL COPPS)**, the **EU Border Assistance Mission (EUBAM Rafah)**. Both missions were established in 2005. EUPOL COPPS continued its activities to strengthen the rule of law institutions within Palestine throughout 2014. The capacity building of Palestinian police advanced, the criminal justice sector set up and functioning is progressing and furthermore EUPOL COPPS works steadily on the improved interaction between both sectors. However, the mission at the Rafah crossing point between Egypt and Gaza could not implement its mandate due to closure of the Gaza strip. As a result, EUBAM Rafah is still in “stand-by” mode until agreement to reopen the border crossing. **The intensity of the conflict went up to 3.7 in 2014 (from 3 in 2013) to the escalation between the Hamas and Israel.**
- **In the Democratic Republic of Congo (DRC):** the two Missions on Security Sector Reform continued their action. In the police area, **EUPOL DRC** contributed to the set-up of a viable police service, including its link to a justice system that corresponds to the needs of Congolese society. EUPOL DRC ceased operations in September 2014. In the military sector, **EUSEC DRC** contributes to different aspects of army-related reform. Both missions have 50 international staff each. The restructuring of the Congolese Police has advanced. The interaction between police and criminal justice system has improved. Human resources management, logistics and training of armed Forces also improved. **The intensity of the conflicts has decreased in 2014 to 3.5 (from 4 in 2013).**
- **EUBAM Libya:** its objective is to improve security in Libya through support to Libyan authorities for developing their capacity and strategy for enhancing border security. Due to the difficult security situation, the mission was evacuated to Tunis in the fall 2014.
- Three missions were established in 2012 in Africa to improve the security situation with regard to piracy in the Western Indian Ocean and in countries of East and West Africa: **EUCAP Nestor (Horn of Africa)**, **EUAVSEC South-Sudan**, **EUCAP Niger**. The

CSDP Mission EUCAP Nestor is a civilian mission complementary with the European Union Naval Force (EUNAVFOR – Operation Atalanta) and the EU Training Mission (EUTM) in Somalia for training and capacity-building of the national coast guard in targeted countries, and training local police and justice staff in Somalia in the area of maritime law and piracy. EUCAP Sahel Niger aims at building-up the capacities of Niger authorities to fight terrorism and organised crime. It has trained over 700 Niger security force personnel, on increasing operational response and coordination between the security actors, scientific police, intelligence handling. It also contributed to improving coordination of international security projects. Also, **EUSR for Horn of Africa** was established in 2012 and a **EUSR for Sahel** was established in 2013. **EUAVSEC South Sudan** ceased its operations in January 2014, following evacuation of the international staff from Juba in late December 2013.

- Two new missions were launched in 2014: **EUCAP Sahel Mali**, whose objective is to deliver strategic advice and training for the three internal security forces in Mali, focusing on internal management and human resources. It has 80 staff members. **EUAM Ukraine**, whose objective is to assist Ukraine in the field of civilian security sector reform, including police and rule of law. It has 100 staff members.

**General objective 1: Contribute to the implementation of the Lisbon Treaty (Article 21 (2) (c)) by which the EU seeks to preserve peace, prevent conflicts and strengthen international security, in accordance with the purposes and principles of the United Nations Charter, with the principles of the Helsinki Final Act and with the aims of the Charter of Paris.**

<b>Specific objective 2: Support the implementation and promotion of:</b> 1) strategy on non-proliferation of weapons of mass destruction in order to increase security in this area (WMD); 2) strategy on combating illicit accumulation and trafficking of Small Arms and Light Weapons (SALW) as well as measures against illicit spread and trafficking of other conventional weapons; 3) EU's policies in the field of conventional arms exports, in particular on the basis of Common Position CFSP/944/2008.		<input checked="" type="checkbox"/> Programme-based CFSP
Baseline 2013	Milestone 2017	Target 2020

<ul style="list-style-type: none"> <li>• CTBTO: number of countries having ratified: 159</li> <li>• UN Resolution 1540: number of countries having signed: 120</li> </ul>	<ul style="list-style-type: none"> <li>• CTBTO: number of countries having ratified: 162</li> <li>• UN Resolution 1540: number of countries having signed: 122</li> </ul>	<ul style="list-style-type: none"> <li>• CTBTO: number of countries having ratified: 164</li> <li>• UN Resolution 1540: number of countries having signed: 125</li> </ul> <p>Nuclear security in selected countries strengthened, Illicit traffic of SAWL and ammunition reduced in North Africa, Balkans and Central America.</p>	
Main outputs in 2014			
Description	Indicator	Current situation	Target
Comprehensive Nuclear-Test-Ban Treaty Organization	Number of countries having ratified the Treaties  <a href="http://www.ctbto.org/the-treaty/status-of-signature-and-ratification">http://www.ctbto.org/the-treaty/status-of-signature-and-ratification</a>	2 new ratifications in 2014; total: 163	Actions supporting the signature of 164 states by 2020
UNODA 1540 III	Number of countries having ratified the Treaties	The implemented activities under the EU Council Decision on UNSCR 1540 in 2014 improved national implementation efforts and enhanced the regional coordinated approaches to the implementation of UNSCR 1540 (2004), in particular in the area of physical protection and accounting of related materials. The implemented measures also led to a greater involvement of representatives of civil society and academia in international, regional and national UNSCR 1540 implementation efforts.	Actions supporting the signature of 125 states by 2020
UN SEESAC	The report of the beneficiary confirms the reduction illicit traffic of SALW in the region.	3,682 surplus SALW destroyed in BiH, Montenegro, Kosovo, and the FYROM in 2014.  Important progress was achieved in Kosovo, Montenegro, and BiH in the field of physical security and stockpile management.	Reduction of illicit trafficking of SALW and their ammunition and their surplus by improving security provisions and stockpile management for the storage of conventional weapons and ammunition stockpiles in BiH, Kosovo*, Moldova,

			Montenegro, and FYROM.  Marking and tracing capabilities are improved.
PSSM Libya	<p>A national strategy covering physical security and stockpile management (PSSM) is drafted;</p> <p>Standard operating procedures for physical security and stockpile management are drafted.</p> <p>A set number of ammunition storage facilities has been rehabilitated (number to be qualified at the end of phase 1).</p>	Despite initial progress on several project components in the first half of 2014, activities have been suspended since July 2014 due to the deterioration of the political and security situation in Libya.	Libyan authorities exercise effective national control over their conventional weapons and ammunition
IAEA VI	The beneficiary's final report.	Final report not yet available	<p>States' capacities to prevent, detect, respond, and to protect people, property, environment and society from criminal or intentional unauthorised acts involving nuclear or other radioactive material is strengthened.</p> <p>States develop and implement computer security and information protection programs to enhance the overall nuclear security.</p>
Consortium Think tanks	Beneficiary's report.	The annual conference was attended by more than 250 participants, who came from a broad range of geographic locations and subject backgrounds. A total of 57 states were represented, including 26 EU Member States	Political and security-related dialogue and long-term discussion of measures to combat the proliferation of weapons of mass destruction and their delivery systems is enhanced through

			the creation and funding of the consortium of think tanks.
Arms Trade Treaty IV	Entry into force of the Treaty (>50 ratifications) Number of States having ratified/acceded the Treaty  <a href="http://www.disarmament.un.org/treaties/t/att">http://www.disarmament.un.org/treaties/t/att</a>	52 new ratifications in 2014 (61 states in total). ATT entered into force on 24/12/2014.	150 States have ratified the ATT
Organisation for the Prohibition of Chemical Weapons	Number of States having ratified the Chemical Weapons Convention	Myanmar, one of the two signatory states which has not yet ratified, advanced preparations to ratify the Convention.	191 States have ratified the Chemical Weapons Convention

FPI committed a total EUR 15 million for Specific Objective 2. A number of Council decisions were adopted establishing new actions. Implemented by international organisations and other partners, these provided a tangible contribution to the universalisation and implementation of major arms control and disarmament treaties and instruments and strengthened the efforts of the international community to counter the illicit trafficking of small arms and light weapons (SALW) and the proliferation of weapons of mass-destruction (WMD) and their means of delivery, as well as to enhance meaningfully nuclear security worldwide.

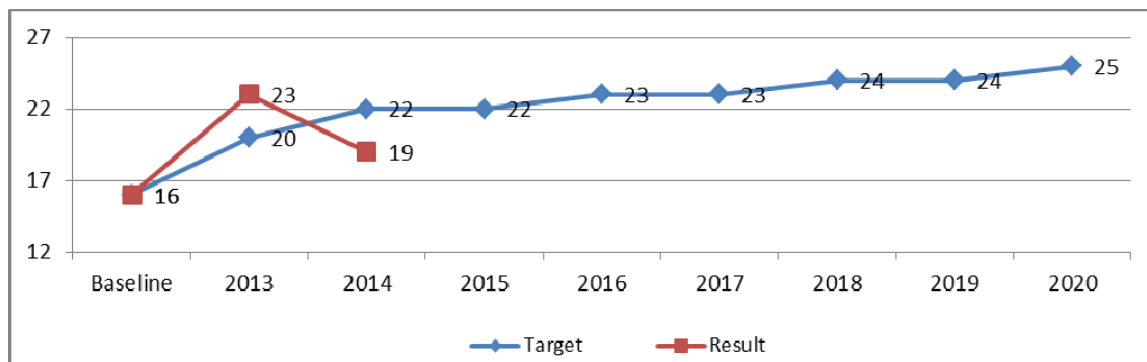
Projects related to nuclear, biological, chemical and missile disarmament activities are implemented by the International Atomic Energy Agency -IAEA the Commission of the Comprehensive Test-Ban Treaty Organization -CTBTO; the Organization for the prohibition of Chemical Weapons -OPCW; and the World Health Organization -WHO.

### 1.1.3 ABB activity 19.04 – Election Observation Missions (EOMs)

<b>General objective 3: Supporting and consolidating democratic reforms in third countries, by enhancing participatory and representative democracy, strengthening the overall democratic cycle, and improving the reliability of electoral processes, in particular by means of election observation missions.</b>			
<b>Specific objective :</b> To build confidence in and to enhance the reliability and transparency of democratic electoral processes through deployment of European Union Election Observation Missions (EOMs)		<input checked="" type="checkbox"/> Spending programme (EIDHR)	
Result indicator: Number of electoral processes and democratic cycles supported, observed, and followed by means of Election Observation Missions, Election Assessment Teams and Election Experts Missions proposing recommendations to the host country.			
Baseline Average 2010-2012	Current Situation 2014	Milestone 2017	Target 2020
16 missions	19 missions	23 missions	25 missions

Main outputs in 2014			
Description	Indicator 2010-2012	Current situation 2014	Target 2020
1. EU Election Observation Missions (EOM) and EU Election Assessment Team Missions (EAT) deployed	Indicator 1 <sup>5</sup> : EU capacity to support and assess democratic and electoral processes expressed in number of missions deployed.	8	12
2. EU Election Expert Missions (EEM) deployed	Indicator 2: Number of electoral processes and democratic cycles assessed by EEMs.	9	13
3. EU Follow-up Missions (EFM) deployed	Indicator 3: Number of Election Follow-up Missions deployed in countries after an Election Observation Mission to assess the implementation of recommendations.	2	5
4. Experts and observers trained	Indicator 4 <sup>6</sup> : number of experts trained	101	160

**Number of electoral processes and democratic cycles supported, observed, and followed by means of Election Observation Missions, Election Assessment Teams and Election Experts Missions proposing recommendations to the host country:**



Despite the acute shortage of payment appropriations for the greatest part of the year

<sup>5</sup> Indicator 1: Regarding the number of missions deployed, the indicator takes into consideration EU Election Observation Missions (EOM - fully-fledged election observation missions), EU Election Assessment Team missions (EAT - limited observation or assessment missions in countries with particularly difficult security situation).

<sup>6</sup> Indicator 4: Regarding the number of experts trained by the EU training programme in order to be deployed in missions as experts or observers, the baseline is the number of experts trained during the previous training programme (NEEDS) in 2009-2012, with an average of 130 experts and observers trained per year.



and the usual uncertainties in the electoral calendar, FPI successfully implemented the highly visible annual programme of election observation deploying 7 EU EOMs to Egypt, Guinea Bissau, Kosovo, Malawi, the Maldives, Mozambique and Tunisia, 1 EAT to Afghanistan, 9 EEMs to Algeria, Bolivia, El Salvador, the Fijis, Iraq, Libya, Mauritania, Nigeria and Thailand, and 2 election follow-up missions to Nigeria and the Democratic Republic of the Congo (DRC) to assess the implementation of previous EU EOM recommendations.

A total of 101 trainees from 27 EU member States participated in the courses provided by the training programme Election Observation & Democracy Support (EODS). EODS deepened its cooperation with the African Union (AU) in 2014, helping develop a curriculum and tools for Long Term Observer training and a core team methodology. EODS helped the AU train 57 LTOs, and 26 Election/Legal analysts for either French or English speaking missions.

