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European Commission

2014

Annual Activity Report

Economic and Financial Affairs

This Annual Activity Report covers the activities of the Commission's Directorate-General for Economic and Financial Affairs (DG ECFIN) for 2014, a significant year for the DG and the European Commission.

2014 was a year of slow recovery. Having come through the worst financial and economic crisis in generations, the EU has achieved much to create the foundations for more sound and sustainable growth in the future. However, despite these efforts the economic recovery remains weak and is hampering the efforts to reduce the high levels of unemployment.

The new European Commission took office in November 2014, with a strong commitment to foster growth and fight unemployment, with a focus on actions to increase investment. DG ECFIN is, and will continue to be, a key player with respect to the economic and social challenges the EU is facing. DG ECFIN was also reorganised to be better aligned with the new European Commission priorities.

The Annual Activity Report sets out, in part 1, the policy achievements of the DG, and tries to give a flavour of the wide range of activities going on in the DG and what they can add to the creation of growth and jobs in the European Union as well as how they contribute to raising the economic welfare of the citizens in the European Union and beyond, notably by developing and promoting policies that ensure sustainable economic growth, a high level of employment, stable public finances and financial stability.

Parts 2-4 provide information on the management of resources allocated to the DG, and how we are organised internally.

The systems in place enabled the Director -General of DG ECFIN to sign his Annual Declaration of Assurance without reservations.

It is hoped that the report offers a digestible view of the operations of the DG, and helps in understanding the different challenges the DG is facing.

For more information please see our website

http://ec.europa.eu/economy_finance/index_en.htm

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INTRODUCTION:

The DG in brief

The **mission** of the Directorate-General for Economic and Financial Affairs is to contribute to raising the economic welfare of the citizens in the European Union and beyond, notably by developing and promoting policies that ensure sustainable economic growth, a high level of employment, stable public finances and financial stability.

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In pursuing this mission, our **core objectives** are:

- to ensure a smooth functioning of the EU's Economic and Monetary Union through a strong economic governance framework;
- to promote sound macro-economic policies in the Member States to ensure balanced and sustainable growth and job creation, and to improve sustainability and quality of public finances, in the context of the Stability and Growth Pact, the Macroeconomic Imbalances Procedure, the Europe 2020 strategy and the European Semester and to undertake surveillance of Member States' economies, on the basis of preventive and corrective tools enshrined in secondary legislation, to promote fiscal sustainability and the prevention/correction of internal/external macroeconomic imbalances;
- to conduct macroeconomic adjustment programmes and in this context cooperate with ESM[1]. We also support efforts to safeguard financial stability by establishing and operating an effective system of macro-prudential supervision;
- to design and implement, in close cooperation with the European Investment Bank Group and the European Bank for Reconstruction and Development (EBRD), EU investment programmes including the flagship "Investment Plan for Europe", to design financial assistance programmes and to undertake financial market operations and to manage the treasury and assets on behalf of other Commission services;
- to maintain close working relations with the EIB2 Group, the EBRD[3], the World Bank Group and other multilateral development banks, with a view to promoting EU priorities and common positions and ensuring appropriate coordination of the Commission's financial cooperation with these institutions. To maintain close working relations with the IMF4 and with the corresponding G7 and G20 groups to develop international strategies on the economic and financial area.
- to prepare the gradual enlargement of the euro area;
- to support economic prosperity, growth and stability not only within the EU but also at the international level by shaping global economic governance and EU

1 European Stability Mechanism (ESM)
2 European Investment Bank (EIB)
3 European Bank for Reconstruction and Development (EBRD)
4 International Monetary Fund (IMF)

international economic relations with a view to advancing EU interests and putting in place an efficient and robust policy framework conducive to a sustainable and balanced growth of the global economy, supported by an efficient and stable international monetary and financial system.

The year in brief

In 2014 the recovery did not materialise. Having come through the worst financial and economic crisis in generations, the EU has achieved much to create the foundations for more sound and sustainable growth in the future. However, despite these efforts the economic recovery remains weak and is hampering the efforts to reduce the high levels of unemployment.

The global economic environment accounted for some of the slowdown, specific domestic factors prevented faster growth in the EU. The fragmentation of financial markets, debt overhangs, incomplete adjustment of macroeconomic imbalances, and still weak confidence, held back growth which partly reflected uncertainties about the commitment to structural and institutional reforms. Labour markets were improving and unemployment rates have begun to recede, albeit very gradually in some Member States. And DG ECFIN's Alert Mechanism Report, published in November 2014, showed that the EU economies continue to progress in correcting their external and internal imbalances.

In June 2014 DG ECFIN also published the Convergence report 2014 which found that Lithuania fulfilled the conditions for the adoption of the euro. By 1 January 2015 Lithuania became the 19th member of the euro area.

The new European Commission took office in November 2014, with a strong commitment to foster growth and fight unemployment, with a focus on actions to increase investment. DG ECFIN is, and will continue to be, a key player with respect to the economic and social challenges the EU is facing. We were also reorganised to be better aligned with the new European Commission priorities: e.g. some parts of DG ECFIN moved to DG EMPL (Labour market Reforms) and the new DG for Financial Stability, Financial Services and Capital Markets Union.

In 2015 we will continue to work determined on making this a sustained recovery. Our overarching objectives for 2015 mirror the three key pillars of the economic strategy of the Commission, as set out in the Annual Growth Survey: boosting investment, pursuing structural reforms and ensuring fiscal responsibility. Simultaneous action in all three areas is critical to restore confidence, reduce the uncertainty that is impeding investment and to maximise the strong mutually reinforcing effects of action on all three pillars. We will continue the work on country surveillance and policy guidance in line with Annual Growth Survey and the forthcoming Broad Economic Policy Guidelines, and will explore options for the development of a deep and fair EMU.

EXECUTIVE SUMMARY

The executive summary has four subsections:

a) Five most relevant key Performance Indicators for policies and management

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

c) Key conclusions on the effectiveness of internal control and financial management (executive summary on part 2 and 3)

d) Information to the Commissioner

The Annual Activity Report is a management report of the Director-General of DG ECFIN 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

<table>
<tr><th>Result/Impact indicator (description)</th><th>Trend ☺ ☹</th><th>Target (or milestones)</th><th>Latest known results as per Annual Activity Report</th></tr>
<tr><td>Most relevant KPI 1 related to EMU 2 objective of "Enhanced integrated surveillance": Result indicator 1: Number of Member States (MS) in Excessive Deficit Procedure (EDP)</td><td>☹</td><td colspan="2">
<table>
<tr><td>Baseline 2014</td><td colspan="2">Milestones</td><td>Target</td><td>Current situation</td></tr>
<tr><td rowspan="3">11 out of 28 MS were in EDP at the end of 2014</td><td>2014</td><td>1 MS should exit the EDP in the course of 2015 if the conditions are fulfilled based on notified data for 2014</td><td>A timely correction of the excessive deficit for all Member States currently according to the deadlines recommended by the Council:
• MT by 2014,</td><td rowspan="3">11 MS are in EDP</td></tr>
<tr><td>2015</td><td>6 MS should exit the EDP in the course of 2016 if the conditions are fulfilled based on notified data for 2015</td><td>• UK by fiscal year 2014-15
• IE, FR, SI, PT, PL by 2015</td></tr>
<tr><td colspan="2">2016
4 MS should exit the EDP in the course of 2016 if the conditions are fulfilled based on notified data for 2015</td><td>• EL, CY, ES and HR by 2016

Compliance with the required adjustment towards the MTO by all Member States under the preventive arm.
The general government debt level should remain below 60% of GDP or, in case the debt level is above 60% of GDP, it should be reduced to 60% in compliance with the debt rule.</td></tr>
</table>
</td></tr>
<tr><td>Most relevant KPI 2 related to EMU 2 objective of "Enhanced integrated surveillance": Result indicator 2 Number of Member States (MS) considered to have an imbalance under the preventive arm of the Macro-economic Imbalances procedure (MIP)</td><td>☹</td><td colspan="2">
<table>
<tr><th>Baseline 2013</th><th>Milestones</th><th>Target</th><th>Current situation</th></tr>
<tr><td>11 MS in the preventive arm of the MIP at 28.11.2012</td><td>2014
Publication of 17 IDRs in Spring 2014</td><td>0 MS when all countries in the EU are at internal and external balance</td><td>12 MS</td></tr>
</table>
</td></tr>
</table>

<table>
<tr><th>Result/Impact indicator (description)</th><th>Trend
☺
☹</th><th colspan="2">Target (or milestones)</th><th>Latest known results as per Annual Activity Report</th></tr>
<tr><td>Most relevant KPI 3 related to EMU 3 objective of "Macro-financial stability":
Result indicator 1
Level of the Euribor-OIS</td><td>😐</td><td colspan="3">
<table>
<tr><th>Baseline</th><th>Milestones</th><th>Target</th><th>Current Situation</th></tr>
<tr><td>In late June 2014, the Euribor-OIS spread stood at 16 basis points. For reference, at the peak of the banking crisis (Oct. 2008) the spread was at 196 bps</td><td>Current levels reflect favourable funding market conditions</td><td>Indicator to remain at pre-crisis reference values (5 to 9 bps) over the next years</td><td>8 bps</td></tr>
</table>
</td></tr>
<tr><td>Most relevant KPI 4 related to IEFA objective of "Macro-financial assistance":
Result indicator 1: Current account balance (in % of GDP) of countries benefitting from MFA support</td><td>😐</td><td colspan="3">
<table>
<tr><th rowspan="2">Countries</th><th colspan="2">Baseline</th><th colspan="5">*Milestones</th><th>Target 2020</th></tr>
<tr><th>2013</th><th>2014 (forecast)</th><th>2015</th><th>2016</th><th>2017</th><th>2018</th><th>2019</th><th>2020</th></tr>
<tr><td>Jordan</td><td>-10.3</td><td>-7.1</td><td>-8.1</td><td>-4.1</td><td>-3.8</td><td>-3.8</td><td>-2.5</td><td>-2.5*</td></tr>
<tr><td>Kyrgyzstan</td><td>-14.8</td><td>-14.2</td><td>-14.8</td><td>-13.3</td><td>-10.2</td><td>-7.1</td><td>-6.6</td><td>-6.6*</td></tr>
<tr><td>Georgia</td><td>-5.7</td><td>-8.5</td><td>-7.9</td><td>-7.0</td><td>-6.4</td><td>-6.0</td><td>-5.0</td><td>-5.0*</td></tr>
<tr><td>Tunisia</td><td>-8.3</td><td>-7.9</td><td>-6.4</td><td>-5.0</td><td>-4.1</td><td>-3.3</td><td>-3.2</td><td>-3.2*</td></tr>
<tr><td>Armenia</td><td>-8.0</td><td>-8.1</td><td>-7.3</td><td>-7.1</td><td>-6.9</td><td>-6.6</td><td>-6.5</td><td>-6.5*</td></tr>
<tr><td>Moldova</td><td>-4.8</td><td>-6.2</td><td>-7.3</td><td>-7.2</td><td>-7.3</td><td>-7.2</td><td>-7.1*</td><td>-7.1*</td></tr>
<tr><td>Ukraine</td><td>-9.2</td><td>-4.1</td><td>-2.8</td><td>-2.3</td><td>-2.7</td><td>-3.0</td><td>-3.2</td><td>-3.5</td></tr>
</table>
*The instrument of MFA is by nature a short-term crisis related instrument spanning over 2 to 3 years maximum. This means that it is not possible to quantify its specific objectives in terms of indicators/milestones beyond the horizon of the MFA operations themselves or, at most, of the beneficiary countries' programmes agreed (or to be agreed) with the IMF. Therefore, for years going beyond the MFA operation or the IMF projections, the figures reflect the latest figure available, and are marked with an asterisk.
</td></tr>
<tr><td rowspan="2">Most relevant KPI 5 related to internal control:
AS 2 To promote and maintain sound and efficient management of financial resources within the DG