#### 1.1.4 ABB activity 19.05 – Partnership Instrument (PI)

<p><b>General objective 2: To advance and promote Union and mutual interests, the Partnership Instrument shall support measures that respond in an effective and flexible manner to objectives arising from the Union's bilateral, regional or multilateral relationships with third countries and address challenges of global concern and ensure an adequate follow-up to decisions taken at multilateral level.</b></p>		
<p><b>Specific objective 1: To support the Union's bilateral, regional and inter-regional cooperation partnership strategies, by promoting policy dialogues and by developing collective approaches and responses to challenges of global concern.</b></p>		<input checked="" type="checkbox"/> Programme-based (PI)
<p><b>Result indicator:</b> Number of relevant agreements and/or negotiation processes launched/ongoing with EU's strategic partners, regional organisations and at multilateral level in the field of climate change, energy and environment.</p>		
<p><b>Baseline 2014</b></p> <p>Number of existing relevant agreements and of negotiation processes ongoing (e.g. FTAs, PCAs, MoUs, Joint Action Plans etc.) with EU's strategic partners (Brazil, Canada, China, India, Japan, Mexico, Republic of Korea, Russian Federation and USA), regional organisations and at multilateral level in the field of climate change, energy security and protection of environment</p>	<p><b>Milestone</b></p> <p>N/A</p>	<p><b>Target 2020</b></p> <p>Increase in the number of relevant agreements and/or negotiation processes launched/ongoing with EU's strategic partners (Brazil, Canada, China, India, Japan, Mexico, Republic of Korea, Russian Federation and USA), regional organisations and at multilateral level in the field of climate change, energy security and protection of environment</p>
<p>Data source: EEAS website on relations between the EU and strategic partners (Brazil, Canada, China, India, Japan, Mexico, Republic of Korea, Russian Federation and USA), international and regional organisations, for example:</p> <p><a href="http://eeas.europa.eu/lac/index_en.htm">http://eeas.europa.eu/lac/index_en.htm</a>; <a href="http://eeas.europa.eu/asia/index_en.htm">http://eeas.europa.eu/asia/index_en.htm</a>; <a href="http://eeas.europa.eu/na/index_en.htm">http://eeas.europa.eu/na/index_en.htm</a>; <a href="http://eeas.europa.eu/russia/index_en.htm">http://eeas.europa.eu/russia/index_en.htm</a>;</p>		

<a href="http://eeas.europa.eu/organisations/index_en.htm">http://eeas.europa.eu/organisations/index_en.htm</a> .		
Main outputs in 2014		
N/A New instrument: no outputs yet		
<b>Specific objective 2: Implementing the international dimension of "Europe 2020 - A strategy for smart, sustainable and inclusive growth".</b>		<input checked="" type="checkbox"/> Programme-based (PI)
<b>Result indicator:</b> Number of relevant agreements and/or negotiation processes launched/ongoing with EU's strategic partners, regional organisations and at multilateral level in relation to "Europe 2020" policies and objectives.		
<b>Baseline 2014</b> Number of existing relevant agreements and negotiation processes ongoing (e.g. FTAs, PCAs, MoUs, Joint Action Plans etc.) with EU's strategic partners (Brazil, Canada, China, India, Japan, Mexico, Republic of Korea, Russian Federation and USA), regional organisations and at multilateral level in relation to "Europe 2020" policies and objectives	<b>Milestone</b> N/A	<b>Target 2020</b> Increase in the number of relevant agreements and/or negotiation processes launched/ongoing with EU's strategic partners (Brazil, Canada, China, India, Japan, Mexico, Republic of Korea, Russian Federation and USA), regional organisations and on multilateral level in relation to "Europe 2020" policies and objectives
Data source: EEAS website on relations between the EU and strategic partners (Brazil, Canada, China, India, Japan, Mexico, Republic of Korea, Russian Federation and USA), international and regional organisations, for example:  <a href="http://eeas.europa.eu/lac/index_en.htm">http://eeas.europa.eu/lac/index_en.htm</a> ; <a href="http://eeas.europa.eu/asia/index_en.htm">http://eeas.europa.eu/asia/index_en.htm</a> ; <a href="http://eeas.europa.eu/organisations/index_en.htm">http://eeas.europa.eu/organisations/index_en.htm</a> . <a href="http://eeas.europa.eu/na/index_en.htm">http://eeas.europa.eu/na/index_en.htm</a> ; <a href="http://eeas.europa.eu/russia/index_en.htm">http://eeas.europa.eu/russia/index_en.htm</a> ;		
Main outputs in 2014		
N/A New instrument: no outputs yet		
<b>Specific objective 3: Improving access to third country markets and boosting trade, investment and business opportunities for European companies, while eliminating barriers to market access and investment, by means of economic partnerships, business and regulatory cooperation.</b>		<input checked="" type="checkbox"/> Programme-based (PI)
<b>Result indicator 1:</b> EU share in foreign trade with key partner countries (Brazil, China, India, Japan, Russian Federation and USA).		

Baseline 2014	Milestone	Target 2020
2008: 44.2%	N/A	Overall increase in share policies and objectives
2009: 44.3%		
2010: 48%		
2011: 44.7%		
2012: 44.3%		
Data source: COMEXT/IMF ( <a href="http://ec.europa.eu/eurostat/web/international-trade/data/database">http://ec.europa.eu/eurostat/web/international-trade/data/database</a> )		
Main outputs in 2014		
N/A		
New instrument: no outputs yet		

Result indicator 2: EU investment flows to partner countries (Brazil, China, India, Japan, Russian Federation and USA).		
Baseline 2011	Milestone	Target 2020
EU Foreign Direct Investment Inflows: 169 billion EUR Outflows: 196 billion EUR	N/A	Increase in parallel with global economic growth
Data source: EUROSTAT ( <a href="http://ec.europa.eu/eurostat/statistics-explained/index.php/Foreign_direct_investment_statistics">http://ec.europa.eu/eurostat/statistics-explained/index.php/Foreign_direct_investment_statistics</a> )		
Main outputs in 2014		
N/A		
New instrument: no outputs yet		
<b>Specific objective 4: Enhancing widespread understanding and visibility of the Union and its role on the world scene by means of public diplomacy, people to people contacts, education/academic/think tank cooperation and outreach activities to promote the Union's values and interests.</b>		<input checked="" type="checkbox"/> Programme-based (PI)
<b>Result indicator:</b> Number of opinion surveys and/or evaluations.		

<b>Baseline 2014</b>	<b>Milestone</b>	<b>Target 2020</b>
A study on the perception of the EU in several countries and regions* has been launched in 2014	N/A	
<b>Main outputs in 2014</b>		
<b>Description</b>	<b>Current situation</b>	
The study will provide an overview of the perception of Europe and of the EU in the following regions and strategic countries: North America (with particular focus on Canada and the US), Latin America and the Caribbean (with particular focus on Brazil and Mexico), ASEAN and the Pacific (with particular focus on China, India, Japan and the Republic of Korea), the Russian Federation and South Africa.	Launched	

FPI intends to demonstrate that this instrument can effectively contribute to advancing the EU agenda with the strategic partners by translating political commitments into concrete actions.

The actions adopted with the AAP 2014 are wide ranging and tackle various important issues at the core of the Partnership Instrument, from climate change to public procurement, from migration to market access, from underpinning policy dialogues to enhancing clean and sustainable energy. For example the 2014 AAP includes a number of programmes to support the development of low carbon markets and the shift towards a green economy by sharing expertise and good practice and by promoting the implementation of state of the art climate policy tools with partner such as Brazil, Mexico or South Korea. These are completed by other programmes aimed strengthening dialogue and cooperation with large energy consuming countries, such as India. Energy and energy efficiency are also key elements of cooperation with other partner such as the Gulf Cooperation Council (GCC) countries with which it is proposed to engage on areas where the EU can provide an added value, such as clean energy technologies, energy efficiency.

Contributing to create a secure climate for increased trading and investment opportunities for companies from the EU, not least SMEs, is another important feature of the PI AAP 2014. Particularly, it is foreseen to promote opportunities in areas in which the Union has a competitive advantage such as environmental and low carbon as well as clean tech industries that would contribute to stimulating greener and sustainable growth in emerging markets such as South Korea and the South East Asia (SEA) region.

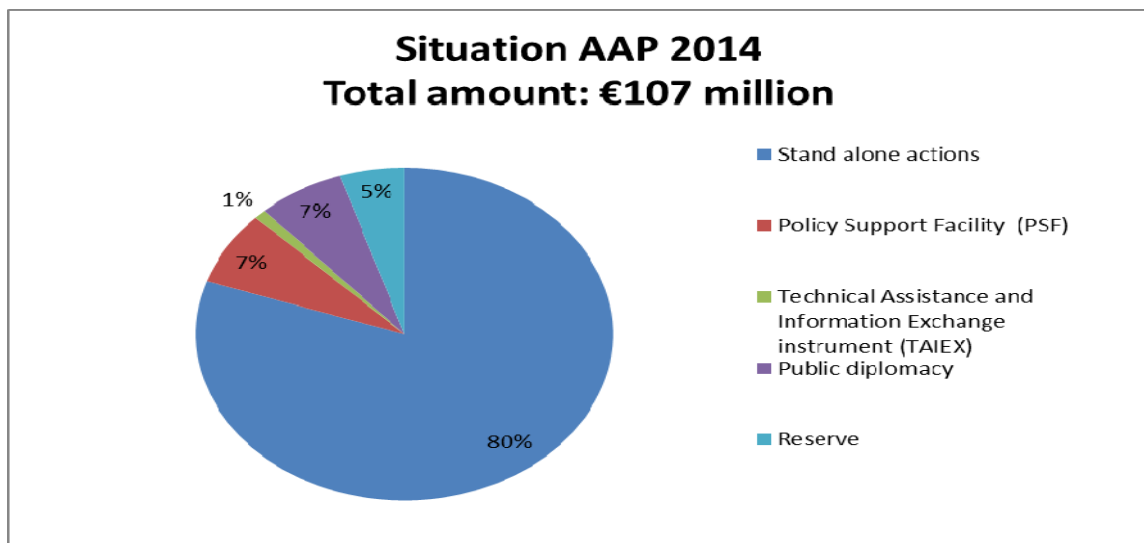
Supporting the implementation of Partnership and Cooperation Agreements, action plans and similar bilateral instruments and underpinning policy dialogues is the purpose of the "Policy Support Facility" included in the 2014 AAP and designed to support the external dimension of the Union's internal policies, so as to respond in a timely fashion to the dynamic and fast-changing global environment in EU relations with the partner countries.

The AAP 2014 covers also migration through an action aiming to enhance and deepen the recently established official and regular High Level Dialogue on Migration mobility (HLD) with China, a strategic partner but also a country which has significant migratory flows to and from Europe. The action will address issues related to skilled migrants, foreign businessmen coming to China as well as Chinese talent going abroad.

Additionally, the AAP 2014 also includes an initiative to promote broader transatlantic cooperation, including with the African and South American rims of the Atlantic basin. This initiative aims at deepening cooperation between think-tanks, researchers and influential decision makers from all the countries of the Atlantic Basin on cross-regional issues, thus fostering the idea of a wider Atlantic community.

Furthermore, attention has been devoted to a comprehensive approach to public diplomacy, which encompasses working with the academia and engaging with civil society actors on issues of common concern, such as supporting the EU-US Transatlantic Civil Society Dialogue against the background of the Transatlantic Trade and Investment Partnership (TTIP) negotiations, and the EU-Russia Civil Society Forum.

Given the late adoption of the AAP 2014 which has resulted from the delayed adoption of the PI legal basis, all contracts implementing it will be signed in 2015.



Within the scope of objective 1 of the PI (addressing **global challenges** in particular, climate change, energy security and the protections of the environment), energy efficiency and the promotion of clean energy technologies is one of the main themes of the AAP2014: it includes, for instance, a number of programmes to support the **development of low carbon markets and the shift towards a green economy** by sharing expertise and good practice and by promoting the implementation of state of the art climate policy tools with partner such as Brazil, Mexico or South Korea. It also contains programmes aimed at strengthening dialogue and cooperation with large energy consuming countries, such as India and to stimulate cooperation on energy efficiency with the countries of the Gulf Cooperation Council (GCC).

The implementation of the **external dimension of the Europe 2020 strategy** and of the

Union's internal policies is addressed through the PI objective 2. In this regard, **migration** is an area covered by the AAP 2014 that includes an action to enhance and deepen the recently established official and regular High Level Dialogue on Migration mobility (HLD) with China, a strategic partner but also a country which has significant migratory flows to and from Europe. The action will address issues related to skilled migrants, foreign businessmen coming to China as well as Chinese talent going abroad.

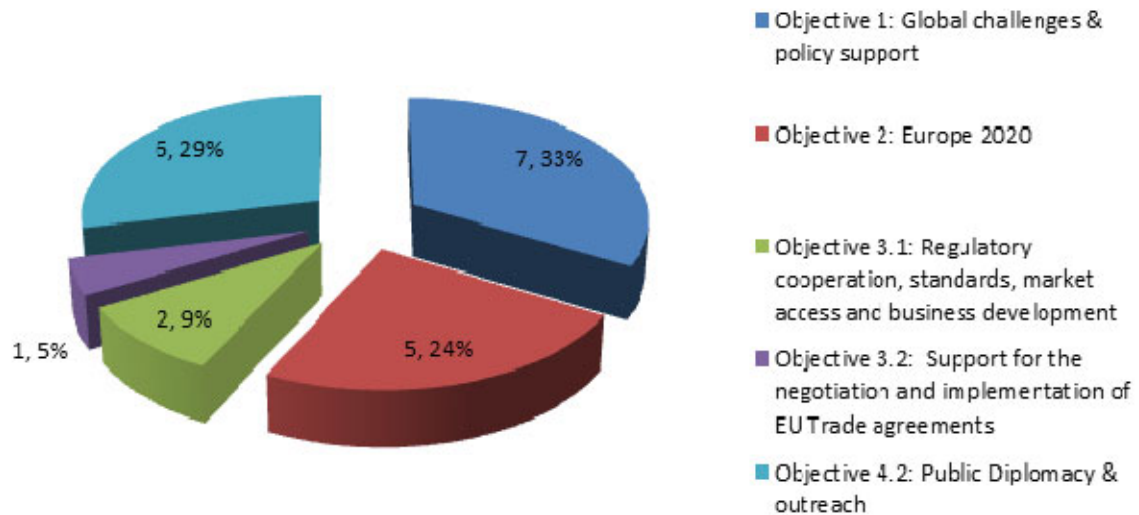
With regard to objective 3 designed to **support economic and trade relations** with key partner countries, contributing to create a secure climate for **increased trading and investment opportunities for companies from the EU**, not the least SMEs, is another important feature. It is foreseen in particular to promote opportunities in areas where the Union has a competitive advantage, such as environmental, low carbon and clean tech industries. These actions will contribute to stimulating greener and sustainable growth in emerging markets such as South Korea and the South East Asia (SEA) region, with high growth potential. By concentrating on sectors such as renewables energy and clean technologies the proposed actions can contribute to the **internationalization of European businesses** and to enhancing access to emerging markets.

Furthermore, limited funds in the AAP, in line with the MIP, are **dedicated to a comprehensive approach to public diplomacy** that encompasses four pillars: working with academia, engaging in policy research and debate with think tank, engaging with civil society actors on issues of common concern and using culture as a vector for public diplomacy. The AAP 2014, includes, for example, support to the **EU-US Transatlantic Civil Society Dialogue** against the background of the Transatlantic Trade and Investment Partnership (TTIP) negotiations and to the **EU-Russia Civil Society Forum**, supported by the European Parliament, to facilitate people-to-people links and enhance inter-cultural understanding among civil society actors on both sides.

Based on the Preparatory Action of the European Parliament, the PI 2014 AAP also includes an **initiative to promote broader transatlantic cooperation, including the African and South American rims of the Atlantic basin**. This initiative aims at deepening cooperation between think-tanks, researchers and influential decision makers from all the countries of the Atlantic Basin on cross-regional issues, thus fostering the idea of a wider Atlantic community.

## Situation per objective - AAP 2014

Total number of actions: 21



In addition to the EUR 107 million envelope, the PI has contributed EUR 8.2 million to the "**Erasmus + Programme**" to support cooperation in higher education enhancing student and staff mobility with partner countries covered by the former Instrument for Cooperation with Industrialised countries<sup>7</sup> as well as Russia.

### Case studies:

#### Republic of Korea: facilitating the Implementation of an Emissions Trading System

Europe has gained wide expertise in the development of carbon markets with the EU emissions trading system (EU ETS), the largest multi-national, emissions trading system in the world and a major pillar of EU climate policy. The EU is in a unique position to support the development of carbon markets in other countries around the world through sharing expertise and good practice.

The overall aim of the action is to promote the implementation of state of the art climate policy tools by South Korea. Actions of this type may be pursued with other strategic partner countries in the future.

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<sup>7</sup> USA, Japan, Canada, the Republic of Korea, Australia and New Zealand; certain Asian industrialised countries and territories (Singapore, Hong Kong, Macao, Taiwan and Brunei) as well as the Gulf Cooperation Council (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates)

### **Brazil and Mexico: fostering the development of low carbon industries**

The EU has a strategic interest in stimulating plausible efforts from middle income countries to adequately tackle the global challenge of climate change. Assisting these countries in a shift towards a low carbon, green economy will be crucial to stay within the internationally agreed 2C objective. At the same time, the EU has a leading role in low carbon technologies. The overall aim of these programmes is to support the exchange and uptake of low carbon technology through industrial cooperation between companies in Brazil and Mexico. The action offers the opportunity to combine these two strong policy objectives within one action

#### **Assessing public procurement**

Addressing key aspects of the EU Trade policy is an important objective of the PI. In particular fostering market openness and evidence based trade policy is vital with regard to issues such as transparency and public procurement.

Public Procurement is gaining importance on the trade negotiation agenda, both under the aegis of the WTO and at the bilateral level. In addition, public procurement markets in third countries offer significant potential for European companies. However, often the size of these markets is not fully known due to the lack of reliable data. Finding ways to increase data availability about key markets will enable the EU to assess the status-quo and potential gains and to ensure better access to these markets.

The purpose of the action is to provide the analytical tools to assess – in the context of trade negotiations on procurement – (i) the size of procurement markets; (ii) the positive effects of improved market access and (iii) the degree of contestability of a procurement market for European companies. The methodology will be tested in three pilot countries (Brazil, India and Thailand).

Further to the programmes outlined above, the EU committed funds EUR 7,7 million to support the implementation of Partnership and Cooperation Agreements, action plans and similar bilateral instruments and underpin policy dialogues through the "Policy Support Facility" that has been designed to promote the implementation of the external dimension of the Union's internal policies to respond in a timely fashion to the dynamic and fast-changing global environment in our relations with the partner countries. The Policy Support Facility also includes a trade strand to tackle the needs arising during the preparation and negotiation phase of trade and investment agreements as well as to support and ensure the proper implementation, monitoring, enforcement and take-up of such agreements once signed and entered into force. Complementary to this facility, the PI has also contributed in 2014 funds to provide, through the Technical Assistance and Information Exchange instrument (TAIEX), EU expertise and best-practices to the EU strategic partners and other countries.

#### **Industrialised Countries Instrument (ICI)**

**OBJECTIVE: To contribute to the advancement of EU interests through increased cooperation and dialogue with main industrialised and high-income partners in the following main areas: business and trade, people-to-people links including cooperation in the field of education, and public**



<b>diplomacy.</b>			
<b>Impact indicators</b>	<b>Target (long-term)</b>	<b>Milestones (if any)</b>	<b>Current situation (n-1)</b>
<b>1)</b> Improvement of market access through specific business cooperation programmes.	240 European companies attending the Gateway programme to Japan and Korea.  Equip European executives with the linguistic and business skills necessary to export/invest to Japan/Korea (45 fellowships in Japan and 15 in Korea).		229 European companies attending the Gateway programme to Japan and Korea in 2014.  22 fellowships attending the ETP for Japan and 11 for Korea.
<b>2)</b> Enhanced cooperation and dialogue with the industrialized countries and high income territories.	Enhanced cooperation through programmes for academic exchanges and joint degrees between the EU and main industrialised/high-income partners.  Generation of joint recommendations on enhancing EU cooperation in particular fields with partner countries.		32 EU Centres of Excellence active.  8 Bilateral higher education projects.  Erasmus Mundus partnerships on-going.  Successful implementation of the EU-GCC Clean Energy Network project.  EU-US civil society dialogues active in 3 areas (consumer issues, environment/climate change, security/development).

The work undertaken by FPI in 2014 related to the ICI has involved the successful implementation of the remaining programmes under the last allocation for ICI in 2013 Annual Work Programme and, in particular, the launch of a number of programmes with funds carried over to 2014 by means of a global commitment as follows: EU-GCC Trade and Business Cooperation, Reinforcement of the Network of EU centres in Australia and New Zealand; EU Business and Regulatory Cooperation Programme in Taiwan, Business Information Programme with Hong Kong and Macao and Executive Training Programme (ETP) Fellowships in Japan and the Republic of Korea.

As in previous years, the majority of cooperation activities with ICI were managed centrally and directly by the Commission, including - when appropriate - through sub-delegations to other services such as DG EAC and EACEA as well as through devolution of management responsibilities to the EU Delegations in de-concentrated mode (Tokyo and Washington) in the partner countries.

In this respect, it is to be noted that most activities in the field of education cooperation under the people-to-people actions were implemented in the form of central indirect management by delegation to the Education, Audiovisual and Culture Executive Agency

(EACEA).

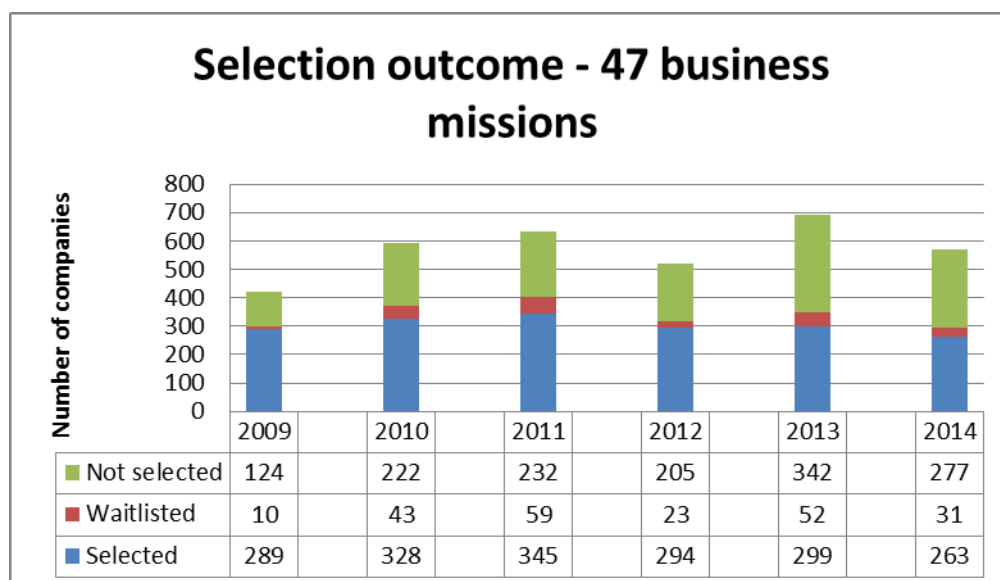
With reference to specific programmes, a few highlights are presented below:

A. EU Gateway to Japan and Korea

The EU Gateway Programme assists EU companies in establishing business collaborations with companies in Japan and Korea. The Programme focuses on EU companies in four technological sectors: environment and energy-related technologies, information and communication technologies, healthcare and medical technologies, construction and building technologies; and EU companies in two design sectors: fashion design and interior design. The Programme runs over six years from 2009 to 2014.

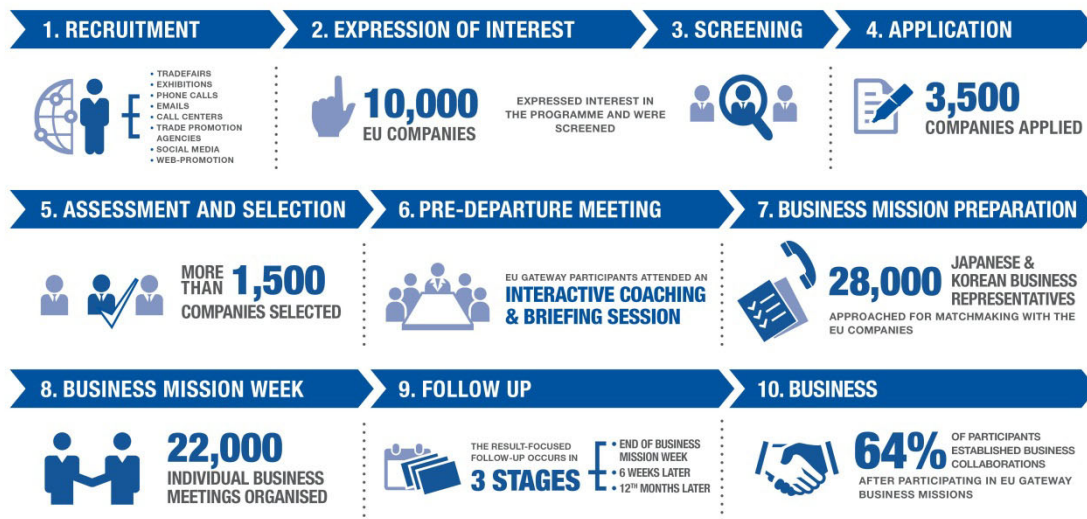
During 2014, the programme completed the 6th cycle of business mission, of which 4 went to Japan and 2 to Korea.

The following graphs give an overview of the programme numbers of the 6 cycles.



During 2014, the programme documented its methodology and communicated on results.

Hereafter the 10 point methodology outlined on coaching of EU companies and the corresponding numbers of contacts over the programme period.



The programme measured its overall results through feedback surveys of the participating companies, and the following overall results could be reported.



### A. EU Business Avenues in South East Asia

During 2014, the pilot action building on the EU Gateway model was started in South East Asia. Work on adapting the methodology to a hub model using Singapore as entry to the ASEAN market was done and a first business mission bringing 38 EU companies in the Clean Technologies sector to Singapore and Malaysia took place in conjunction to the Singapore International Energy Week (SIEW).



*B. ETP 2014:*

The objective of the ETP programme is to create a pool of EU executives equipped with the specific business, linguistic and cultural skills and knowledge necessary to operate in and with the Japanese and Korean markets. The executives trained through the ETP programme should be able to give effective assistance to their organisations in penetrating or consolidating positions on these markets.

Hence, ETP offers a training programme striking the right balance between linguistic tuition (Japanese or Korean), business courses and an internship at Japanese/Korean companies to about 180 European executives over the period 2012-2015. However, a study by an independent team of experts shows that the length of the programme is an issue for smaller and medium-sized companies, and this will lead to a revamped design of the ETP in the future under the Partnership Instrument..

26 participants for ETP Japan (company size: 5-10 employees: 3; 11-50 employees: 8; 51-250 employees: 3; more than 250 employees: 12). Selected by EC in July: 37 but 11 have withdrawn before start of the programme.

11 for ETP Korea (company size: 5-10:3; 11-50: 2; 51-250: 4; more than 250: 2). Selected by EC in July: 14 but 3 have withdrawn before the start of the programme.

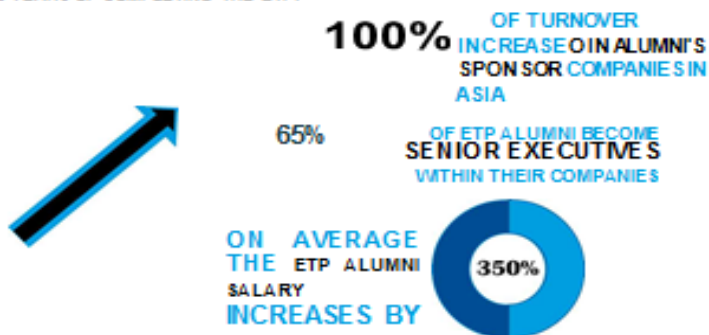
Impact indicators on the whole duration of ETP (35 years in total):

*Impact indicators on the whole duration of ETP (35 years in total):*

1116  
 PARTICIPANTS  
 Of which  
 1037  
 IN ETP JAPAN  
 79  
 IN ETP KOREA

>800  
 EU COMPANIES  
 helped of which  
 >80% are  
 SMEs

WITHIN 10 YEARS OF COMPLETING THE ETP:



### 1.1.5 ABB activity 19.06 Information outreach on the EU external relations

The team focused on the management of the central EEAS website, FPI website and the websites of EU Delegations, which was gradually handed over to EEAS.