Result indicator:
Number of financial exceptions and non-compliance events.</td><td rowspan="2">☹</td><td colspan="3">Keep stable/reduce the number of financial exceptions; 100% of decisions to override negative opinions on transactions are properly registered each year</td></tr>
<tr><td colspan="2">2012: 7 exceptions & 3 non-compliance events
2013: 3 exceptions & 3 non-compliance events
2014: 4 exceptions & 10 non-compliance events</td><td>The number of financial exceptions in 2014 is 4. In addition 10 non-compliance events were reported. 100% of them have been registered.</td></tr>
</table>

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

The mission of DG ECFIN is to contribute to raising the economic welfare of citizens in the EU and beyond, notably by developing and promoting policies that ensure sustainable economic growth, a high level of employment, stable public finances and financial stability. We have been at the forefront of efforts to support the incipient recovery and in tackling the crisis, both in terms of designing policy responses and in negotiation of policy responses at EU and international level.

In 2014 we continued working to ensure full and proper use of the strengthened framework and towards completing the architecture of the **Economic and Monetary Union**, as set out in the Commission Communication "A blueprint for a deep and genuine Economic and Monetary Union", from November 2012. One important part of this work was the review of the economic governance framework which the Commission published in November 2014. It takes stock of the application of the new instruments since they came into force, for instance as regards the effectiveness of the six pack and two pack regulations and the macroeconomic imbalances framework, and to what extent they had contributed to progress in fiscal consolidation and closer coordination of economic policies and sustained economic convergence. The review also identifies possible areas for improvement, relating mainly to the complexity of the system and issues of transparency and implementation. It further points to the need for an increased ownership of the necessary reforms by the Member States and highlights the need for closer involvement of national Parliaments and stakeholders to bolster legitimacy and accountability. First steps in mitigating identified weaknesses have already been taken in the strengthened and streamlined 2015 European Semester. Further steps might follow with the four presidents' report on Deepening EMU which will be written for the June 2015 European Council. Due to the limited timespan since the entry into force of these regulations, the review could only provide first evidence of their impact during a period of economic recession. Furthermore, the Commission had established an Expert Group in 2013 to deepen the analysis on the possible merits, risks, requirements and obstacles of partial substitution of national issuance of debt through joint issuance in the form of a redemption fund and eurobills. The findings of this expert group were published in March 2014.

Reinforcing the **financing of the economy** is one of the main pillars of the "Compact for Growth and Jobs" agreed in June 2012. Following the Project Bond Initiative (PBI) launched in November 2012 and the EUR 180 billion additional investment by the EIB, DG ECFIN in 2014 worked towards reaching an Interinstitutional agreement paving the way for a capital increase of the European Investment Fund (EIF). The EIF's financing capacity was increased by 50%, from EUR 3bn to EUR 4.5bn, to sustain growth in the EIF's activity in support of SMEs. We worked closely with both the EIF and the EIB to implement these capital increases. Indications are the PBI is particularly useful for non-investment grade projects. The PBI thus served as one source of inspiration for defining innovative ways to support investment and helped indicate potential for innovative deployment of financial instruments with the new MFF.

In order to improve the overall investment environment, the new Commission presented its **investment plan** in November 2014. The plan took inspiration from the Project Bond Initiative and aims at mobilising €315 billion in additional public and private investment without creating new debt. The rationale behind this initiative is that it should back projects that are of greater strategic interest to Europe by absorbing investment risks that the private sector may be reluctant to take at the current economic juncture. We have been key in developing the proposals linked to the plan, not least the creation of a new European Fund for Strategic Investment (EFSI), which will be established in close partnership with the EIB. In January 2015 the Commission adopted the legislative proposal for the EFSI.

The **European Semester** remains the key vehicle for integrated economic surveillance of EU Member States across policy areas. Through providing economic analysis and the formulation of policy guidance DG ECFIN played a major role in preparing and implementing the fourth European Semester in 2014. The European Semester combines the different instruments for fiscal policy and macro-structural policies in an overarching framework for integrated multilateral economic and budgetary surveillance. Political debates and continuous monitoring throughout the year have increased political pressure for implementation of recommendations that have been agreed by Heads of State and Government. DG ECFIN has contributed with major analytical work in country analyses providing a solid analytical basis for defining major macro-economic policy challenges and inspiring actions for individual Member States and the euro area as a whole. When assessing the achievements of the Europe 2020 strategy, it is important to bear in mind the severe economic crisis Europe has faced, which had hindered progress towards the goals of the strategy. The targets have been a catalyst for action, helping to identify areas for reform and to achieve focus at national and EU level in underpinning economic recovery in Europe. The overarching framework for a range of policies at EU and national level offered by the strategy has also served as a guide for the design and programming of the European Structural and Investment Funds for 2014-2020.

As regards progress, in 2014 the Commission decided to kick-start the work of assessing the Europe 2020 strategy for growth and jobs. A first important step of providing evidence of progress was taken with the Communication "Taking stock of the Europe 2020 strategy for smart, sustainable and inclusive growth", adopted on 5 March 2014, with DG ECFIN having played an important role in preparing it. The Communication found that progress towards EU 2020 targets had been uneven, while the level of ambition and commitment had varied across Member States. While the EU was on course to meet or closely approach the targets on education, climate and energy, the same could not be said regarding employment, research and development, and poverty reduction targets. The crisis had had a positive side effect on the reduction of greenhouse gas emissions, while it had not negatively affected renewable investments, mostly due to the support schemes. By contrast, the crisis had had a clear negative impact particularly on employment and poverty. It had also exacerbated the differences in performance between Member States in several areas, such as employment and R&D[5]. Most of the initiatives on the EU 2020 flagships have been presented by the Commission and many have been adopted. The flagship initiatives had contributed to mutual learning at EU level, some had inspired policy actions in Member

[5] Research and Development (R&D)

States, and at times they have served as a guide for the use of EU funding. However, they may have lacked focus and work rather as long-term frameworks than being operational programmes.

As regards the main pillars for the European Semester, ensuring the **sustainability of public finances** is a prerequisite for enduring economic growth and job creation. In the context of the fourth European Semester the Commission assessed Member States' Stability and Convergence Programmes against the requirements of the SGP and issued budgetary recommendations. In November 2014 ECFIN published the Commission's first assessment of the 2015 Draft Budgetary Plans (DBPs) by the sixteen euro area Member States not under a macroeconomic adjustment programme. In this light, actual and foreseen progress in the result indicator for KPI 1 (number of Member States in excessive deficit) appears to fall behind the schedule foreseen in the 2014 Management Plan.

A major weakness of the pre-crisis surveillance arrangements was the lack of systematic surveillance of **macroeconomic imbalances** and competitiveness developments. Under the preventive arm of the Macroeconomic imbalances Procedure (MIP), we carried out in-depth reviews of 17 Member States, published in March 2014. In November 2014, 16 Member States were defined that may be affected by imbalances in need of policy action and for which further in-depth reviews should be undertaken in 2015. Overall, the increase in the number of countries considered to have an imbalance (the result indicator for KPI 3 on enhanced integrated surveillance) amounts to a shift away from the ultimate target of having no Member States deemed in macro-economic imbalance. This testifies to the slow pace at which imbalances tend to unwind, but should also be seen against the backdrop of an improved cyclical outlook and indicated reduction of stress in financial markets.

In 2014 DG ECFIN continued to closely monitor the policies of countries under adjustment programmes. The **economic adjustment programmes** are aimed at ensuring a return to financial stability, fiscal sustainability and sound macro-economic growth, and thereby also preserving the financial stability in the Union and the euro area. We contributed to positive outcomes through regular programme reviews and monitoring. Ireland had exited its macroeconomic adjustment programme in December 2013, Spain exited its sector-specific assistance in January 2014, and Portugal exited its adjustment programme in May 2014. This demonstrates that well-targeted assistance programmes can help countries successfully return to the markets and sustain their financial needs. All these three Member States entered Post Programme Surveillance (PPS) after exiting their programmes. This leaves three countries to remain under programmes: Romania in a precautionary BoP programme, and Greece and Cyprus under macro-economic assistance programmes.

The Commission has taken decisive steps in the area of financial regulation and supervision. We have contributed to the work related to **Banking Union** by e.g. providing technical and policy advice to other internal services and providing technical assistance in political negotiations with Member States. In particular, we contributed to the work establishing a Single Resolution Mechanism and establishing an Agreement on the Transfer and Mutualisation of Contributions to the Single Resolution Fund. Furthermore, we have been involved in translating into concrete action the June 2013 European Council's decision regarding the direct recapitalisation of banks through the

ESM. DG ECFIN continues to provide support to work on the Banking Union. As a signal of progress in reducing financial market stress, The Euribor-OIS spread, the result indicator for KPI 3 on macro-financial stability, receded to within the targeted band in the course of 2014.