The information and communication activities of the FPI were limited to its own specific needs, which is currently limited to the regular updating and further functional development of the FPI website. FPI remains ultimately responsible for the project "Euronews in Farsi" which is managed by DG COMM under a cross-delegation.

### 1.1.6 FPI risk assessment

FPI implemented the necessary corrective actions to mitigate identified risks in 2014 and how this might impact progress in the implementation of the FPI programmes towards achieving their objectives. While FPI took some corrective actions regarding the two critical risks below, most mitigation measures are outside FPI's control.

#### Impact of budgetary cuts (financial resources) on FPI objectives and operations

The shortage of payment appropriations caused delays in payment to recipients of funds, triggering interest for late payments. Measures taken to mitigate this risk included prioritisation of projects, amendments to payment schedules and variations in the conditions for pre-financing. Despite these measures, the risk is still valid for 2015.

*Observation by the Director/Head of Service:* (see p.6) the unavailability of sufficient payment credits led to a slowing down or scaling back of some activities (for Election Observation, see pages 10 and 38); for the same reason, for the Stability Instrument

crisis response, all the initially-authorized allocation in commitments could not be used. Significant efforts also had to be made to find savings in the CFSP operations. Managing the limited available funds impacted on respect for payment deadlines (see section 2.1 below). FPI notes the corporate reservation made on this issue by the Director General of DG Budget.

#### **FPI business continuity**

FPI is a lean service with low overheads and only operational staff. It depends on other DGs and Services and their staff for administrative support functions and to fulfill requirements for its financial circuits in delegations. Insufficiency and unavailability of resources and/or changes in organisational structures could cause discontinuity or unavailability of support. Measures taken include ensuring best use of FPI resources, identifying negative priorities, and focusing on needs for the new Partnership Instrument.

*Observation by the Director/Head of Service:* the human resources made available to FPI, in particular in EU delegations, for the management of Stability Instrument (IcSP) and the Partnership Instrument, are insufficient and contingent on specific organisational decisions. The situation is precarious in particular for the Partnership Instrument. There may be an impact on the ability of FPI to meet its policy objectives.

#### *Conclusion*

As evidenced above, the spending programmes managed by the Service are on course to meet their multiannual objectives and have mostly achieved the annual performance indicators or outputs and milestones in the reporting year.

## **1.2 Example of EU-added value and results/impacts of projects or programme financed**

***Stability Instrument – crisis response:*** Examples of timely interventions: support for international efforts to counter the outbreak of Ebola; support to the OSCE Special Monitoring Mission in Ukraine; and the package of measures related to the crisis in Syria and neighbouring countries. See in Part one under “Policy Achievements” for details.

***CFSP:*** In the framework of the EU strategy against Proliferation of Weapons of Mass Destruction, the Organisation for the Prohibition of Chemical Weapons (OPCW) received an EU contribution for the implementation of a joint UN-OPCW action to remove all chemical weapons from the territory of the Syrian Arab Republic. This action was successful and by 1st October 2014, all the chemical weapons were removed from the territory of Syria and hence avoiding their possible use of these weapons in the on-going war.

***Election Observation Missions:*** In Afghanistan and Egypt the deployed electoral missions were part of the broader package of political engagement with these countries. Regarding the deterrence of fraud and violence, the EOMs to Guinea Bissau and Malawi, in a contested and fragile political contest, contributed to instilling confidence in the process and appeasing the competing parties.

In response to an invitation by the President of Kosovo, the EU deployed an EOM to observe Kosovo's early legislative elections that took place on 8 June 2014. The deployment of the EOM followed an earlier EOM deployed from October 2013 to February 2014 to Kosovo's mayoral and municipal assembly elections, which were of particular significance as they were the first elections to be held throughout Kosovo, including in the four Serb-majority northern municipalities. The deployment of the two EOMs reflected the EU's long-term efforts to support credible, transparent and inclusive elections in Kosovo as part and parcel of Kosovo's democratisation process.

### **1.3 Specific efforts to improve economy and efficiency of spending and non-spending activities.**

In accordance with the Financial Regulation (Art. 30), the principle of economy requires resources used by the institution in the pursuit of its activities to be made available in due time, in appropriate quantity and quality at the best price. The principle of efficiency aims for the best relationship between resources used and results achieved.

The respect of these principles is continuously pursued through the implementation of internal procedures and predefined practices. These procedures ensure that activities are executed in an efficient manner (e.g. the different workflows contribute to the efficient cooperation between staff, units, etc.) and in accordance with the principle of economy (e.g. the procurement rules ensure procurement in optimal conditions).

The following examples show how FPI adapts internal arrangements in order to improve the efficiency and economy of its operations:

#### **1.3.1 Example 1: operating CFSP missions more efficiently**

A) FPI identified with the EEAS services and products which are needed primarily by CSDP missions but also potentially by the EEAS. In order to avoid duplication, inter-institutional procurement procedures were used. FPI concluded two Framework contracts which are available for use both by institutions and by CSDP missions. This saves time and effort and is a clear win-win situation for the EU.

B) FPI contracted the services of a warehouse operator to maintain a stock of essential equipment ready to be deployed at short notice for CFSP missions. The operator procures goods more efficiently because it orders larger numbers, and it can deliver them more rapidly, than would be the case if each new mission had to do so separately.

#### **1.3.2 Example 2: savings in CFSP missions**

FPI reviewed the effect of the shortage of payment appropriations on the capacity of the CFSP budget to cover new and urgent actions. Together with EEAS and on the basis of joint proposals, FPI led Member States to have a serious discussion on the potential for cost-savings in CFSP missions which will successfully free up additional margins in payment appropriations.

#### **1.3.3 Example 3: Improving the cost-effectiveness of Election**

## Observation Missions

Further to the operational difficulties experienced due to the payment appropriations shortage, Member States in the Political and Security Committee (PSC) requested a reflection on the functioning and methodology of EU EOMs. A joint paper by EEAS and FPI formed the basis for the discussions. FPI in particular reviewed the cost structure of the electoral missions and demonstrated that it was able to reduce EOM implementation costs, which are on a downward trend: costs under the current framework contract (2013- 15) have been reduced by 13% compared with EOMs under the former contract (2009-12). FPI achieved this by reducing costs under the framework contract and by keeping the budgets for EOM operations under constant close review.



## 2. MANAGEMENT OF RESOURCES

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. The reports produced are:

### General

- results arising from **ex ante verification** by the financial counterweight unit (FPI.1) for all HQ operations;
- contributions of the Internal Control Coordinator, including results of **internal control monitoring** at FPI level; actions resulting from the **risk management** process;
- regular reporting on **budget forecasts** (commitments and payments) in line with internal (in particular DG Budget) and external requirements (under the CFSP, as laid down in the Inter-Institutional Agreement or IIA);
- reports of **ex-post controls** by FPI staff or by external auditors (contracted using terms of reference drafted specifically for FPI's needs in the case of CFSP; using DEVCO models for Stability Instrument (IcSP/IfS) and EOMs and DG BUDGET models for ICI; findings are cross-checked with results of other controls notably financial reports /audits conducted in relation to payments (see next points) and corrections /recoveries made if necessary);
- **pre-financing**: FPI conducts mainly urgent and/or crisis response or crisis management operations where because of the short duration (IcSP/IfS, EOMs) immediate cash flow is required or implementing bodies (CFSP missions) have continuous treasury needs; interim payments are used in some cases (IcSP/IfS, ICI);
- **expenditure verification reports** submitted by beneficiaries in support of payment claims (especially **final payment**) and conducted by FPI-approved external auditors following DEVCO practice (IcSP/IfS, EOMs); CFSP missions /EUSRs deliver external audit reports at final payment using a dedicated framework contract concluded by FPI;
- **indirect management** (mainly IcSP/IfS): audit reports on control results as well as results of the Commission controls (verification missions) - mainly UN agencies (governed by the EU-UN framework agreement or FAFA);
- **“pillar” assessments** - indirect management (formerly indirect and joint): FPI relies on DEVCO compliance reports on international organisations and some agencies, sometimes doing its own; for CFSP FPI performs its own assessments (see below);
- on-the-spot **monitoring missions** by FPI programme managers (IcSP/IfS, ICI, CFSP) focuses on managerial aspects of implementation by the beneficiary/partner,

progress towards achieving their objectives, and (CFSP) budget planning;

- **annual reports of subdelegated authorising officers** (at HQ) and by heads of EU delegation managing FPI funds (IcSP/IfS and ICI) which include a declaration of assurance;
- annual declarations by services having **cross sub-delegations** or service level agreements - DGs COMM (for press and information); DG EAC (for ICI – Erasmus Mundus); JRC (some IcSP projects), the EEAS (press and information);
- **observations and recommendations by auditors:** the European Court of Auditors (ECA), the Commission Internal Audit Service (IAS), the Internal Audit Capability of DEVCO and the Commission's Accounting Officer (DG Budget) on the accounts and local systems;
- FPI HQ (and for IcSP, the delegations) may launch **ex post evaluations** to assess sound financial management in view of preparing either continuation or revision of certain projects / programmes (recently mainly IcSP/IfS, ICI).

### **Sector- or instrument-specific**

Instrument contributing to Stability and Peace: Devolved delegations report regularly to HQ on **project implementation**. This includes financial information on the use of appropriations and is the basis for a regular review of budget implementation.

Common Foreign and Security Policy (Indirect centralised management): Normally two pre-financing payments are made for CFSP missions, one for small budget and/or short duration EUSRs. The second payment follows the acceptance of an interim report and financial statement. In addition CSDP missions have to provide **monthly**, and EUSRs **3-monthly, implementation reports**. Also, In case of non-compliance with the requirements for indirect management, **mitigating controls** are put in place (see below). (Indirect management - international organisations): Narrative and financial reports must be provided with each payment request. If project duration is more than 12 months, i.e. at least one report every 12 months plus a final report.

Election Observation Missions: FPI procures logistical services for each EOM by a framework contract which foresees pre-financing, as it is necessary to make a range of immediate payments on behalf of the Commission; the invoice is accompanied by a financial guarantee for the whole amount and for the duration of operation. An expenditure verification report by external auditors is required to make final payment. The auditor must comply with the ToRs and use the template annexed to the Specific Contract. The auditor must carry out a complete and exhaustive verification of all the fees and expenditures reported and claimed in the final invoice and verify the conformity of the fees charged and the reimbursable expenses reported by the contractor with the terms and conditions of the service contracts.

Industrialised Countries Instrument: On the basis of risk assessment FPI does not contractually require an audit /expenditure verification report for final payments to public organisations (mainly, universities). A certificate of the costs incurred is required in the case of beneficiaries /contractors who are not public organisations.

### Partnership Instrument:

As far as the de-concentration is concerned, the first priority was to build fully fledged and sound financial circuits in the strategic countries. In this context, various aspects directly linked to the conditions of operation of the sub-delegation were analysed beforehand with a view to perform a qualitative assessment of the management and control system in the Delegations.

In this context, the SDAO reports from Head of Delegations were scrutinised to check whether Delegations have the capacity to manage responsibilities deriving from the sub-delegation and whether internal control standards are correctly applied. Feedback will be provided to Delegations. Additionally, verification missions will be organised in the course of 2015 and 2016 to assess whether the Delegations have performed effectively the new tasks and responsibilities resulting from these sub-delegations.

It should be noted that no payments were made in 2014 under the PI.

This section reports the control results and other relevant elements that support managements' assurance on the achievement of the internal control objectives<sup>8</sup>. It is structured in three separate sections: (1) the DG's assessment of its own activities for the management of its resources; (2) the assessment of the activities carried out by other entities to which the DG has entrusted budget implementation tasks; and (3) the assessment of the results of internal and external audits, including the implementation of audit recommendations.

## 2.1 Management of human and financial resources by FPI

This section reports and assesses the elements identified by management that support the assurance on the achievement of the internal control objectives. 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.

IcSP/IfS: In 2014, FPI signed 72 **new** contracts<sup>9</sup> for a total of EUR 88.3 million. Including those signed before 2014, FPI HQ and devolved delegations managed 346 **ongoing** contracts for a total value of EUR 630 million. Under direct management procurement represented some 3% of the total (28 contracts) while grants 40% (218 contracts). Roughly 8% of IfS projects were implemented under indirect management (13 agreements) and 46% (EUR 295.5 million) was implemented by ex-joint management (indirect management with international organisations, mainly UN) (78 contribution agreements). IcSP contracts signed in 2014 under the new indirect management mode account for EUR 12.4 million or 2% of the total (4 IMDA agreements).

EUR 123.7 million or nearly 20% of IfS projects was implemented by FPI HQ (52 contracts) with EUR 506.6 million (80%) implemented by devolved delegations (294 contracts).

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<sup>8</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>9</sup> "Contract", unless otherwise indicated, is used in this report to refer to all legal commitments irrespective of their legal form and includes procurement contracts; grant agreements; financing agreements for indirect management (corresponding to "delegation" agreements) and contribution agreements with international organisations.