DG ECFIN also remains an important player in preparing the EU position and contributing to its coordination in international economic and financial institutions and fora, and in delivering support to countries outside the Union, notably in the form of Macro-financial assistance (MFA). In 2014, the number of MFA operations increased, with MFA to Ukraine in particular implying an important EU involvement. The first result indicator for KPI 4, the current account balance of countries benefitting from MFA, shows mixed results in 2014, compared to 2013. With current account balances largely outside the direct control of policy makers, this underlines the importance of pursuing strong stabilisation and reform policies in the countries concerned, to which EU assistance is geared.

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

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

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 Director-General 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.

DG ECFIN has assessed the effectiveness of its key internal control systems during the reporting year and has concluded that the internal control standards are effectively implemented. Continuous efforts will be made to further improve the effectiveness of the implementation of the prioritised internal control standards (ICS) 8 on Processes and Procedures, ICS 11 on Document Management and ICS 12 on Information and Communication in the course of 2015. Furthermore, DG ECFIN has taken measures to further improve the efficiency of its internal control systems in the area of Risk Management, as reported in Part 3. The management revision of the KPI 5 related to the internal control resulted in a change of that result indicator in the 2015 MP to focus on the avoidance related to the financial exceptions with respect to procurement procedures and grant procedures.

In addition, DG ECFIN has systematically examined the available control results and indicators, including those aimed to supervise entities to which it has entrusted budget implementation tasks, as well as the observations and recommendations issued by auditors. These elements have been assessed to determine their impact on the management's assurance as regards the achievement of control objectives, see Part 2 for details.

DG ECFIN considers that the level of effectiveness, efficiency and cost-effectiveness of the controls operated in direct management is adequate and complete as regards the coverage of budget related to direct management[6]. DG ECFIN will monitor efficiency (and cost-effectiveness) over time and with comparable DG's to better benchmark this process in respect to direct management. DG ECFIN further considers that overall controls related to indirect (entrusted) management (Financial instruments managed via international financial institutions and Guarantee Fund for external actions) are efficient and cost-effective. No material control weaknesses affecting their assurance building in the context of internal control objectives were noted in both management modes. Due to the unavailability of the quantitative estimation of the volumes of errors prevented and detected, no cost-effectiveness of controls compared with the benefits was determined.

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

Information to the Commissioner

The main elements of this report and assurance declaration have been brought to the attention of Commissioner Moscovici, responsible for Economic and Financial Affairs, Taxation and Customs.

6 For the purpose of the internal control assessment, the increase of the European Investment Fund (EIF) has been reclassified as indirect management.

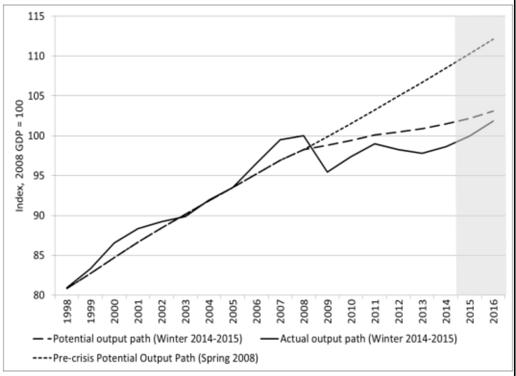
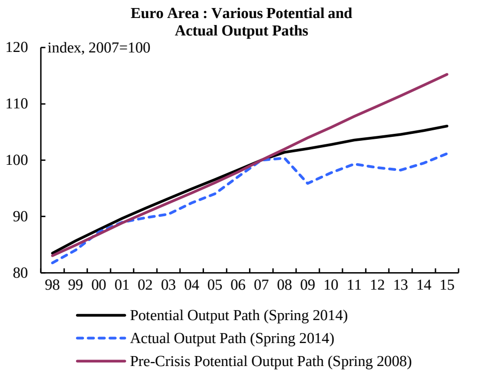
1. POLICY ACHIEVEMENTS

1.1 Achievement of general and specific objectives

1.1.1 General objectives with a multi-annual perspective : To foster EU growth, employment creation and sustainable development

a) Performance table

General objective: To foster EU growth, employment creation and sustainable development	☒ Non-spending	
Impact indicator Degree to which Member states record budgetary outturns in line with the Stability and Growth Pact (Source: European Commission Winter Forecast 2015)		
<u>Baseline</u>	<u>Current Situation</u>	<u>Target</u>
The aggregated budgetary position of the 28 EU Member States (MS) in 2013 is the following according to Commission Autumn Forecasts: • headline deficit of 3.5% of GDP • structural deficit, i.e. cyclically-adjusted primary deficit net of one-offs and temporary measures, of 2% of GDP. In 2013, the headline government balance improved by around ½ pp. of GDP compared to 2012, after a similar improvement in 2012 compared with 2010. For 2014, a further improvement of the headline balance by around 3/4% of GDP is forecast. The structural balance	Overall, there has been progress in addressing fiscal consolidation, with the EU-28 average fiscal deficit falling from 4.5% of GDP in 2011 to around 3% of GDP in 2014. Under the corrective arm of the Stability and Growth Pact (SGP), the sustainable correction of excessive deficits has been impressive since the six-pack entered into force in December 2011. At that time, 23 out of 27 MS were subject to an EDP. By end-August 2014, this number fell to 11 out of 28. The performance under the reformed preventive arm can so far be considered as encouraging. Eight MS had already reached their MTO in 2013. Among the countries not yet at their MTO in 2013, 6 MS plan to have reached it by 2017. A significant deviation has not been detected so far.	The preventive arm of the SGP is oriented towards attainment by MS of their medium-term objectives of budgetary positions close to balance or in surplus, which should allow them to deal with normal cyclical fluctuations while keeping the government deficit below the reference value of 3% of GDP. However, in the current special circumstances with a number of MS in EDP (the corrective arm of the SGP) due to deficits and debt significantly above the Treaty reference value, an important intermediate target is to correct the excessive deficit and to put debt ratios on a sufficiently declining path.

<table>
<tr><td>is also expected to improve by ¼ pp. of GDP in 2014.</td><td></td><td></td></tr>
<tr><td colspan="3">Impact indicator: Potential growth/output</td></tr>
<tr><td>Baseline</td><td>Current Situation</td><td>Target</td></tr>
<tr><td>The EU economy is lacking traction and the recovery is not materialising as expected. Real GDP growth stabilised in the second quarter of 2014 (q-o-q) in the euro area and expanded by a moderate 0.2% in the EU. The recovery has not been as broad-based as expected with the large MS registering divergent developments. The hesitant and feeble growth trajectory in the EU seems to be linked to weak domestic demand characterised by the disappointing performance of investment.
Though employment recently picked up somewhat, unemployment is still very high. Economic growth also continues to be dampened by high private and public debt, financial fragmentation and uncertainty, and it will take some more time before real GDP is back to its pre-crisis level of 2008.
Survey indicators suggest the continuation of a subdued recovery supported by improvements in</td><td>Estimates based on the Commission's Winter 2015 forecast show EU potential growth recovering to 1% in 2015 and 1¼ % in 2016.
Euro area: Various potential and actual output paths

</td><td>Increase in potential output growth.
Prevent recurrence of the negative potential growth trend by promoting the implementation of growth-enhancing measures.


Source: Spring 2014 European Economic Forecast, published on 5th May 2014.</td></tr>
</table>

the external environment, a lower external value of the euro, and a more favourable policy mix than envisaged earlier in the year Estimates based on the Commission's spring 2014 forecast show EU potential growth recovering to around 1% by 2014 and 2015.		

Impact indicator: Degree to which Member states record budgetary outturns in line with the Stability and Growth Pact

b) Narrative

The aggregated budgetary position of the 28 EU MS in 2014 is the following according to Commission Autumn Forecasts:

- a headline deficit of 3.0% of GDP
- a structural deficit, i.e. cyclically-adjusted primary deficit net of one-offs and temporary measures, of 1,8% of GDP.

In 2014, the headline government balance improved by around 1/10 pp. of GDP compared to 2013. For 2015, a further improvement of the headline balance by around 1/4% of GDP is forecast. The structural balance is also expected to see a slight improvement by 0.03 pp. of GDP in 2015.

In 2014 the Commission finalised the technical notes allowing to apply the effective action methodology. After in-depth discussions with MS, an agreement was reached in the EFC in June 2014.

The Commission also started working on the implementation of the reinforced preventive arm of the pact, with a note on the Significant Deviation Procedure discussed in April with MS.

In this context an approach was agreed with MS to improve transparency in the Commission's application of the surveillance framework. All relevant data are now communicated to MS via a dedicated CIRCA website.

In the context of the 2014 European Semester the Commission assessed the Stability and Convergence Programmes for the individual MS (except for programme countries) and made an overall assessment of the fiscal plans included therein highlighting the implications for the EU and the euro area as a whole.

In October 2014 the second round of Draft Budgetary Plans was submitted to the Commission on the basis of the two-pack legislation by the euro area MS. The

Commission analysed the documents, and issued respective opinions in which it assessed, *inter alia*, whether the Plans comply with the requirements of the Stability and Growth Pact.

c) Risk assessment

Through the above actions DG ECFIN has implemented the necessary guidance and follows up of risks in order to foster compliance with the Stability and Growth Pact.

d) Conclusion

As evidenced above, the part (To foster EU growth, employment creation and sustainable development) of the policy managed by the DG is on course to meet its multiannual objectives for this objective and has achieved the annual performance indicators or outputs and milestones in the reporting year.

Impact indicator: Potential growth/output

b) Narrative

In early 2015, the EU economy is entering its third year of recovery, but economic growth remains stuck in low gear and output has yet to reach pre-crisis levels. Momentum is weak partly because recoveries from deep economic and financial crises normally are, but also because of factors specific to the EU, some of which were already evident before the crisis, including structural weaknesses that have not yet been fully addressed by structural reforms.