Ongoing IfS/IcSP contracts and grants		Headquarters		Delegations		Nbr	Amount
<b>Centralised direct</b>	Before 2014	7	€ 8,545,608	12	€ 8,009,302	19	€ 16,554,910
<b>Procurement</b>	Signed 2014	3	€ 2,507,996	6	€ 1,998,905	9	€ 4,506,901
	SUBTOTAL:	10	€ 11,053,604	18	€ 10,008,207	<b>28</b>	<b>€ 21,061,811</b>
<b>Centralised direct</b>	Before 2014	18	€ 55,586,345	156	€ 151,251,526	174	€ 206,837,871
<b>Grants</b>	Signed 2014	2	€ 1,999,457	41	€ 39,129,994	43	€ 41,129,451
	SUBTOTAL:	20	€ 57,585,801.69	197	€ 190,381,520	<b>217</b>	<b>€ 247,967,322</b>
<b>Ex-Centralised indirect</b>	Before 2014	4	€ 13,387,033	8	€ 28,626,301	12	€ 42,013,334
	Signed 2014	0	€ -	1	€ 9,500,000	1	€ 9,500,000
	SUBTOTAL:	4	€ 13,387,033	9	€ 38,126,301	<b>13</b>	<b>€ 51,513,334</b>
<b>Ex-Joint management</b>	Before 2014	10	€ 28,663,929	55	€ 235,078,826	65	€ 263,742,755
	Signed 2014	2	€ 2,500,000	11	€ 21,270,231	13	€ 23,770,231
	SUBTOTAL:	12	€ 31,163,929	66	€ 256,349,057	<b>78</b>	<b>€ 287,512,986</b>
<b>Indirect management</b>	Before 2014	0	€ -	0	€ -	0	€ -
	Signed 2014	2	€ 8,000,000	2	€ 4,418,835	4	€ 12,418,835
	SUBTOTAL:	2	€ 8,000,000	2	€ 4,418,835	4	<b>€ 12,418,835</b>
<b>Other</b>	Before 2014	3	€ 2,493,991	1	€ 4,849,535	4	€ 7,343,526
	Signed 2014	1	€ 60,000	1	€ 2,432,069	2	€ 2,492,069
	SUBTOTAL:	4	€ 2,553,991	2	€ 7,281,604	<b>6</b>	<b>€ 9,835,595</b>
<b>Total</b>		52	€ 123,744,358	294	€ 506,565,525	<b>346</b>	<b>€ 630,309,883</b>

Common Foreign and Security Policy CFSP: Total budget implemented (new contracts) was EUR 304.2 million: EUR 300.8 million or almost **98.8% was managed under indirect management** by CFSP missions / EUSR and international organisations (non-proliferation actions); and the remainder (EUR 3.4 million or 1.2%) in direct centralised management as procurement. CFSP had 117 contracts **ongoing**. Most (106) were under indirect management (90.6%). 11 (9.4%) were implemented under direct management.

EOMs: The EOM programme is implemented under direct management (100%). Within the EOM programme, FPI was responsible for the implementation of EUR 40.3 million commitment appropriations and EUR 29.2 million payment appropriations (EOMs consumed 100% of the commitment and payment appropriations).

ICI: The whole ICI programme is implemented under direct management. An amount of EUR 7,2 million in payment appropriations were transferred to EACEA for implementation of Erasmus Mundus and ICI-ECP projects.

Partnership Instrument: With regard to the de-concentration, sound financial circuits were set up in cooperation with the Heads of Delegation and with a number of Commission DGs such as ENER, GROW, TRADE, CLIMA or HOME having staff serving in Delegations. All the authorising officers by subdelegation managing the PI had to draw up a report for 2014, even if no transactions were registered during the exercise.

The maximum contribution of the EU authorised by the Commission Decision C(2014)7423 for the implementation of the 2014 Partnership Instrument Annual Action Programme is EUR 107 million. From this amount, EUR 3.5 million will be implemented by the Executive Agency of DG EAC, EUR 0.55 million by DG EAC and EUR 1 million by DG

NEAR (TAIEX).

Due to the late adoption of the AAP 2014 all actions will be tendered and signed in 2015 except for the actions supported through the NEAR managed TAIEX facility (an amendment allowing the use of TAIEX in PI partner countries was signed on 26 December 2014).

Press and Information: The remainder of Press and Communication programme is implemented under direct management (100%). A share of the budget is implemented by EEAS/Delegations and DG COMM.

An amount of EUR 12 million was allocated on this budget line. EUR 6.3 million was transferred to EEAS, EUR 4.4 million EUR was used by Euronews in Farsi (managed by DG COMM) and EUR 0.57 million was used for press and info contracts of FPI. In total, an amount of EUR 11.3 million was committed.

### Control effectiveness as regards legality and regularity

FPI has set up internal control processes aimed to ensure the adequate management of the risks relating to the legality and regularity of the underlying transactions, taking into account the nature of the payments concerned. The control objective is to ensure that the residual error rate does not exceed 2%.

### Summary of controls

The operational budget implemented by HQ used the financial circuit “**partially decentralised with counterweight**” meaning that all transactions were subject to prior verification by a financial control unit (FPI.1.) which did not report to, or take instructions from, the subdelegated authorising officer (AOSD) in the operational units, but reported instead to the Head of Service. No transaction could be validated by the AOSD without the agreement of the financial control unit, and in the case of disagreement the matter was referred to ultimately to the Head of Service for decision.

The financial control unit performs an additional operational verification in which it can raise issues to do with the principle of sound financial management (economy, efficiency and effectiveness) rather than just the financial correctness or legality and regularity. Such intervention at the beginning of the project cycle is important for ensuring good project design and the correct choice of implementation method.

The value of this **ex ante control** is shown by the fact that overall some 6,7% (6,8% in 2013) of all transactions were sent back to the operational service for correction. Compared to last year there was a slight decrease in the number of files sent back, suggesting that the presentation of files by the operational units has been improving. This strong element of *ex ante* control on all transactions at HQ continues to be a main pillar for the assurance, based on the results of the control work set out below.

Another pillar for the assurance was continual management review of the **functioning of financial procedures** and their correct documentation. Particular attention was needed to ensure that the correct financial circuits and subdelegations were in place and documented. Instructions recalling the procedures were issued and documented. The proper checklists to be used by the initiators and verifiers of transactions were in

place and applied correctly. Procedures for recording exceptions are in place. Subdelegated authorising officers have reported on their financial management and relevant observations are taken into account in this report.

In accordance with the Financial Regulation, the authorising officers must put in place management and control structures and procedures suited to the performance of their duties, **including where appropriate *ex post* controls**. These are controls which are conducted after project implementation has begun and after a significant transaction has been completed. They are designed to obtain an additional assurance that the control system is working, and that the initial *ex ante* controls are effective.

The performance of *ex post* controls was further strengthened by improved reporting and monitoring by management and additional resources (participation of FPI.1 staff in *EPC* missions). *Ex post* controls are essential for achieving a reasonable assurance, because: **first**, over 80% of funds under the Stability Instrument are subdelegated to be managed by EU delegations and **second**, the CFSP budget is nearly entirely managed in indirect centralised management by CFSP missions, under the authority of Heads of Mission. Thus FPI ***ex ante* verification cannot give a complete assurance** since it covers only those transactions effected by HQ services:

- **For the Stability Instrument (IcSP/IfS)**, this covers the financing decision and budgetary commitment, whereas the subsequent individual contracting (legal commitments) and resulting payments are managed in delegations. There, FPI relies largely on Commission staff attached since the beginning of 2011 to DG Devco. IfS management on behalf of FPI follows strictly the same circuits and procedures as DG Devco and apply the same rules (Practical Guide etc). A guidance note to the delegations implementing IcSP/IfS projects lays down specific features of the instrument.
- **For CFSP**, verification by the *ex ante* control unit at HQ covers all transactions up to and including the payment of funds over to the CFSP missions, but does not cover the transactions effected by the missions themselves (contracting and payments). The consequences in terms of *ex post* controls, controls assessing compliance with the requirements for indirect management (Article 56, now 60 FR) and other mitigating measures in the case of non-compliance are described below.

### **Control effectiveness: *ex ante* verification at headquarters**

Ex-ante controls in FPI are carried out by the FPI.1. All financial transactions are subject to its prior verification. FPI.1 produces a “fiche de visa” for each transaction or group of transactions. In 2014, 852 visas were issued concerning the activities listed in Table 1.

Activity	Commitment			Payment			Recovery			Total Count
	Count	Amount	Average	Count	Amount	Average	Count	Amount	Average	
CFSP	91	304,356,208	3,344,574	96	263,256,333	2,742,253	85	28,737,421	338,087	272
IFS/lcSP	105	220,550,404	2,100,480	86	43,398,129	504,629	9	3,043,114	338,124	200
EOM	50	59,615,404	1,192,308	109	31,096,322	285,287	13	3,520,439	270,803	172
ICI/PI	46	115,281,248	2,506,114	115	9,542,324	82,977	8	402,794	50,349	169
P&I	16	6,636,214	414,763	59	7,208,509	122,178	1	14,118	14,118	76
	308	706,439,478	2,293,635	465	354,501,617	762,369	116	35,717,886	307,913	889

Table 1 - Financial transaction by Activity

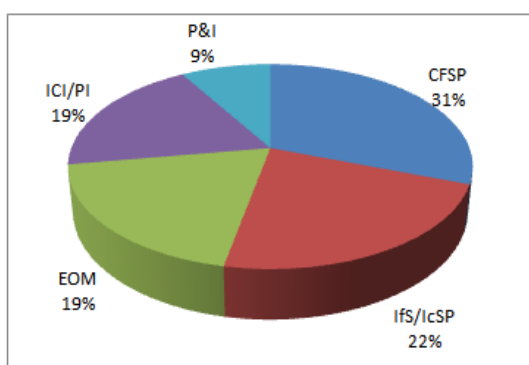


Table 2 - Importance by Activity

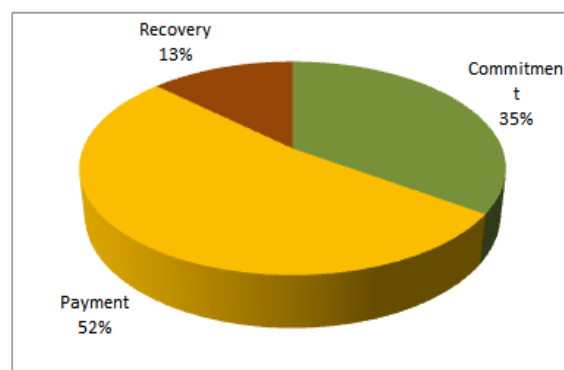


Table 3 - Importance by type of transactions

The number of transactions being subject to an unfavourable opinion of the ex ante financial verifiers represented 6.7% compared to 6.8% of last year.

Type	Number of transactions	Unfavorable opinion	
		Number	%
Commitment	308	10	3.2%
Payment	465	48	10.3%
Recovery	116	2	1.7%
	889	60	6.7%

Table 4 - Unfavorable opinion by type of transaction

The unfavourable opinions concern mainly the validity of the transaction, the quality of the supporting documents and validation process of the file taking into account that a transaction may contain more than one error.

		Type of transaction			Total	
		Commitment	Payment	Recovery	Number	%
SC	Suspension	10	39	2	51	5.74%
SR	Refusal	0	7	0	7	0.79%
SP	Suspended	0	2	0	2	0.22%
		10	48	2	60	

Table 5 - Unfavorable opinion by type of visa



	Commitment	Payment	Recovery	Total	%
Legal Framework	4	5	0	9	9.28%
Validation Process	6	15	0	21	21.65%
Supporting Document	0	20	0	20	20.62%
Validity of the transaction	3	19	1	23	23.71%
Payment Process	0	13	0	13	13.40%
Quality of the information	5	5	1	11	11.34%
	<b>18</b>	<b>77</b>	<b>2</b>	<b>97</b>	

**Table 6 - Unfavourable opinion by type of error**

Regarding the files with no budgetary impact (draft of financing decision, modification of bank account, reallocation of budget, ISC), 645 files were submitted and 5.6% received an unfavourable opinion. The most important errors concern the quality of the information and its presentation in the documents.

### **Control effectiveness: ex post controls**

Together, the ABB activities 19.02 (IcSP/IFS) and 19.03 (CFSP) accounted for almost 90% of payments made in 2014. As in previous reports, **the controls carried out on these two activities are the main basis for the assurance.** The selection of projects to be submitted to an ex post control is done based on the stratification of the population per instrument and per risk (high, medium and low). The results of *ex post* controls for all instruments are summarised in the following table with details given below.

For the new multiannual financial framework (2014-2020), FPI will report on ex post controls on a multiannual basis, based on a cumulative approach. In order to coincide with the introduction of the new instruments and for ease of reporting, the first year of this new approach is 2014. This approach will better reflect the recent improvements in the ex post controls methodology, as well as take into account that ex post controls are often carried out on payments made in previous years. The planning of ex post controls will still be annual.

a	b	c	d	e	g	h	i	j	k	l	m	n	o
	ABB activity	Payments made in 2014 (€ m)	Number of controls	Sampled amount verified (includes previous years)	Related total amounts paid (incl. pref) *	Value audited = EC share of value claimed	Ineligible amount (€m)	Amount to be recovered	Corrections made (i.e. debit note issued or amount registered for offsetting)	Detected error rate (=J/E)	Residual error rate = [(J-K) + (G-E)xL]/G	2014 Amount at risk (€m) = (CxL) - K	2014 ABB Materiality (%)
19.02	Crisis response and global threats to security (IfS/lcSP)	200,937,578.00	5	72,572,074.89	72,572,074.89	72,572,074.89	0.00	0.00	0.00	0.00%	0.00%	1,517,382.32	0.76%
			11	33,661,473.66	33,761,094.09	33,761,094.09	259,212.17	254,574.59	2,266.00	0.76%	0.75%		
19.03	Common foreign and security policy (CFSP)	263,449,481.21	6	40,121,182.59	66,521,409.44	58,964,959.57	853,257.12	853,257.12	0.00	2.13%	2.13%	5,602,779.66	2.13%
19.04	European Instrument for Democracy and Human Rights (EIDHR) - EOMs	31,017,532.00	2	2,278,931.00	4,656,713.76	4,656,713.76	0.00	0.00	0.00	0.00%	0.00%	0.00	0.00%
19.05	Relations and cooperation with industrialised third countries (ICI)	14,982,043.00	4	2,530,635.87	3,184,366.82	3,184,366.82	31,215.25	25,297.14	24,440.52	1.00%	0.23%	125,325.31	0.84%
	<b>Total</b>	<b>510,386,634.21</b>	<b>28</b>	<b>151,164,298.01</b>	<b>180,695,659.00</b>	<b>173,139,209.13</b>	<b>1,143,684.54</b>	<b>1,133,128.85</b>	<b>26,706.52</b>	<b>0.75%</b>	<b>0.73%</b>	<b>7,245,487.28</b>	<b>1.42%</b>

\* less recoveries for CFSP

**Notes:** Based on work completed at the time of the AAR in accordance with the 2014 plan. Draft reports are relied on if there are no material findings and the contradictory procedure is finished or about to be finalised. The difference between amounts paid and verified for CFSP is explained by the fact that the amount verified is a sample of the amount claimed by the CFSP mission/EUSR in the financial statement.

**19.02 (lcSP/lfs):** 17 controls. 12 controls were on beneficiaries of which 11 in the form of external audits (4 conducted by delegations, of which 2 finalised reports and 2 drafts; and 7 managed by HQ, of which 5 finalised and 2 draft reports). The remaining 5 lfs controls mentioned in the table were controls on delegations by FPI staff (all finalised).

The difference between the ineligible amount and amount to be recovered is explained by the fact that for grants, several factors have a decreasing effect on the ineligible amount (e.g. co-financing rate of the beneficiary, non-profit calculation).

**Note: materiality criteria (See also Annex 4.)**

**For FPI (HQ and delegations):** As regards legality and regularity of underlying transactions, the objective is to ensure that the estimated annual risk of errors in payments is less than 2%.

**For beneficiaries/implementing partners:** Regarding the legality and regularity of the underlying transactions, the objective is to ensure that the estimated residual risk of error is less than 2%. The residual risk of error is estimated by the residual error rate obtained from an examination of a sample of transactions less any corrections made resulting from the supervisory and control systems in place. FPI aims to recover amounts due as a result of *ex-post* controls within nine months from the completion of the control (i.e. final report).

**For the reservation linked to the error rate in budget line 19 03, please see section 4.**

**Multiannual error rate:** FPI takes 2014, the first year of the multiannual financial framework until 2020 and of the new instruments, as its base year for reporting this new requirement. The 2013 AAR reported that the *ex post* controls carried out in 2013 for all FPI instruments resulted in a total amount to be recovered of EUR 993,577. In 2014, recoveries were issued as a result of these controls for the amount of EUR 245,614 (mainly for the Instrument for Stability and the Instrument for Cooperation

with Industrialised Countries), or just around 25%<sup>10</sup>. This method of calculation will be pursued in each AAR over the period 2014-2020.

**Instrument for Stability:** 17 controls were conducted:

IfS <i>Ex post</i> controls	2011	2012	2013	2014
<b>A) Delegations</b> checked by FPI staff	5	7	6	5
<b>B) Beneficiaries</b> of which:				
<i>checked by FPI staff</i>	4	6	1	1
<i>checked by external auditors</i>	16	12	17	11
Sub-total	20	18	18	12
<b>TOTAL A) + B)</b>	<b>25</b>	<b>25</b>	<b>24</b>	<b>17</b>

**Results of IfS control processes A) controls on delegations:** These on-the-spot missions cover systems as well as transactions and were carried out in five delegations (Chad, Nigeria, Ethiopia, Lebanon and Nicaragua/El Salvador). A visit to the Delegation in Mali was postponed to 2015. Payments for a total amount of EUR 72.6 million (37% of total IfS payments) were checked. No material errors were found. Hence, both the detected and residual error rate is 0%. Some administrative weaknesses were identified none of which had financial consequences. **FPI concludes that financial management is satisfactory in all the delegations checked.**

Recommendations resulting from *ex-post* controls in 2013 were followed up through an action plan. Delegations have paid extra attention to the administrative weaknesses detected to ensure that these would not occur again. Findings were shared within the delegations (Finance and Contracts, Operations). In some cases new procedures were introduced or staff was reminded of the correct procedures.

**Results of IfS control processes B) controls on beneficiaries:** 11 IfS projects implemented in 15 countries were subject to *ex post* controls (compared to 17 projects in 2013) (and using the DEVCO Framework Contract for Audits with Terms of Reference based on standard DEVCO methodology for such audits). Total expenditure audited was some EUR 34.2 million or 35% of the total value of contracts signed in 2014. The detected error rate was 0.77% i.e. below the materiality threshold. Corrective measures will be taken in 2015 regarding the ineligible amounts found. **Based on the residual error rate of 0.77%, FPI is of the opinion that the control procedures in place give the necessary guarantees for the legality and regularity of the underlying transactions.**

In addition FPI carried out one special purpose control not included in the EPC plan on a EUR 1.5 million project, detecting ineligible expenditure of EUR 0.14 million or 11.5% of

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<sup>10</sup> FPI notes the structural difficulty in recovering ineligible expenditure in the case of CSDP missions since the missions are 100% reliant on the EU budget for their funding.

the value of transactions verified. The audit was a precautionary measure to respond to an OLAF investigation into the legal status of the beneficiary launched in 2014. The contradictory procedure is still underway and may conclude in recovery.

**IfS beneficiaries: Analysis of the errors detected:** Financial findings: *Ex post* controls of beneficiaries conducted resulted in an amount of EUR 267,330 of project expenditure declared ineligible. Missing and/or inadequate documentation was the most important cause for ineligible expenditure (11 occurrences), followed by expenditure not for project purposes (5 occurrences). Findings relating to overspending of the budget contribute for 45% of the total detected amount of ineligible expenditure.

<b>IfS ex post controls on beneficiaries: FINANCIAL FINDINGS</b>		
<b>Compliance issue / reason for ineligible expenditure</b>	<b>Number of occurrences</b>	<b>affected amount in EUR</b>
Missing / inadequate documentation	11	44,618.45
Incorrect procurement procedure applied	1	-
Expenditure outside contractual period	2	5,262.87
Expenditure includes VAT / other taxes	1	318.00
Incorrect exchange rate used	3	62,281.33
Budget exceeded	3	120,858.55
Expenditure not for project purposes	5	8,511.77
Fraud and irregularities	0	-
Income not declared / not reported	0	-
Other financial findings	13	25,478.97
<b>Total financial findings</b>	<b>39</b>	<b>267,329.94</b>

**IfS beneficiaries: Analysis of the errors detected:** Internal control findings: these recommendations in audit reports are passed on to the beneficiaries to enable them to improve their own internal management. 28 internal control issues were identified. Weaknesses in the financial reporting system and procedures were the most common reason for a finding (9 occurrences), followed by weaknesses relating to expenditure control including related procurement process and procedures (6 occurrences) and human resources and payroll management (4 occurrences):

<b>IfS ex post controls on beneficiaries: INTERNAL CONTROL FINDINGS</b>				
<b>Internal control issue</b>	number findings	number findings	number findings	<b>total number of findings</b>
	priority 1	priority 2	priority 3	
No documentation or inadequate documentation	5			<b>5</b>
Accounting system and procedures	1			<b>1</b>
Financial reporting system and procedures	6	3		<b>9</b>
IT systems and procedures (computerised information systems)				<b>0</b>
Control environment		1		<b>1</b>

Asset management including related procurement process and procedures				<b>0</b>
Cash and bank management (treasury)		1	1	<b>2</b>
Expenditure control including related procurement process and procedures	2	4		<b>6</b>
Human resources and payroll management	1	2	1	<b>4</b>
<b>Total internal control findings</b>				<b>28</b>

**IfS beneficiaries: Analysis of the errors detected:** Other compliance findings: Contractual requirements for visibility and publicity not respected (4 occurrences) and delays in project reporting to the Commission and the non-respect of EU reporting formats (1 occurrence) were the main causes for other compliance findings:

<b>IfS ex post controls on beneficiaries: OTHER COMPLIANCE FINDINGS</b>				
<b>Compliance issue</b>	number findings	number findings	number findings	<b>total</b>
	priority 1	priority 2	priority 3	<b>number of findings</b>
Delays in (financial / non-financial) project reporting to the Commission	1			1
Reporting formats not respected				0
Contractual requirements for visibility and publicity not respected		4		4
Other		5	1	6
<b>Total other compliance findings</b>				<b>11</b>

**Common Foreign and Security Policy:** 7 *ex post* controls were planned and 6 conducted. The planned *ex post* control of EUBAM Libya was cancelled because mission staff had to leave the country due to the security situation in Libya, therefore it was impossible to have the audit carried out in 2014. The 6 *ex post* controls were carried out by external auditors with whom FPI has a framework contract and they have sufficient knowledge and audit experience of CFSP projects. The contracts audited dated from 2009 and 2010 for the NPD projects and from 2013 and 2014 for the CSDP mission and EUSR contracts.

EUR 40.1 million or 68% of the declared expenditure was verified and EUR 0.85 million of the declared expenditure was found to be ineligible. This represents 2.13% of the declared expenditure. **For details see the reservation made under point 4.2 below.**

In addition to the financial findings, a number of management control and other findings were raised in the above audit reports. These concern a variety of different issues such as non-respect of procurement procedures, lack of supporting documents, no segregation of duties and problems with the asset management. These findings are currently being followed up.

Monitoring missions: since monitoring missions do not include controls on transactions or establish an error rate, these missions do not count as *ex post* controls. Nevertheless by focusing more on systems they contribute to the assurance of the Head of Service that actions are progressing in the achievement of their objectives (effectiveness). In 2014 11 Monitoring missions were undertaken by project managers in relation to their

projects. 10 different CSDP missions were visited at least once by their project manager. The methodology for carrying out monitoring missions and the reporting format were the same as in 2013.

**Compliance checks:** a new type of control was introduced in 2014 in order to assess the **continued compliance** with Art. 56 (old FR) and art. 60 (new FR) – “pillar assessments”. One control was carried out on EULEX Kosovo (the largest CSDP mission and the first to achieve compliance). As a result 10 findings and observations were raised of which 6 were considered important. 7 out of 10 findings relate to the internal control system and 1 each for accounting, ex-post publication of information and of the protection of personal data. These findings and observations will be followed up in 2015.

**Election Observation Missions:** In accordance with the 2014 ex-post control (EPC) plan, two EOM contracts were checked by external auditors. The final reports included no financial findings and 5 internal control findings which have been followed up.

**Industrialised Countries Instrument:** The four ex-post controls performed in 2014 demonstrated that as regards the legality and regularity of the underlying transactions, the estimated annual risk of errors in commitments and payments at the time of the authorisation of the transactions is lower than 2%.

At the end of the reporting period, 100% of the amounts to be recovered had been cashed in. This represents a better performance than in 2013 due to an earlier start of the audits and the fact that these audits were performed by FPI staff instead of external auditors selected on the basis of a framework contract.

### Control efficiency and cost-effectiveness

The principle of efficiency concerns the best relationship between resources employed and results achieved. The principle of economy requires that the resources used by the institution in the pursuit of its activities shall be made available in due time, in appropriate quantity and quality and at the best price. This section outlines the indicators used to monitor the efficiency of the control systems, including an overall assessment of the costs and (where possible) of the benefits of controls.

FPI conforms to Article 66(9) FR since January 2013 by quantifying as far as possible the costs of the resources and inputs required for carrying out its controls and their benefits in terms of the amount of errors and irregularities prevented, detected and corrected.

The total cost of controls for FPI<sup>11</sup> is estimated at EUR 3,7 million, that is **0.71%** of operational payments executed in 2014 (EUR 523 million), which represents a decrease compared to last year (0.86%). However, this is only the second year that FPI is reporting on these indicators; therefore it is too early to draw a definitive conclusion on a trend. In addition, this is the first year FPI has made an initial estimation of the cost of controls based on management mode and type of budget implementation.

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<sup>11</sup> Estimate based on the cost of control missions performed by staff, external audits and cost of staff involved in controls and supervision in 2014

Cost of controls by management mode (EUR million)		
Direct	grants	1.10
	procurement	0.68
Indirect		1.96
<b>Total</b>		<b>3.74</b>

	EUR
Total ineligible amount	1,130,969.43
Costs of ex post controls	513,281.37
Cost-efficiency ratio	<b>2.20</b>
Average cost of audit	22,352.45

**Instrument for Stability:** The total cost for outsourcing *ex post* controls (EPC) of beneficiaries to external auditors was EUR 247,296 for the EPC plan (average cost of EUR 22,481 per audit) and EUR 35,188 for the special purpose audits.

The total value of errors detected in the EPC plan is EUR 267,330 which gives a relative efficiency rate of 1.08 (errors detected / cost of the audit). The total value of errors detected from special purpose audits is EUR 140,780 which results in a relative efficiency rate of 4.00 (errors detected / cost of the audit).

**Common Foreign and Security Policy:** The cost of the 6 *ex post* controls (external audits) is EUR 144,858 or 0.19% of the total value of the contracts audited. Benefits are currently difficult to quantify, however the qualitative benefits are linked to improved management of missions which leads to better financial management. They also allow critical financial and other management problems to be identified at an early stage which makes it possible to take measures to rectify the situation and prevent later major problems in the management of the mission.

**Election Observation Missions:** The two controls carried out (for a total cost of EUR 19,707) did not result in financial findings.

**Industrialised Countries Instrument:** Controls carried out (for a total cost of EUR 13,978) led to the identification of an amount of EUR 31,215 as ineligible. This results in a relative efficiency rate of 2.28 (errors detected/cost of the audits). Regarding *ex post* controls carried out in 2013, at the end of the reporting period, 100% of the ineligible amounts had been recovered.

## Other indicators of effectiveness

**Time-to-pay:** In 2014, the average number of days to make a payment was 29, which represents an increase compared to 2013 (26 days). The percentage of invoices paid on time slightly decreased compared to 2013 (72% compared to 75%). Both results were linked to the shortage of payment appropriations. Managing the consequences of this shortage had an important impact of the timely payment of invoices, in particular for

the Stability Instrument.