In 2014, GDP growth in the EU is expected to have reached 1.3%, and the output gap is expected to have narrowed by 0.5pp to -2.4%

The winter 2015 forecast projects that the sharp fall in oil price should provide a lift to economic growth in the EU. However, with interest rates close to zero, lower inflation increases real interest rates and this is expected to reduce the positive oil-price effects. The output gap is expected to narrow further to -1.8% this year.

c) Risk assessment

Uncertainty surrounding the growth outlook remains large. Downside risks have intensified, while some upside risks have recently emerged. We have implemented the necessary corrective actions to mitigate identified risks and how this is influencing progress in the implementation of the programme toward achieving its objectives.

d) Conclusion

As evidenced above, the part (To foster EU growth, employment creation and sustainable development) of the policy managed by the DG is on course to meet its multiannual objectives for this objective and has achieved the annual performance indicators or outputs and milestones in the reporting year.

1.1.2 General objectives with a multi-annual perspective: To promote prosperity beyond the EU

a) Performance table

General objective: To promote prosperity beyond the EU		☒ Non-spending
Impact indicator: Progress with enlargement countries' compliance with the economic Copenhagen criteria (Source: Commission's annual progress reports)		
Baseline	Current Situation	Target
2014		2020
Turkey meets one of the two criteria (functioning market economy). None of the Western Balkan enlargement countries meet economic accession criteria.	In 2014, DG ECFIN contributed to shaping EU enlargement policies by strengthening economic surveillance through the adoption of more targeted policy guidance to be reviewed in 2015	Progress in terms of compliance with EU economic accession criteria and preparation of future participation in EMU
New Result indicator	**Progress in candidate countries' accession negotiations, in particular on EMU as measured by provisional closure of EMU chapter**	
Baseline	Current Situation	Target Progress depends on the enlargement countries' pace of reform and alignment with necessary EU requirements. Specific targets are thus not appropriate and applicable.
2014	In 2014, DG ECFIN contributed to shaping EU enlargement policies on candidate and pre-candidate countries also through its active involvement in the screening of the negotiation chapter on economic and monetary policy (Serbia, Montenegro) as well as through active participation in the negotiation process of chapters with important economic dimensions (in the case of Montenegro). In the case of Montenegro, on 16 December 2014, four additional negotiation chapters were formally opened by the European Council. So far, 16 out of 35 negotiating chapters have been opened, of which, two are temporarily closed. The Commission submitted the screening report on the economic and monetary chapter to the Council on 7 March 2014. The Council decided to make the opening of the chapter conditional on Montenegro meeting two opening benchmarks. In the case of Serbia, no chapters were opened or closed in 2014. An explanatory screening meeting on the chapter of economic and monetary policy was held in December 2014.	Negotiation Chapter on economic and monetary policy provisionally closed
Impact indicator **Countries benefiting from macro-financial assistance achieve a sustainable macro-economic situation**		

Baseline	Current Situation	Target
2014	The economic stabilisation and external and internal sustainability in a number of countries in the European Union's neighbourhood remains challenging. For the Union's Mediterranean neighbours, this is compounded by specific regional challenges. Some of these countries have requested EU financial support and other may require it in the near future. The Commission has started the implementation of a macro-financial assistance to Jordan and Tunisia. More such operations could be launched in the near future, including for Egypt. In the Union's Eastern neighbourhood, new MFA operations of an unprecedented size were launched for Ukraine and the implementation of these and possible additional ones will remain a top priority. The implementation in 2014 of the MFA operations for Georgia and Kyrgyz Republic has been somewhat delayed and will lead to disbursements in 2015. Other countries with a vulnerable balance of payments position and financing arrangements with the IMF may follow in 2015.	Benefiting countries have seen an increase in their official exchange reserves

b) Narrative

In order to support the enlargement process, we pursued and continued to sharpen economic and fiscal surveillance of enlargement countries. This included, inter alia, the preparation of analytical assessments of the countries' medium-term economic and fiscal programmes with stronger emphasis on external vulnerabilities and structural obstacles to growth. For the first time, this process led to more targeted policy guidance. In the case of candidate countries, these were adopted by the Joint ECOFIN Council. We contributed to the 2014 enlargement package by assessments of countries' progress in complying with the Copenhagen economic accession criteria. Our surveillance of candidate countries also included monitoring of economic developments and fully-fledged candidate countries' forecasts (winter, spring and autumn) as well as providing economic analysis of – and policy advice to the enlargement countries, also in the context of regular economic dialogues which were held with all countries.

In 2014 macro-financial assistance has remained an important activity: for details see the related indicator above.

c) Risk assessment

We have implemented the necessary corrective actions to mitigate identified risks and how this is influencing progress in the implementation of the programme toward achieving its objectives.

d) Conclusion

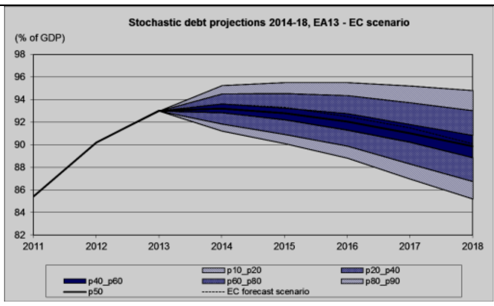
As regards EU enlargement, while EU enlargement countries have made gradual progress in meeting EU economic accession criteria over the last years, none of them is expected to fully meet the requirements in the short-term. An enhanced economic surveillance and governance was implemented in 2014 and should guide enlargement countries towards improving economic policy making, allowing for gradual progress towards the final objectives.

With respect to countries benefiting from macro-financial assistance, some of them are progressing with macroeconomic stabilisation and with bringing their external financial situation on a sustainable path over the medium-to longer term, whereas others require further efforts to be made.

1.1.3 ABB activity Economic and Monetary Union: EMU.1: "Economic Governance"

a) Performance table

<table>
<tr><td colspan="3">Specific objective EMU.1: "Economic Governance": To strengthen the institutional architecture of Economic and Monetary Union and the coordination of economic and budgetary policies for the EU as a whole and for the euro area in particular thereby supporting the achievement of the European Union's objectives for sustainable growth, employment, competitiveness and social cohesion.

Relevant general objective To foster EU growth, employment creation and sustainable development</td><td>☒ Non-spending</td></tr>
<tr><td colspan="4"><u>Result indicator 1</u>: Level of general government sector debt Source: Eurostat, DG ECFIN</td></tr>
<tr><td rowspan="2"><u>Baseline</u></td><td colspan="2"><u>Milestones / Current situation</u></td><td rowspan="2"><u>Target </u>2014</td></tr>
<tr><td>(2013)</td><td>Current Situation</td></tr>
<tr><td>12 Member States (MS) were under the 60% debt level of GDP at end-2013</td><td>

Source: COM(2013) 900 final, Annex</td><td>Among the MS currently subject to the debt rule, 4 are compliant with debt reduction benchmark (DE, MT, NL and AT – the latter two being in the transition period), while for 2 other countries (BE and IT) the analysis including relevant factors is still underway. Finally, in the case of FI, the analysis taking into account financial solidarity operations shows that the Treaty's threshold (6% of GDP) is respected, too.</td><td>All MS reach the level of 60 % debt or are compliant with the debt reduction benchmark</td></tr>
</table>

b) Narrative

The general government debt-to-GDP ratio is expected to have continued increasing in 2014, albeit at a slower pace than in previous years, reaching 88.4% and 94.3% in the EU and the euro area respectively. In the euro area, the combined debt-reducing effects of nominal growth and the primary surplus are projected to be stronger than in previous years. This is because the smaller debt reducing effect stemming from lower inflation has been more than compensated by higher real GDP growth, while also the primary balance improved somewhat compared to 2013. On the other hand, the interest burden on the high debt level keeps the debt ratio on an upward path, even if interest rates are at historically low levels and interest expenditure has come down somewhat compared to previous years.

In 2015, gross debt is forecast to slightly decrease to 88.3% of GDP in the EU, while peaking at 94.4% of GDP in the euro area.

c) Risk assessment

We have implemented the necessary guidance and follow up of risks in order to foster compliance with the surveillance framework, in particular the Stability and Growth Pact.

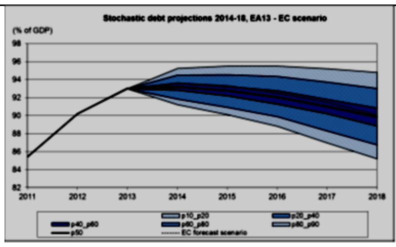
d) Conclusion

As evidenced above, the part (Economic and Monetary Union: EMU 1: "Economic Governance") of the policy managed by the DG is on course to meet its multiannual objectives for this objective and has achieved the annual performance indicators or outputs and milestones in the reporting year.

Result indicator 2: Percentage of Country Specific Recommendations (CSR) which have been partially or completely complied with

a) Performance table

<table>
<tr><td colspan="5">Relevant general objective To foster EU growth, employment creation and sustainable development</td></tr>
<tr><td colspan="4">Specific objective EMU 1: Economic Governance "To strengthen the institutional architecture of EMU and the coordination of economic and budgetary policies for the EU as a whole and for the euro area in particular thereby supporting the achievement of the EU's objectives for sustainable growth, employment, competitiveness and social cohesion"</td><td>☒ Non-spending</td></tr>
<tr><td colspan="5">Result indicator 2: Percentage of Country Specific Recommendations (CSR) which have been partially or completely complied with
Source: synthetic indicator of EU-wide implementation of these recommendations: ECFIN Economic Brief Issue 37, October 2014</td></tr>
<tr><td rowspan="2">Baseline
2013

In 2013 there has been some or full progress on 66% of the CSRs
In 2014 there was some or full progress on less than 50% of the 2013 CSRs.</td><td colspan="2">Milestone</td><td>Current Situation</td><td rowspan="2">Target
To achieve partial or complete implementation by 2020</td></tr>
<tr><td>2014</td><td>

Source: COM(2013) 900 final, Annex 1, p.4.</td><td>To be completed in line with finding of 27 February 2015 package</td></tr>
<tr><td colspan="5">Main outputs in 2014</td></tr>
</table>