The statistics of the FPI are impacted negatively by the Press and Information budget line, for technical reasons (the “bank value date” is based on the “reconciliation date” determined only at the end of each month by delegations and not on the actual date of the payment). Progress on this indicator is constantly monitored and followed-up by HQ and delegations instructed on measures to take to improve on their performance.

**Amounts to disburse (*reste à liquider*):** The RAL at the end of the year increased by 93 million, an increase of 12% compared to the RAL at the end of 2013. This increase is mainly linked to the new PI instrument, for which the authorised budget is much higher than for its predecessor, the ICI and for which no contracting was possible in 2014 due to the late adoption of the programming documents.

**Note: Time to grant (Art.128 (2)) FR:** this requirement does not apply to FPI as the greater part of its activities are not implemented by open calls for proposals / grants.

### **Control efficiency and cost-effectiveness - Conclusion**

FPI has quantified the cost of the resources required for carrying out the controls described in the AAR and estimates, insofar as possible, their benefits in terms of the amount of errors detected by these controls. Overall, during the reporting year the **controls carried out by FPI** in the framework of its annual *ex post* control plan **have a cost-efficiency rate of 2,20<sup>12</sup>**. This represents an improvement compared to last year (when the cost-efficiency rate was 1,58). This is only the second year in which FPI reports on these indicators, therefore a firm trend cannot yet be established.

In addition, there are a number of **non-quantifiable benefits** resulting from the controls such as deterrent effects, efficiency gains, and better value for money, system improvements and compliance with regulatory provisions. Furthermore, FPI considers that the necessity of these controls is undeniable, as the totality of the appropriations would be at risk in case they would not be in place. These non-quantifiable benefits are not directly reflected in our conclusion on cost-effectiveness (ratio benefits/costs).

### **Fraud prevention and detection**

**Detection:** For CFSP there were 7 ongoing cases which have been reported to OLAF and which at year end were at different stages of investigation (two with closure pending). Two new cases were reported. Follow up to these cases will be given in 2015. For IfS/IcSP, 1 new case was reported. The outcome of two old cases was still outstanding. Three others were closed.

**Prevention and follow-up:** FPI developed its anti-fraud strategy as foreseen in the Commission’s overall strategy<sup>13</sup>. To improve capacities of FPI staff to effectively tackle internal and external fraud, all staff received instructions and information on

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<sup>12</sup> EUR 2.20 of errors was found for every EUR spent (EUR 0.45 was spent for every euro of error).

<sup>13</sup> COM(2011) 376 24.06.2011.



procedures to be followed in cases of irregularity or fraud in FPI.

To improve reaction to suspected fraud and the timeliness in recovering sums unduly spent: FPI worked in close cooperation with OLAF on ongoing cases and replied quickly to information requests from OLAF. Relevant information received by FPI was proactively shared with OLAF. In most cases where OLAF decided to open an investigation, FPI launched its own audits on the basis of the risks to confirm or not possible errors and irregularities and to establish any amount to be recovered. All new beneficiaries are systematically checked whether they are signalled in the Early Warning System. OLAF cases are reviewed several times a year and follow-up measures, if appropriate, are taken in order to speed up the closure.

Controls aimed at preventing and detecting fraud are essentially the same as those intended to ensure the legality and regularity of the transactions and prevent unintentional errors. Still, in addition to the annual *ex-post* control plan, when FPI identifies contracts/projects at a higher risk of fraud it subjects them to an external audit with specific forensic objectives. For special purpose audits see section 2.

In 2014, the IAS conducted an audit on the control strategy of FPI, focusing also on anti-fraud measures. One of the recommendations related to the improvement of the anti-fraud strategy for the CSDP missions and the provision of anti-fraud training for key financial actors in these missions. This recommendation is currently being implemented.

#### **Other control objectives: use of resources for their intended purpose, reliability of reporting, safeguarding of assets and information**

*Use of resources for their intended purposes:* the controls in place (ex-ante, checks carried out on the obligatory reports, monitoring mission, on-the spot controls, external audits, ex-post controls) are sufficiently comprehensive to ensure that resources are used for their intended purposes.

*Reliability of reporting:* all reports provided by the controlled entities are checked and approved by FPI staff. Reports produced inside FPI are at least cross-checked by the team leaders/Deputy Head of Unit, and often, for the AAR, by FPI.1.

*Safeguarding of assets and information:* all CSDP missions and EUSRs have to include an inventory list in the mandate final report. This list is scrutinised by the external auditors carrying out an audit of the mandate final report. Both the final report and the audit report are again checked by the FPI project managers and by the financial team. Precise instructions are given for the filing and archiving of all information produced and processed in FPI. The CSDP missions and EUSRs receive precise instructions on filing and archiving and transferring the same to HQ at the closure of their mandates.

## **2.2 Budget implementation tasks entrusted to other DGs and entities.**

This section reports and assesses the elements that support the assurance on the achievement of the internal control objectives as regards the results of the Service's supervisory controls on the budget implementation tasks carried out by other Commission DGs and entrusted entities distinct from the Commission.

**Instrument for Stability:** information on **indirect centralised management** actions (Financing Decisions adopted before 2014) is included under Annex 6. These entities had to comply with the 6 criteria laid down in Art.56 FR (**the “6 pillars”**) after an assessment by the Commission. FPI usually relies on compliance assessments already performed by DG Devco. As for the supervision of the entities once they have been entrusted with funds, they are subject to the normal requirements and controls laid down in the standard “delegation” agreement, as in DG Devco, and fully included in the controls reported in section 2.1 above.

Actions implemented under **indirect management (formerly joint management)** with international organisations account for EUR 287.5 million or nearly 46% of total ongoing projects. At the end of 2014, 78 contracts were still ongoing, including 13 signed in 2014. These entities had to comply with the criteria laid down in Art.60 FR (**the pillars**) after an assessment by the Commission. FPI usually relies on compliance assessments already performed by DG Devco. As for the supervision of the entities once they have been entrusted with funds, they are subject to the normal requirements and controls laid down in the standard “contribution” agreement, as in DG Devco. Thus, supervision based on the principle of controlling 'with' the relevant entity. The standard agreement provides for the entity to make available financial information and for the Commission to carry out checks, including on-the-spot. Framework Agreements such as the *Financial and Administrative Framework Agreement* (FAFA) with the United Nations provided further details on how to perform these controls known as **“verification missions”**.

These follow procedures and standards agreed with the UN and approved by the Commission and FPI considers that they constitute valid *ex post* controls which contribute to the assurance and which can be fully integrated in the controls reported in section 2.1 above (where the results are reported). The verification performed includes:

- checks on the **coherence** of the agreed budget for a given project and the financial report, and on the **quality** of the financial management system;
- due consideration of any **pillar assessment** previously performed and a review of whether it is still valid and up to date;
- **financial findings**, if detected; leading to a contradictory procedure in order to determine the relevance of the findings and possibilities to recover any ineligible funds.
- findings related to **financial management capacity**, to be addressed in the framework of the project (if still ongoing) or in the wider context of cooperation with the organisation (for future projects).

In 2014 the new management mode, Indirect Management, entered into force and the Indirect Management Delegation Agreement (IMDA) was developed to delegate budget implementation tasks to international organisations or national bodies. The IMDA is applicable for contracts under financing decisions adopted in 2014 as Indirect Management. Four IMDA agreements were signed in 2014 (2% of total ongoing contracts).

**Common Foreign and Security Policy:** Indirect management by CFSP missions remains a challenge for the internal control system and the assurance and an area of risk in the operational budget. Before entrusting funds to CFSP missions in the indirect management mode the Commission must first ensure that they comply with the “pillar” requirements (Art. 60 FR).

For new missions, compliance is not possible due to a particular feature of the CFSP operating environment, namely that **CFSP missions are each time created from scratch**. In order for them to be operational from day one, the Commission has to entrust them with funds necessary for their functioning, including procurement of equipment, without being able to have a prior assessment of compliance. While this situation pertains in every case where a new body or agency is created from scratch under the EU budget, the difference is that CFSP missions operate outside the EU and often in volatile security environments.

Longer-established missions have now had a chance, with FPI assistance, to become compliant. In keeping with its action plans in response to various past audit findings, FPI pursued the objective of making the 3 largest CFSP missions compliant. In addition one medium sized mission was assessed and found compliant by the end of 2014. The assessment of a 5th mission started in 2014 and will be completed in early 2015. The 4 compliant missions consumed approximately EUR 192 million or 61% of the 2014 CFSP budget.

For the remaining non-compliant missions, FPI is pursuing a progressive programme of compliance assessment taking into account cost-effectiveness considerations (e.g. where the mandate of a mission is due to close). In order to provide an assurance in these case, and as reported in previous AARs, FPI relies on its above-mentioned ex ante and ex post controls and monitoring as well as the specific mitigating measures:

For the following controls see part 2 introduction and section 2.2 above:

- a) **financial reporting** (delegated management reports) by the missions as fixed in the agreements concluded between the Commission and each CFSP mission.
- b) obligatory **external audits** before all final payments, also specified in the agreements;
- c) **monitoring** missions by the FPI project managers; missions where financial management is identified as “at risk” may be subject to more intensive monitoring and support and FPI is putting in place arrangements to allow external procurement experts to be made available on an ad hoc basis to assist and advise missions.
- d) **monitoring/assessment of art. 60 compliance missions** by FPI staff: all art. 60 compliant missions are subject to these specific monitoring missions carried out by a team of FPI staff. The first such mission takes place 6 months after the mission started in full indirect management mode. Subsequently approximately every two years compliant missions will be assessed again.
- e) **ex post / on-the-spot controls** by the Commission.
- f) obligations regarding the main elements (procurement, segregation of duties, accounts and external audits) are specified in the agreements concluded between the Commission and each CFSP mission. Progressive implementation of the Article 60 criteria by the missions, subject to verification by the Commission.

Additional specific mitigating measures:

- a) reinforced monitoring and support by the FPI project managers; missions where financial management is identified as “at risk” may be subject to more intensive monitoring and support and FPI is putting in place arrangements to make available

external procurement experts on an ad hoc basis to assist and advise missions.

- b) in view of the temporary inability to ensure compliance with Article 60 for some of the missions, the agreements subjected all procurement by the CFSP missions of more than EUR 20 000 to **mandatory prior approval by the FPI HQ**.

This is applied both to the launching of procurement procedures and the awarding of contracts with a value exceeding EUR 20,000. The purpose is to verify, whether procurement rules and procedures are respected, whether the contracted amounts correspond to the mission's budget, and whether the purchases of the services or supplies are justified. In practice, it also means that FPI provides substantial support to the missions by carefully screening contract notices, tender files, evaluation and negotiation reports, proposed contracts and suggesting modifications and improvements to all submitted files.

Very few files are rejected outright but the majority of files have to be corrected. In 2014 a new system of recording errors in procurement files was introduced in July 2014.

Of the 282 files treated since then, 129 files or 45,7% contained no errors; 81 files or 28.72% contained one error and 72 files or 25.23% contained two errors. The total number of errors amounted to 297 of which 248 were detected by the project managers and procurement officers of the unit. 49 errors were detected during the check by the "second pair of eyes" of the unit.

The majority of errors, 193, were made in service procurement files followed by 100 in supply procurement procedures. Only 4 errors were found in Works procedures. This also reflects the composition of the number of different procurement procedures with service procedures having relatively more errors (193 errors versus 169 procedures).

### **Indirect management: Conclusion**

Based on the above monitoring and supervision work and the controls reported in this AAR, FPI found no indications that management by the entities is inadequate or that their reporting is not be reliable. Weaknesses in CFSP missions which were not compliant with Art.60 FR were mitigated by adequate measures. Consequently, we can conclude that there are no issues affecting the assurance of the Head of Service of FPI.

### **Cross-sub-delegations**

FPI has cross-sub-delegated the following activities to other Directorates General:

- EUR 4,5 million to DG COMM for the purpose of financing through Euronews the broadcasting of news to Iran in the Farsi language.
- EUR 647,381 to DG DEVCO for 3 sets of activities: CRIS, Financial Sanctions Database (FSD) and EOM. Concerning CRIS, the budget was used to cover the corrective and evolutive maintenance of the modules used by the FPI. For FSD, the objective in 2014 was to continue the development of the system and to bring it to the production. The EOM system was handed over to a new developer and some corrective and progressive maintenance was performed. The main

works accomplished were for the system compliance to security and confidentiality requirements, using notably the ECAS system to authenticate users.

FPI has also cross-sub-delegated to the Paymaster's Office (PMO) an amount of EUR 304,281 for the remuneration of the Special Adviser EUMM Georgia.

These services did not communicate any events, control results or issues which had a material impact on the assurance.

### **PI:**

FPI has entrusted parts of its budget for indirect management implementation by a number of cross-delegations to DG EAC and DG NEAR as well as to the Executive Agencies of DG EAC (EACEA). In all these cases, the DG's supervision arrangements are based on the principle of crossed sub-delegation report to be received at the beginning of each year.

As mentioned above, out of the EUR 107 million, EUR 3.5 million will be implemented by the Executive Agency of DG EAC, EUR 0.55 million by DG EAC and EUR 1 million by DG NEAR (TAIEX). Due to the late adoption of the AAP 2014 all actions will be tendered and signed in 2015 except for the actions supported through the NEAR managed TAIEX facility (an amendment allowing the use of TAIEX in PI partner countries was signed on 26 December 2014).

## **2.3 Assessment of audit results and follow up of audit recommendations**

This section reports and assesses the observations and conclusions reported by auditors 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.

### **European Court of Auditors (ECA)**

At the time of drafting the Annual Activity Report, there were no findings from the Court of Auditors regarding the 2014 DAS (Statement of Assurance).

The 2013 Annual Report included one (follow up from previous years) recommendation, regarding pillar assessments for CFSP missions. This recommendation is currently being implemented by FPI.

### **Internal Audit Service (IAS)**

The Internal Audit Service carried out in 2014 an audit on the control strategy of FPI, focusing on CFSP and IfS. The recommendations made by the IAS (none of which were critical) related to the improvement of anti-fraud measures in CSDP Missions/EUSRs, the assurance from current system of controls (including the calculation of the residual error rate and Art.60 compliance) and the downsizing of CSDP missions.

FPI prepared an action plan (with deadlines) and is working on implementing the recommendations by the end of 2015. Measures include the improvement of the anti-fraud strategy of the missions including the provision of anti-fraud training, and the continued assessment of pillar compliance (Art. 60 FR) by follow-up compliance checks (see part 2.1 above, under CFSP controls).

Regarding the calculation of the residual error rate, FPI took measures in 2014 in consultation with DG BUDGET to further improve the presentation of the RER in the AAR on the basis of a methodology agreed with DG BUDGET, as already reflected in the current report.

## **Internal Audit Capacity (IAC)**

### **Audit on the effectiveness of the management of the Industrialized Countries Instrument (ICI) by FPI HQ and the Tokyo and Washington EU Delegations**

An internal audit on the effectiveness of the management of the industrialized Countries Instrument (ICI) by the Tokyo and Washington EU Delegations was performed by the Internal Audit Department (IAC) of DG DEVCO. The draft report was received on the 21st of January 2015.

FPI will draw lessons from the recommendations contained in the ICI audit report in the context of the Partnership Instrument, for example in terms of reinforced guidance to Delegations and enhanced monitoring of the PI actions.

### **Audit on Election Observation Missions**

The result of the field work of the audit on the Election Observation Missions concluded in the first quarter of 2014 lead to a “satisfactory opinion” for this audit. In particular, it conclude that deployment of European Union Election Observation Missions in third countries is an effective way of helping to build confidence, enhancing the reliability and transparency of democratic electoral processes, and discouraging irregularities, abuse and electoral fraud.

### **Follow up audit on Instrument for Stability**

DEVCO IAC conducted a second follow-up audit on the Management of the Instrument for Stability issued on 29 January 2009, in line with its 2014 annual work plan. The objective was to assess the progress made in implementing the 7 recommendations considered in progress at the time of the first follow-up report of 2010.

IAC concluded that 5 of the recommendations have been adequately and effectively implemented and can be closed. The 2 remaining recommendations were also closed, as they had become obsolete for FPI.

## Conclusion

In 2014, there were no critical findings and recommendations (and a limited number of findings overall) related to FPI from audits conducted by the Internal Audit Capability (IAC) of DEVCO<sup>14</sup>, the Commission Internal Audit Service (IAS) and the European Court of Auditors (ECA). The validation of local systems carried out by DG BUDG included no critical findings for FPI. As regards the implementation of recommendations issued in previous years, the relevant action plans are considered to be fully implemented.

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<sup>14</sup> Internal audit assignments are carried out by the IAC of DG DEVCO based on a service level agreement

### 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.

FPI 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.

Regarding the effectiveness of internal control and financial management, FPI considers that the control procedures put in place give the necessary guarantees concerning the legality and regularity of the underlying transactions.

Concerning the overall state of the internal control system, FPI complies with the three assessment criteria for effectiveness; i.e. (a) staff having the required knowledge and skills, (b) systems and procedures designed and implemented to manage the key risks effectively, and (c) no instances of ineffective controls that have exposed the FPI to its key risks. In addition, further enhancing the effectiveness of FPI control arrangements in place, by *inter alia* taking into account any control weaknesses reported and exceptions recorded, is an on-going effort in line with the principle of continuous improvement of management procedures.

FPI performed a general assessment of effectiveness of internal control standards (ICS) for the purposes of this report, involving a representative sample of the staff concerned. Based on experience and available information, it assessed whether systems provide a reasonable assurance that the ICS are achieving their goals and working as intended. Results indicate an effectiveness rate of 81.2%, which constitutes a decrease compared to 2013 (an effectiveness rate of 86%). This can be partly attributed to an increased number of participants and a change in the methodology of the questionnaire. The results show that measures taken so far on ICS 11 (Document Management) and ICS 14 (Evaluation of activities) need to be continued in 2015.

For ICS 14, FPI aimed to improve evaluation activities. The Director / Head of Service adopted the FPI multi-annual evaluation plan, taking into account the different specificities of its instruments and their state of implementation. This standard is prioritised in the 2015 Management Plan and efforts continue in order to ensure adequate implementation of the evaluation plan.

Implementation of the reporting system is still being perfected and, 2014 was the first year recording was done across all FPI instruments. At headquarters and in delegations 38 exceptions were recorded including 9 for IfS, 15 for CFSP and 14 for EOMs. 14 non-compliance events were recorded (9 for IfS, 2 for CFSP, 2 for ICI and 1 for EOMs) as well as 1 control override (CFSP). A formal system for all of FPI will only be completed in 2015. Management will draw consequences from the results reported and take appropriate action.



In light of the results of its self-assessment of internal control carried out and for the purposes of this report (ICS 15 – Assessment of internal control systems); in light of the implementation of action plans relative to the recommendations of the different audit bodies; the results of controls; the risk analysis performed in the context of the Management Plan; and the management knowledge gained from daily operations, effectiveness of the control standards and the documentation thereof was maintained in 2014. The functioning of the ICS, and in particular key standards for financial management, contributed to a mitigation of the risks and weaknesses identified, having regard to the specificities and objectives of external relations and the instruments managed by FPI. Measures will be taken in 2015 to remedy any remaining weaknesses.

One standard, ICS 11 Document management, was not fully implemented in the past but during 2014 much work was done to ensure the correct and full implementation of this standard. A handbook on filing and registering documents was created, the filing of paper and electronic documents was improved and the archives were reorganised.

#### PI delegations:

With reference to the de-concentration of management, various aspects directly linked to the conditions of operation of the sub-delegation were analysed beforehand with a view to perform a qualitative assessment of the management and control system in the Delegations. It was agreed to conduct the assessment in three stages: (1) identification of a valid financial circuit, (2) adequate training of staff and (3) the completion of the questionnaire on the state of play on the de-concentration.

The purpose of the questionnaire is to check not only whether Delegations have the capacity to manage the responsibilities deriving from the sub-delegation but also whether the internal control standards are correctly applied. This questionnaire will be the basis for the future control visits. A first draft reply on this questionnaire with the state of play of the Delegation had to be submitted by end December 2014 or together with the Delegation's 2014 SDAO report, in the understanding that not all aspects will be covered at this stage, as achieving best standards of de-concentration is a medium term objective. FPI will check the roll-out of the system in deconcentrated delegations during 2015 with a view to the assurance for that year's AAR.

In conclusion, the internal control standards are effectively implemented.

## 4. MANAGEMENT ASSURANCE

This section reviews the assessment of the elements reported in Parts 2 and 3 and draw conclusions supporting of the declaration of assurance and namely, whether it should be qualified with reservations.

### 4.1 Review of the elements supporting assurance

The information reported in Parts 2 and 3 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 complete coverage of the budget delegated to the Head of Service of FPI.

### 4.2 Overall conclusion on assurance and reservations (if applicable)

<b>DG</b>	<b>Service of Foreign Policy Instruments</b>
<b>Title of the reservation, including its scope</b>	Reservation concerning the error rate for CFSP being above 2%
<b>Domain</b>	Indirect management – Common Foreign and Security Policy, which includes: Direct management (grants) – non-proliferation and disarmament projects
<b>ABB activity and amount affected ("scope")</b>	19.03 – Common Foreign Security Policy Payments made in 2014: EUR 263.45 million
<b>Reason for the reservation</b>	Occurrence of errors in the underlying transactions (legality and regularity); DER and RER = 2.13%; see AAR section 2.1) – lack of supporting documents or insufficiently clear obligations about the same. Beneficiaries did not meet the normal EU standards as regards accounting for travel costs incurred by, and paid to, conference participants (namely the provision of boarding passes), although other supporting documents were available.
<b>Materiality criterion/criteria</b>	Legality and materiality criterion: the materiality criterion is the residual error rate, 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 residual error rate on the overall population is below 2% at the end of the management cycle. As long as the residual error rate is not (yet) below 2% at the end of the reporting year a reservation should be made.
<b>Quantification of the impact (= actual exposure)</b>	The estimated amount at risk for the budget is calculated by multiplying the payments made in the year with the detected error rate and then subtracting any corrections made. The estimated amount at risk for the activity as a whole is EUR 5.6 million.
<b>Impact on the assurance</b>	Legality and regularity of the affected transactions. The assurance is affected by the quantified budgetary impact (EUR 5.6 million at risk for the activity as a whole), which in overall terms remains quite limited (1.05% of total FPI payments made in 2014) - see table at page 62.  The budget chapter/activity 19 03 (Common Foreign Security Policy) is divided into two lines or distinct sub-activities: <b>19 03 01</b> - Support to preservation of stability through Common Foreign and Security Policy (CFSP) missions and European Union Special Representatives (95% of CFSP payments in 2014) and <b>19 03 02</b> – Support to

	<p>non-proliferation and disarmament (5% of CFSP payments in 2014 – EUR 14.1 million). Based on the ex post controls carried out, this smaller part of the CFSP budget was found to be affected by a high percentage of error<sup>15</sup>, which had an impact on the overall detected error rate for this budget chapter and activity (2.13%). In order to be consistent, FPI reports on the error rate for the activity as a whole. It recognises in this case the high percentage of error for this sub-activity. FPI's sampling methodology for its ex post control plan ensures that the separate risk factors in this sub-activity are taken into account (different implementation method and management environment management compared to the main other part of the activity, CFSP missions and EUSRs). This allowed specific problems in grant management to be identified (see below) which do not apply to the rest of the activity, and which can only be addressed by appropriate action at the level of the sub-activity.</p> <p>The error rate, if presented separately for the part of the activity taken up by CFSP missions and EUSRs, is not material.</p> <p>For these reasons the focus of the follow-up action for the reservation is on the sub-activity 19.03.02 – Support to non-proliferation and disarmament.</p> <p>The reservation does not have a major impact on the overall assurance, as the amount at risk concerned constitutes 1.05% of the total FPI expenditure in 2014.</p>
<b>Responsibility for the weakness</b>	Implementing partners/beneficiaries of grants
<b>Responsibility for the corrective action</b>	<p>Corrective actions will focus on NPD projects and their implementation / grant management. Grants are not used in the rest of the activity (CFSP missions and EUSRs).</p> <p>Given that the payments affected were made before 2014, FPI will analyse the possibility of recovery of the ineligible amount from the two beneficiaries concerned (EUR 0.28 million out of EUR 1.59 million paid) and taking into account the otherwise successful completion of the projects. Given that the grant contracts have been closed and final payments made, legal grounds for recovery may not be met.</p> <p>FPI will also analyse, and where necessary correct, the templates for the grant agreements used, in particular as regards the requirements for supporting documents and boarding passes as proof of travel.</p> <p>The <i>ex post</i> control plan will be reviewed to take into account the higher error rate detected and the potential amount at risk in this sector of activity.</p>

## Overall Conclusion

The overall risk relating to the legality and regularity of the underlying transactions is presented by calculating the weighted average error rate<sup>16</sup> for the annual expenditure and the resulting amount at risk: risk: 1.2 % or EUR 6.3 million for 2014.

<sup>15</sup> The ineligible amount (EUR 0.28 million) resulting from the controls on the two NPD projects (there were 6 NPD projects in 2014) represents 37% of the sampled amount verified (EUR 0.77 million).

<sup>16</sup> This is the detected error rate, not the residual error rate i.e. without any adjustment for errors corrected after the payment was made, as it is intended to represent the amount of errors which could not be prevented before making the payment and which will be subject to ex post controls in successive financial years.

The resulting amount at risk is the AOD best, and conservative estimate of the amount of expenditure authorised not in conformity with the applicable contractual and regulatory provisions at the time the payment is made for the year. It is therefore disclosed along the average recoveries and financial corrections implemented since 2009, as this is the best available indication of the corrective capacity of the ex post control systems implemented by the DG.

The corrective capacity of FPI, based on the average of financial corrections for the past six years, is calculated as 0.24% of payments made in that period - period – which would imply EUR 1.3 million for 2014.

This overall presentation does not change the calculation of residual error rates to decide whether to qualify the declaration of assurance with reservations. They are two different levels of analysis.

After taking into account the conclusions of the review of the elements supporting assurance (section 4.1), the AOD's assessment of the overall risk relating to the legality and regularity of the underlying transactions, the expected corrective capacity of the control systems is that the AOD is in a position to sign the declaration of assurance.

<b>FPI</b>	<b>Payments made (€m)</b>	<b>Error Rate (%)</b>	<b>Amount at risk (€m)</b>
<i>ABB activity</i>	<i>as per AAR annex 3, table 2</i>	<i>Detected error rate or equivalent</i>	<i>= (2) x (3)</i>
19.03 CFSP	263	2.13%	5.6
19.02 IfS	201	0.24%	0.5
19.04 EOMs	31	0%	0
19.05 ICI	15	1.00%	0.15
19.06 Info	13	0%	0
<b>Overall</b>	<b>523 M €</b>	<b>1.2 %</b>	<b>6.3 M €</b>

## DECLARATION OF ASSURANCE

*I, the undersigned,*

*Head of Service of the Service for Foreign Policy Instruments (FPI)*

*In my capacity as authorising officer by delegation*

*Declare that the information contained in this report gives a true and fair view<sup>17</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 work of the internal audit capability, the observations of the Internal Audit Service and the lessons learnt from the reports of the Court of Auditors for years prior to the year of this declaration.*

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

*However the following reservations should be noted: reservation concerning the error rate being above 2% for one budget line (affecting legality and regularity of transactions). The reservation does not have a material impact on the overall assurance.*

Brussels, 30 March 2015

(signed)

Tung-Lai Margue

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<sup>17</sup> True and fair in this context means a reliable, complete and correct view on the state of affairs in the Service