Description	Indicator	Current situation	target
Review of the application of the MIP regulation (Article 16) and production of a MIP operational manual	Input to the report for the review of the MIP regulation taking in place in December 2014. The MIP review was included in the Six Pack review published in November. The drafting of the MIP compendium is an ongoing activity	Input to the report for the review of the MIP regulation taking place in December 2014 Action ongoing	Changed from December 2014 to 2015
Ex ante coordination of structural reforms	EAC and indicators for the strengthened economic policy coordination. Finalisation of the pilot exercise in the EPC and further work in some policy areas depending on the mandate of the European Council	Action completed EAC and indicators for the strengthened economic policy coordination. Finalisation of the pilot exercise in the EPC ad further work in some policy areas depending on the mandate of the European Council	March 2014
The Commission will further develop the modalities and scope for increased ex ante coordination of plans for major economic policy reforms and installation of contractual arrangements and associated solidarity mechanisms.	Adoption or delivery	Adoption or delivery. President Juncker has labelled further deepening EMU as one of the priority areas. Preparation has started for a four presidents' report to be presented to the June 2015 European Council. A review of economic governance was published on 28 November 2014.	New College to decide
Formal assessment on the transposition of the Council Directive 2011/85/EU on requirements for budgetary frameworks.	Internal assessments prepared for all 28 MS	Internal assessments prepared for all 28 MS	December 2014 (except for MS failing to notify in due time their implementing measures and for some statistical requirements to be implemented by the end of 2014)
Reporting on the transposition of the Fiscal Compact part of the intergovernmental Treaty on Stability, Coordination and Governance in the EMU	Report prepared on the transposition by the Contracting Parties bound by the Fiscal Compact	Report prepared on the transposition by the Contracting Parties bound by the Fiscal Compact	December 2014
Review of the 6 pack / 2 pack	NA	Published on 28 November 2014	14 December 2014
Review of the effective action methodology used to assess compliance within the framework of the EDP	Note to EFC/Council	Note to EFC/ Council	June 2014

Horizontal Assessment of Stability and Convergence Programmes	Note to EFC/Council	Note to EFC/ Council	Spring Council (July 2014)
Methodological developments of the preventive arm of the SGP	Note to EFC	Note to EFC	August 2014
Communication on 2015 Draft Budgetary Plans of the EA: overall assessment	Note to EWG/EG	Note to EWG/ EG	Autumn meeting (November 2014
Assessment of fiscal sustainability and government debt projections over the medium/long-term as part of the European semester surveillance	Incorporation in the SWDs assessing the SCPs	Incorporation in the SWDs assessing the SCPs	May 2014
Databases: Fiscal Governance	Publication of updated results	Publication of updated results	December 2014
Ex ante coordination of structural reforms	EAC and indicators for the strengthened economic policy coordination. Finalisation of the pilot exercise in the EPC and further work in some policy areas depending on the mandate of the European Council		March 2014

b) Narrative

In several respects, progress has been made with the macro-economic and budgetary surveillance under the European Semester:

1/ Review of the application of the Macro Imbalances Procedure (MIP) regulation (Article 16): This review aims at assessing the suitableness of the application of the MIP. This has been delayed because of the new Commission

2/ production of a MIP operational manual: The operational manual (compendium) aims at providing an understanding as comprehensive as possible of the MIP procedure (i.e. assessment and steps). This has been delayed so far given the vastness of the task and because of the need for further work.

3/Ex ante coordination (EAC) of structural reforms: The pilot exercise was conducted in the EPC as an attempt to review across peers the significant reforms that MS have planned to undertake. The results of the EAC pilot were discussed by Ministers, focusing on the lessons for the usefulness and value-added of EAC.

c) Risk assessment

We have implemented the necessary corrective actions to mitigate risks as identified in the 2014 Annual Management Plan.

d) Conclusion

As evidenced above, the part (*Economic and Monetary Union: EMU.1: "Economic Governance"*) of the policy managed by our Directorate is on course to meet its multiannual objectives for this objective and has achieved the annual performance indicators or outputs and milestones in the reporting year.

1.1.4 ABB activity Economic and Monetary Union: EMU.2: "Enhanced Integrated Surveillance"

Result indicator 1: Number of Member States in Excessive Deficit Procedure (EDP)

a) Performance table

<table>
<tr><td colspan="4">Relevant general objective To foster EU growth, employment creation and sustainable development</td></tr>
<tr><td colspan="3">Specific objective EMU 2: "Enhanced Integrated Surveillance": To promote the pursuit by Member States of sound macro-economic policies to ensure balanced and sustainable growth and to improve sustainability and quality of public finances, within the context of the EU 2020 strategy and the European Semester.</td><td>☒ Non-spending</td></tr>
<tr><td colspan="4">Result indicator 1: Number of Member States in Excessive Deficit Procedure (EDP)
Definition: For Member States in the 'corrective arm' of the SGP, the Excessive Deficit Procedure (EDP) ensures a timely and durable correction of excessive general government deficits or debt levels. The EU Treaty defines an excessive deficit as a deficit greater than 3% of GDP. Public debt is considered excessive under the Treaty if it exceeds 60 % of GDP, or when being above 60% it does not diminishing at an adequate rate. Countries that fail to respect the SGP's preventive or corrective rules may ultimately face sanctions.
Source: Council decisions/recommendations regarding Excessive Deficit Procedures (EDPs), Eurostat EDP notifications and DG ECFIN forecast and calculations regarding EDP compliance</td></tr>
<tr><td>Baseline
2014)</td><td>Milestone/Trends towards targets</td><td>Current situation</td><td>Target
2014, 2015, 2016</td></tr>
<tr><td>11 out of 28 MS were in EDP (39%) at the end of 2014</td><td>Milestone 2014: 1 MS should exit the EDP in the course of 2015 if the conditions are fulfilled based on notified data for 2014;
Milestone 2015: 6 MS should exit the EDP in the course of 2016 if the conditions are fulfilled based on notified data for 2015
Milestone 2016: 4 MS should exit the EDP in the course of 2017 if the conditions are fulfilled based on notified data for 2016</td><td>11 MS are in EDP</td><td>A timely correction of the excessive deficit for all Member States currently according to the deadlines recommended by the Council:
MT by 2014, UK by fiscal year 2014-15; IE, FR, SI, PT, PL by 2015; EL, CY, ES and HR by 2016,
Compliance with the required adjustment towards the MTO by all Member States under the preventive arm.
The general government debt level should remain below 60% of GDP or, in case the debt level is above 60% of GDP, it should be reduced to 60% in compliance with the debt rule.</td></tr>
<tr><td colspan="4">Main outputs in 2014</td></tr>
<tr><td>Description</td><td>Indicator</td><td>Current situation</td><td>Target</td></tr>
<tr><td>Implications of the Commission economic forecast for fiscal surveillance</td><td>Note to EFC</td><td>Action completed; notes were produced in Q1 2014,
Q2 2014 and
Q4 2014</td><td>Q1 2014,
Q2 2014 and
Q4 2014</td></tr>
<tr><td>Legal acts (and supporting SWD) in the context of budgetary surveillance</td><td>Possible procedural steps under the SGP (both under the EDP and the preventive arm)</td><td>On continuous basis and in practice following Commission forecast :</td><td>On continuous basis</td></tr>
</table>

		Q1 2014 (ACR for 2 MS); Q2 2014 (abrogation of EDP for 6 MS; Report under art. 126.3 for 1 MS; assessment of action taken for 2 MS)	
Communication + Commission opinions on 16 non programme EA MS	Assessment of draft budgetary plans in the euro area	Action completed in Q4 2014	Q4 2014
Commission recommendations on Country Specific Recommendations including draft Assessment of Stability and Convergence Programmes and corresponding Staff Working Documents	Recommendations for Council Recommendations and accompanying SWD	Action completed Q2 2014; provision of recommendations to all 28 Member States	Spring council (July 2014)

b) Narrative

Excessive deficit and debt levels for MS are to be avoided because of their negative macroeconomic consequences, their possible negative spill-overs and their potential to create economic and financial instability. Therefore, in the 'corrective arm' of the SGP, the Excessive Deficit Procedure (EDP) ensures a timely and durable correction of excessive general government deficits or debt levels. Countries that fail to respect the SGP's preventive or corrective rules may ultimately face sanctions. The preventive arm is aimed at ensuring prudent fiscal policies and thereby avoiding the occurrence of an excessive deficit or debt level.

c) Risk assessment

We have implemented the necessary corrective actions to mitigate identified risks and how this is influencing progress in the implementation of the programme toward achieving its objectives. Further monitoring remains needed and may result in further steps under the Stability and Growth Pact.

d) Conclusion

As evidenced above, the part ("Enhanced integrated Surveillance") of the policy managed by the DG is on course to meet its multiannual objectives for this objective and has achieved the annual performance indicators or outputs and milestones in the reporting year.

Result indicator 2: Number of Member States considered having an imbalance under the preventive arm of the Macro-economic Imbalances procedure (MIP).

a) Performance table

Relevant general objective: To foster EU growth, employment creation and sustainable development	
Specific objective (EMU2): Enhanced Integrated Surveillance "To promote the pursuit by Member States of sound macro-economic policies to ensure balanced and sustainable growth and to improve sustainability and quality of public finances, within the context of the EU 2020 strategy and the European Semester."	☒ Non-spending

Result indicator 2: **Number of Member States considered having an imbalance under the preventive arm of the Macro-economic Imbalances procedure (MIP).** **Source:** http://ec.europa.eu/economy_finance/economic_governance/documents/2014-03-05_in-depth_reviews_communication_en.pdf and the new Communication from the Commission about the Results of in-depth reviews under Regulation (EU) No 1176/2011 on the prevention and correction of macroeconomic imbalances , published on 27 February 2015				
Baseline 2013	Milestone		Current Situation	Target
11 MS in the preventive arm of the MIP at 28.11.2012	2014	Publication of 17 IDRs in Spring 2014	12 MS	0 MS when all countries in the EU are at internal and external balance

Main outputs in 2014			
Description	Indicator	Current situation	target
EPC/LIME/CCWG contributions: housing monitor and incentives, thematic reviews, Ex ante coordination, non-price competitiveness (quality of exports), bankruptcy legislation, MIP scoreboard revision, labour market monitor , analysis of social outcomes, CA and financial integration financial and external sustainability, Households balance sheet analysis; impact of product market reforms; mark-ups in services; thematic review on services; energy, infrastructures investment, network industries and tariff deficit	Number of meetings: (11+6+4)	Action completed	End 2014
Fiches/notes for desks in the context of the EU Semester: pre-insolvency; red tape and business dynamics; economic impact of regulated professions liberalization; horizontal note on services; energy dependency; networks	New Number of fiches/notes	Action completed	End 2014
In Depth Reviews	Completion of 17 IDRs	Action completed	2014
2 Databases: MIP support page and scoreboard	Number of databases updates: 2	A web page has been set up for the DG's internal use to support the MIP assessment. This page contains a wide variety of data, note and graphs which are updated on a regular basis during the MIP cycle	Q4 2014
Refinement of the computation of the cyclically-adjusted balance (CAB)	Note to EPC and OGWG	Action completed	Q4 2014

Database on discretionary tax measures (DTM)	Internal notes and update of database, notes to EPC working group (OGWG)	Annual reporting exercise 2014 completed	Q3 2014

b) Narrative

EPC/LIME/CCWG contributions: All over the year, the unit feed the LIME WG discussion with notes. Some of them are also presented at the EPC. These notes cover a wide range of topics as housing monitor and incentives, bankruptcy legislation, MIP scoreboard revision, CA and financial integration financial and external sustainability, Households balance sheet analysis

Fiches/notes for desks in the context of the EU Semester are new outputs, not planned for in the Annual management plan 2014. They correspond to ad-hoc, unforeseen requests (e.g. on investment in R&D, on trade spillovers). A few others were produced for specific used of desks distilling other pieces of analytical work (e.g. impact of regulated professions liberalization).

In Depth Reviews: the unit is involved in the production of the IDRs by commenting on the drafts and providing analytical tools, data and charts that are used for this purpose.

Refinement of the computation of the cyclically-adjusted balance (CAB): In 2014, the revision of revenue and expenditure elasticities, commissioned by the Commission and supervised by the OGWG, was finalised. The endorsement of the elasticities by the EPC in September 2014 closed the two-step revision process of the CAB.

Database on discretionary tax measures (DTM): In order to foster a common understanding of DTM across Member States, the Commission annually asks OGWG delegates to report DTM. Data collection and sharing is done using a web-based reporting tool. The Commission reports on the results of the database and provides analysis on this basis.

c) Risk assessment

We have implemented the necessary corrective actions to mitigate identified risks as prescribed by the Annual Management Plan 2014.

d) Conclusion

As evidenced above, the part (Economic and Monetary Union EMU2. "Enhanced Integrated Surveillance") of the policy managed by the DG is on course to meet its multiannual objectives for this objective and has achieved the annual performance indicators or outputs and milestones in the reporting year.

1.1.5 ABB activity Economic and Monetary Union: EMU.3: "Macro-financial stability"

a) Performance table

Specific objective: EMU.3: "Macro-financial stability": To promote macro-financial stability and to restore confidence, stability and sustainability in the financial markets by devising and help implementing appropriate policy responses in order to limit the impact of the financial crisis on the real economy of the EU. **Relevant general objective: To foster EU growth, employment creation and sustainable development**		☒ Non-spending	
Result indicator 1 Level of the Euribor-OIS[7]: (Source :(Bloomberg))			
Baseline	Milestones / Current situation		Target
(2013 (or latest available date)[8])			
In late June 2014, the Euribor-OIS spread stood at 16 basis points. For reference, at the peak of the banking crisis (Oct. 2008) the spread was at 196 bps.	Current levels reflect favourable funding market conditions	Current Situation 8 bps	Indicator returning to normal pre-crisis reference values (5 to 9 bps) by 2015
Result indicator 2*: Corporate bond spreads (Source: :(Bloomberg))*			
Baseline	Milestones/ Current situation		Target
2013 (or latest available date)			Indicator remaining at current favourable levels which can be considered as normal pre-crisis references.
In late June 2014, euro area corporate bond spreads reached 30 basis points for AAA–rated	Corporate euro area bond spreads have narrowed significantly over the last several years.	Current situation In February 2015, euro area corporate bond spreads went below 40 basis points for AA–rated companies, reached 60 basis points for A–rated companies, 85 basis points for BBB-rated corporates.	

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[7] It is the difference between the rate at which European banks lend to each other (EURIBOR) and the overnight 'risk free' swap rate (EONIA) among the same banks during a 3 month period. EURIBOR (Euro InterBank Offered Rate) is an average of the rate each bank in the 43-member 'prime bank' panel reports that it would offer to the other banks. EONIA (Euro OverNight Index Average) is the average of swaps conducted between a 22 member panel at what each panel bank believes is the mid-market rate each day.

[8] 2013 for the objectives related to spending programs, but different years may be indicated for reasons related to data availability.

companies, 53 basis points for AA–rated companies, 74 basis points for A – rated firms and 99 basis points for BBB-rated corporates.		

Result indicator 3: Itraxx default risk index : (Source : Bloomberg))			
<u>Baseline</u>	<u>Milestones / Current situation</u>		<u>Target</u>
2013 (or latest available date)	Current levels reflect a return to more normal conditions	Current Situation	Indicator returning to normal pre-crisis reference values (40 and 45 bps respectively) over the next few years.
In late June 2014, the Itraxx default risk index reached 64 basis points for senior financials and 97 basis points for subordinated financials. Both indicators peaked during the highs of the sovereign debt crisis (end-2011) at 341 bps. and 589 bps. resp.		In February 2015, the Itraxx default risk index reached 60 basis points for senior financials and 140 basis points for subordinated financials which is higher than six months ago but remains significantly below the peaks reached during the sovereign debt crisis.	

<u>Main outputs in 2014</u>			
<u>Description</u>	<u>Indicator</u>	<u>Current situation</u>	<u>Target</u>
Macro-financial stability recommendation in the context of Europe 2020. •Ensuring the implementation of goals set under Europe 2020 in order to restore macro-financial stability, growth and employment. In this context, the recommendations were given to the Member States. •Assessment of macro-financial stability in relation to EIP. •Ensuring enhanced economic, macro-financial and fiscal surveillance of vulnerable EU Member States.	Adoption / delivery	Macro-financial stability has been achieved in 2014 on the back of further recovery in the main financial market segments and relatively low volatility. However, the goals set under Europe 2020 in terms of economic growth and employment is still work in progress.	December 2014

b) Narrative

The recent evolutions of the indicators reflect further mending in the European banking system and improved confidence in the non-financial private sector. This situation is partly due to prudential measures taken in response to the crisis. Instruments to manage euro-area sovereign debt crises are now in place, while regulation and supervision of the financial sector in general – and the banks in particular - has been strengthened. In this respect, the ECB's comprehensive assessment and further progress in the establishment of the banking union has contributed to enhance investor sentiment towards the European banks. In addition, ECB monetary policy and operations have contributed to further narrowing of spreads in the financial and non-financial sectors

c) Risk assessment

While financial-market conditions in the EU have been broadly favourable since mid-2013, there has also been a built-up of risks within the financial system. The buoyancy in financial markets since 2013 backed by investors' search for yield increasingly contrasts with sluggish economic growth. The prime effect of increases in central-bank liquidity has been to inflate asset prices with little pass-through to the real economy for the moment. While our goal is that the real economy adjusts upwards to justify the current asset valuations, there is a risk that the economy remains weak with both financial and non-financial sectors continuing to deleverage. In this case, financial prices may eventually drop with possible further negative consequences on economic growth.

More specific risks revolve around a possible re-emergence of the sovereign debt crisis in the euro area, essentially via a further weakening of the banking sector. Sovereign debt weighs significantly on European banks' balance sheets, which exhibit some bias. At the same time, banks will no longer benefit from the same implicit guarantee provided by their sovereign in a context of increased preference for “bail-in” among governments. This may mean that banks require additional capital buffers.

d) Conclusion

Financial-market indicators continued to be favourable and supportive for the economy. In this respect, the annual performance indicators in the reporting year as well as the multiannual objectives as regards macro-financial stability have been met. However, despite these favourable conditions, the economic growth continued to be sluggish due to more fundamental causes (deleveraging, fiscal adjustments). This discrepancy between buoying financial markets and subdued economic growth constitutes the main risk for financial stability.

1.1.6 ABB activity Economic and Monetary Union: EMU.4: Objective "Euro area enlargement"

a) Performance table

Specific objective EMU.4: Objective "Euro area enlargement": To further prepare the enlargement of the euro area and to support the continuing changeover to the euro at EU level in order to take full advantage of EMU's potential. **Relevant general objective: To foster EU growth, employment creation and sustainable development**		☒ Non-spending
Result indicator 1: Level of support in the euro as reported by Eurobarometer, especially in the changeover countries (Source: Eurobarometer)		
Baseline 2013	Current Situation	Target
In April 2013 (Flash Eurobarometer 377), a majority of respondents in NMS-7 was against the euro introduction in their own country: 45% in favour vs. 51% against. In Latvia, 42% were in favour of euro introduction and 55% were against.	To monitor the support for the introduction of the euro in the more recently acceded EU Member States (NMS7), in April 2014, DG ECFIN carried out the Flash Eurobarometer 400 survey. Its results showed a clear reverse in the opinion in NMS7 towards a more positive attitude concerning the euro: 52% (+7pp compared to 2013) in favour vs. 45% (-6pp) against.	The support for the euro introduction in the changeover country to be higher after the euro introduction than at the beginning of the information campaign.
In April 2013 (Flash Eurobarometer 377), a majority of respondents in Latvia was against the introduction of the euro: 55% against vs. 42% in favour.	To monitor the support for the euro following the changeover, DG ECFIN carried out a Eurobarometer survey in October 2014. The results showed that support for the euro in Latvia was on a positive trend compared to the 2013 baseline. According to the October 2014 Flash Eurobarometer (405), a majority of 55% Latvian citizens agreed that the euro was good for their country vs. 26% who saw this as a bad thing.	The support for the euro introduction in the changeover country Latvia to be higher after the euro introduction than at the beginning of the information campaign.
In April 2013 (Flash Eurobarometer 377), a majority of respondents in Lithuania was against the introduction of the euro: 55% against vs. 41 in favour.	Lithuania was scheduled to introduce the euro on 1 January 2015. During the information campaign in 2014, support for the euro improved compared to the 2013 baseline: In April 2014 (Flash Eurobarometer 400), there was higher, albeit still minority, support for the euro in Lithuania: 48% against vs. 46% in favour. An additional survey (EB 402) carried out exclusively in Lithuania in September 2014 showed a slightly lower support compared with April 2014 but higher compared to the 2013 baseline: 49% against vs. 47% in favour. A Eurobarometer survey carried out in mid-January 2015 (EB 412) clearly confirmed the positive trend as a majority of 60% agreed that the euro was good for their country vs. 24% seeing this as a bad	The support for the euro introduction in the changeover country Lithuania to be higher after the euro introduction than at the beginning of the information

	thing. An even stronger improvement of support for the euro is noticeable as regards expectations: 63% seeing positive consequences of the introduction of the euro for Lithuania (+ 19 pp compared to September 2014) while 20% seeing negative consequences (-28pp). The level of knowledge also increased throughout the information campaign and in January 2015, 92% felt at least well informed.	campaign.
Result indicator 2*:* Number of publications (or conferences, seminars and travelling exhibitions) for euro-area and non-euro-area countries. (Source: DG ECFIN Publication programme)		
Baseline 2013	Current Situation	Target
More than 100 economic publications and 5 general interest publications covering both euro-area countries and non-euro area countries Brussels Economic Forum 2013, Transatlantic economic interdependence and economic challenges conference with NY Fed 6 stops of euro travelling exhibition in non-euro area countries (4 in Poland, 2 in Latvia) Euronews 'Real Economy' series in cooperation with DG COMM and other DG's	In 2014 more than 100 economic publications covering both euro-area countries and non-euro area countries and including statistical information, were produced, published and promoted online and via social media. Particular promotion actions were launched in this context with flagship events and publications, such as the macroeconomic forecasts and the annual public finance report. Special attention was paid to the communication needs of the Lithuanian authorities in the context of their information and communication campaign for the changeover to the euro on 1 January 2015. The Commission provided the Lithuanian authorities with print runs of five general interest publications in three languages. The Commission contributed and co-financed a *Euronews* episode on Lithuania's changeover to the euro and in July organised a Euro festivities event marking the official Council decision for Lithuania to join the euro area. These actions aimed to contribute to raising the knowledge and support by Lithuanian citizens for the euro, which increased throughout the information campaign. According to a Commission survey of January 2015, 92% of Lithuanian citizens felt at least well informed.	100 economic publications and 5 general interest publications. In house editor has been recruited to improve drafting quality, and streamlined planning procedures have been established. Euro exhibition organised as appropriate, especially in the euro changeover context Euronews cooperation to be continued, subject to available funding
Three stops in Latvia, five stops in Poland	In 2014, four additional stops in Poland were arranged in cooperation with national and regional authorities and the national central bank to inform citizens on all aspects of Economic and Monetary Union and the euro.	Euro exhibition organised as appropriate, especially in the euro changeover context

Result indicator 3: Level of progress by non-euro-area Member States towards sustainable convergence (Source: Convergence report 2014)			
Baseline	Current situation		Target
In the context of the Convergence Report 2012, Member States fulfilled the five economic and legal criteria set out in the TFEU as follows:	In the context of the Convergence Report 2014, Member States fulfilled the criteria as follows: Bulgaria: met 3 of 5 criteria (60%) Czech Republic: 60% Croatia: 60%	Lithuania became the 19th euro area member on 1 January 2015.	Fulfilment of all conditions for euro adoption by target date or progress

Bulgaria: met 3 of 5 criteria (60%) Czech Republic: 20% Lithuania: 60% Hungary: 0% Poland 20% Romania: 0% Sweden: 60% In its Convergence Report on Latvia 2013, the Commission concluded that Latvia fulfils all conditions for euro adoption. Latvia will become the 18th euro area member on 1 January 2014.	Lithuania: 100% Hungary: 60% Poland: 40% Romania: 40% Sweden: 60% The Commission concluded that Lithuania fulfils all conditions for euro adoption. Based on a Commission proposal, and following the involvement of the EP, European Council and ECB, the Council decided on 23 July 2014 that Lithuania will become the 19th euro area member on 1 January 2015.		towards sustainable convergence

Main outputs in 2014		
Description	Indicator/ Current situation	target
Convergence report 2014	Adoption of the Report on 4 June 2014	Adopted on 4 June 2014

b) Narrative

Parallel to monitoring citizens ' perception of and support for the common currency, in September 2014, we signed a grant agreement with Lithuania to support Lithuania's information and communication campaign on its changeover to the euro. In this regard, the results of the Eurobarometer survey, carried out for DG ECFIN in Lithuania in September 2014, were helpful in contributing to fine-tuning communication aspects. As additional support, we organised a euro festivities event in July 2014 marking the day of the official Council decision to give green light to Lithuania adopting the euro.

The 2014 Convergence Report generally showed that pre-in MS have made uneven progress towards sustainable convergence. At the same time, Lithuania has convincingly met all conditions for euro adoption and joined the euro area on 1 January 2015.

c) Risk assessment

Lithuania joins the euro area from a strong position, based on its efforts over the last years to achieve sustainable convergence. Going forward, continued strong policies are key to fully realise the potential of EMU for Lithuania**.** We have implemented the necessary corrective actions to mitigate identified risks and how this is influencing progress in the implementation of the programme toward achieving its objectives.

d) Conclusion

Lithuania's euro entry showed that the European monetary integration process is open and ongoing, and that determined policies generate concrete results for MS. At the same time, the convergence assessment also underscored the policy challenges still facing pre-in MS.

As evidenced above, the part (Economic and Monetary Union: EMU4 "Euro area enlargement") of the policy managed by the DG is on course to meet its multiannual objectives for this objective and has achieved the annual performance indicators or

outputs and milestones in the reporting year.

1.1.7 ABB activity Economic and Monetary Union: EMU.5: "Financial Assistance to Member States"

a) Performance table

Specific objective EMU.5: "Financial Assistance to Member States": "To preserve financial stability in the EU by providing financial assistance to euro area Member States facing a severe deterioration of their borrowing conditions and to Member States outside the euro area facing difficulties with their balance of payments Relevant general objective: To foster EU growth, employment creation and sustainable development		☒ Non-spending
Result indicator 1: Completed programme reviews. (Source: Country programme surveillance reports)		
Baseline	Current Situation	Target
2013: In non-euro area countries two regular reviews per year but the Commission can join the quarterly IMF review missions (i.e. de-facto also 4 missions p.a.).	The 1st Review mission under the Romanian precautionary balance of payments programme took place in June.	All programme reviews completed each year as foreseen by programme
Result indicator 2: Completed programme reviews. (Source: Country programme surveillance reports)		
Baseline	Current Situation	Target
In euro area countries four regular reviews per year if the implementation runs smoothly.	Delayed 4th Review of 2nd Greek EFSF programme completed in April. Delayed 5th Review of Cyprus' ESM programme completed in December. After completion of all Reviews except the 12th and last, Portugal successfully exited the EFSF/EFSM programme in May 2014. Following programme exit, 2nd post-programme surveillance (PPS) reviews for Spain and Ireland and 1st PPS review for Portugal completed in late 2014.	All programme reviews completed each year as foreseen by programme

b) Narrative

Romania benefitted from EU medium-term financial assistance in 2009-11 and had a first precautionary BoP programme from mid-2011 to mid-2013. A second precautionary programme for another 2 years was negotiated in July 2013. Following progress on the fiscal front, the EDP procedure was abrogated by the Council following a Commission recommendation. Market access has substantially improved and Romania has been able to maintain its target of building a cash buffer worth of 4-months of financing needs. Likewise, reserves of the central bank stand at appropriate levels compared with the external debt of the country.

In 2014, macro-economic assistance programmes were ongoing for three **euro-area Member States** – Greece, Portugal and Cyprus. External assistance was requested in 2010, 2011 and 2012, respectively, to avoid national financial-market meltdowns and limit contagion risks to other euro-area MS. Review missions take place on a quarterly basis. Assessment reports along with updates to the legal documents are published shortly after the end of the mission.

Ireland exited from its macroeconomic adjustment programme in December 2013 and has entered PPS. Spain benefitted from sector-specific assistance (ESM instrument for the recapitalization of financial institutions), which ended in January 2014, now also being placed under PPS.

Greece

The 2nd adjustment programme which was agreed in March 2012 foresees financial assistance of EUR 164.4 billion until the end of 2014 with EUR 144.6 billion to be provided via the EFSF. Under the first programme, the undrawn (cancelled) amounts of EUR 24.4bn were transferred to the second programme. All six loans disbursed under the Greek Loan Facility (GLF) of EUR 52.9 billion were rebalanced and consolidated in one loan in May 2012.

The first review of the second programme took place between July and November 2012. The second review was carried out between February and April 2013 and the third review between June and July 2013. The fourth review started in September 2013 and was completed in April 2014, while the fifth review began in July 2014 and is on-going.

Portugal:

Following a request by Portugal on 7 April 2011 for financial assistance, the mechanism was activated on 17 May 2011 granting an overall of EUR 52.0 billion from EU resources (EFSM and EFSF). Portugal exited from its programme in May 2014 amid reappearing concerns regarding one of its private banks. Moreover, the Constitutional Court annulled several fiscal consolidation measures already introduced. As compensatory measures were deemed politically impossible by the government, fiscal targets set for the end of the programme period could not be achieved. The final, 12th, review was hence not concluded.

The situation calmed down shortly after programme exit and Portugal was able to raise funds on financial markets. A first PPS mission was concluded in November 2014.

Cyprus:

In March 2013, a political agreement on an adjustment programme was reached between the troika institutions and national authorities. The external financing envelope amounts to EUR 10 billion, with EUR 9 billion provided by the ESM and EUR 1 billion by the IMF. Throughout most of 2014 performance continued to be good, in particular fiscal programme targets were met with a sizeable margin. However, towards the end of the year, the programme went off-track as an important milestone for addressing problems in Cyprus' financial sector – bringing into force an effective foreclosure framework (a prior action) – was not met, causing a delay of the 5th review. On the European side, the review was concluded, in December 2014, since the prior action was being met at the time. Accordingly, the ESM disbursed its instalment mid-December 2014. However, the foreclosure law was suspended shortly thereafter by the Parliament, preventing the IMF from concluding its 5th Review and disbursing its tranche.

Ireland:

Following a request by Ireland in November 2010, the mechanism was activated. Under the programme, EU funds of EUR 40.2 billion were foreseen for disbursement to Ireland; EUR 22.5 billion from the EFSM and EUR 17.7 billion from the EFSF.

Several initiatives have been undertaken to improve the sustainability of the well-performing Irish programme, in line with the conclusions of the EA summit statement of 29 June 2012. These include the replacement of the promissory notes with longer-dated and lower-yielding regular government bonds following the liquidation of a gone-concern bank (IBRC) and a 7-year extension of the maturity of EU loans decided by the ECOFIN in June 2013.

In November 2013 the Irish authorities announced their decision to conclude the EU-IMF supported programme in December without any precautionary credit facility. Ireland has accumulated substantial cash balances under the programme, while interest rates on Irish bonds have declined significantly. Ireland has successfully tapped the markets with both short and long-term issuances

After the successful conclusion of the 12th review in December 2013, the programme ended. Ireland is now subject to post-programme surveillance until 75% of the outstanding loans will have been repaid. In January 2014, Ireland has raised EUR 3.75 billion by issuing a 10y bond at a yield of 3.54%, proving its ability to fund its financing needs at reasonable rates.

Spain:

In June 2012, the Spanish Government requested external financial assistance in the context of the on-going restructuring and recapitalisation of the Spanish banking sector. A Memorandum of Understanding was endorsed by the Eurogroup on 20 July, specifying both bank-specific and horizontal financial sector policy conditionality, and Spain received financial assistance via the ESM of up to € 100 billion. Two disbursements have been made so far for a total amount of EUR 41.3 billion for the recapitalisation of State aided banks and the capital injection into Sareb, the asset management company created to remove troubled assets from aided banks' balance sheets.

Spain exited from its sector programme in January 2014 and entered PPS. Two reviews took place in 2014, concluding that overall the Spanish economy and banking sector remain on track. Repayment of ESM loans is hence not in jeopardy, provided that authorities maintain the course adopted under the programme.

c) Risk assessment

We have implemented the identified corrective actions to mitigate identified risks and how this is influencing progress in the implementation of the programme toward achieving its objectives.

d) Conclusion

As evidenced above, the Irish and Portuguese parts of the policy managed by the DG are on course to meet their multiannual objectives for this objective and have achieved the annual performance indicators or outputs and milestones in the reporting year. This is, however, not the case for the Greek and Cypriot adjustment programmes, where annual performance indicators or milestones in the reporting year have not been achieved for the following reasons. In Greece this is related to the generally turbulent political environment, in particular due to the electoral cycle. For the Cypriot programme, this is due to opposition of the Parliament to a timely enforcement of the foreclosure framework, contrary to Cyprus' initial commitments under the programme.

1.1.8 ABB activity Economic and Monetary Union EMU.6: "Analytical support & tools for integrated surveillance and EU policies"

a) Performance table

Relevant general objective: To foster EU growth, employment creation and sustainable development	
Specific objective EMU 6: Analytical support & tools for integrated surveillance and EU policies. "To conduct economic research and to monitor macroeconomic developments and the economic situation in the EU the euro area and member states in order to support the smooth functioning of EMU and the EU economy".	☒Spending Joint Harmonised EU Programme of Business and Consumer Surveys

Result indicator 1: Regular and timely monitoring of short-term economic developments, as measured by the publication of detailed business and consumer surveys result for EU MS and candidate countries (Source: Joint Harmonised EU Programme of Business and Consumer Surveys, partner institutes)		
Baseline 2014	Current Situation	Target
Commission staff publish 12 monthly press releases on latest BCS results (ESI and BCI press releases on 2nd last working day of the reference month) and four releases focusing on quarterly developments ('European Business Cycle Indicators' published in 1st week after the reference quarter)	All monthly and quarterly publications released as scheduled.	100% timely publication

Result indicator: **Accuracy of the forecast exercise** ECFIN internal notes an publications, e.g. http://ec.europa.eu/economy_finance/publications/economic_paper/2012/pdf/ecp476_en.pdf			
Baseline 2014	Milestones	Current Situation	Target
The Commission staff track record appears generally in line with that of the OECD, IMF and Consensus Economics, and in some cases better according to a December 2012 study	Update and extension of the 2012 study by September 2015	Work in progress	Accuracy comparable to the accuracy of the forecasts of the other major international forecasters, such as the IMF, OECD, Consensus Economics.

Main policy outputs in 2014			
Description	Indicator	Current Situation	Target

The Commission staff publish three European Economic Forecasts per year (Winter, Spring, Autumn).	Publication of forecasts in Winter/Spring/ Autumn	The 3 forecasts have been published as foreseen in February, May and November	100% timely publication
Four quarterly and 12 monthly publications on BCS results.	Publication	Published as foreseen	Quarterly and monthly publication
Benchmark analysis of structural reform measures in all MS	Internal notes, ECFIN working papers, outside publications, presentations at conferences. Notes to EPC working groups (OGWG, LIME), EWG	Work in progress	Regular production of notes for the EPC's working groups in 2014, as well as contributions to publications & outside conferences
Medium term projections (T+5, T+10) Dissemination of results to other DG's, e. g. DG BUDG		Ongoing, regular, commitments	100% timely production of T+5 & T+10 projections in the context of the regular Winter, Spring & Autumn forecasting exercises.
Quarterly reports on the Euro Area	Publication	Published as foreseen	March, June, October and December 2014
Tax reforms in EU Member States 2014, report and TaxLAF database and Taxation Reforms Database (TRD)	Publication & database	First batch of indicators about to be published	September/October 2014
4 publications: Research fellowships on Emu and the global economy and labour mobility in the EU: “Mapping in the new normal”, Publication Effectiveness of EU Funds, Energy Economic developments in Europe, on the effect of infrastructure on economic growth	Number of publications completed:	4	Q4 2014

Main outputs in 2014			
Description	Indicator	Current situation	Target
18 publications: Research fellowships on EMU and the global economy and labour mobility in the EU: “Mapping in the new normal”, labour Market Development Report, energy dependency, MIP-related publications (Cyclically adjusted current accounts (CACA's) and sectoral REERs, deleveraging, bankruptcy), Market Reforms at work Report; Impact of structural reforms publications (5 selected reforms); Quality of exports; Labour Market in Spain; Energy Economic developments in Europe, Infrastructure and economic growth;	Number of publications completed: 18	Action completed	Q4 2014
Databases: MICREF, labref, Spi, LAF (Growth accounting module), igrowgreen (IGG); , IDR-platform	Number of databases updated: 6	LAF – ongoing; igrowgreen (IGG) on hold	July 2014

Conferences/workshops: Annual Research Conference, Workshop on energy, Labour market Workshop; Macroprudential Policy and Housing Workshop; "The Durability of Current Account Adjustment in the Euro Area"	Number of conferences organised: 5	Action completed	Q4 2014
EU policies: contributions into EU initiatives on the Commission Work programme in 2014 (Digital single market; Internal market for services; Restructuring and rescue frameworks (pre-insolvency); R&D; Initiatives in the context of the State Aid Modernisation); Vademecum on Macroeconomic Conditionality Internal analytical notes: e.g. on services sectors performance and barriers; on trade spillovers; on R&D investment needs; on professional services liberalization; on red tape barriers.	Number of contributions and priority 1 in CWP: 13 Number of notes	Action completed Action completed	End 2014
Main expenditure outputs in 2014			
Description	Indicator	Current situation	target
External studies: Research fellowships on EMU and the global economy and labour mobility in the EU: "Mapping in the new normal"	13 original academic papers on economic topics (please see the rationale in the narrative part below).	Study ongoing until July 2015	100% committed end 2014
2 external studies: External study to assess the financial situation of state-owned enterprises in the energy and railway sectors, External study on Cost effectiveness of support to electricity generation (Assessment of energy subsidies in 5 Member States)	Number of studies completed: 2	SOE's completed; The other study will be delivered in the month of January	Dec 2014 and Jan 2015
Implementation of the BCS Programme (incl. grants to partner institutes, annual workshop, financial sector survey): around € 5 850 000 (ACUR). Two forecast experts' meetings: € 117,189.60 (ACUR) EP/Kit development, training and maintenance: €80,000 (ACUR) FDMS+ development and training: €326,000 (ACUR) Procurement of external commercial data supply services for DG ECFIN: €1.040.000. Number of contracts: 20	N/A	The 2003-04 grant period of the BCS programme was executed as planned; final payments are almost complete. The 2014-15 grant period is being executed as planned. Commitments 2014: € 5467726; payments 2014: € 5173055 The two forecast experts meetings took place as planned. EP/Kit development and training took place as planned. The final payments for the 20013-14 period were made. The implementation of the contract for the 2014-15 period is progressing as planned. Commitments 2014: € 84633; payments 2014: € 64800 The main forecast-related parts of FDMS+ are now fully implemented. The development of a data	100% paid or committed

		dissemination tool requires further analysis, and part of that project strand was delayed to 2015. Training took place as planned. Commitments 2014: € 236960; payments 2014: € 246550 24 commitments for a total amount of €1.286.443	

b) Narrative

Concerning the BCS results: In 2014 a 'mega call' for proposals was successfully carried out to secure EU-wide harmonised business and consumer surveys over the period 2015-2021. Concerning benchmark analysis of structural reforms & medium term projections (T+5 & T+10), all of the agreed commitments in these areas have been successfully completed in 2014. Concerning the Procurement of external commercial data supply services for us, data needs have been established and verified and all related procedures successfully completed so as to provide users in DG ECFIN with the data services needed. 24 commitments for a total amount of 1.286.443,46 € were done in 2014, including several commitments already covering services to be provided in 2015. The work in 2014 on benchmark analysis of structural reforms & medium term projections (T+5 & T+10), formed an important part of the overall policy surveillance framework of DG ECFIN. In addition, significant methodological progress was achieved in 2014. On T+5 side, the Economic Policy Committee (EPC) endorsed the use of a revised NAWRU methodology. On the T+10 side, the EPC also endorsed a revised T+10 methodology for use as the starting point for the 2015 Ageing Report. An ECFIN Economic Paper (No. 535 – Nov 2014) was published in 2014 which details all of the methodological progress which has been made.

The Procurement of external commercial data supply services for us has reached its objectives. Contracts for all services deemed necessary were successfully concluded or renewed.

MIP-related publications: A number of publications were done during the MIP cycle in order to feed the discussion of the assessment done in the frame of the procedure e.g. On cyclically adjusted current accounts (CACA's) and sectoral REERs, deleveraging, housing markets.

Analytical work assessing key reforms in product and services markets in IT, ES, PT and EL (published end 2014, European Economy main series) that described the channels through which reforms are supposed to work at micro level and the factors that may hamper their proper functioning. Particular focus on the extent to which enhancing competition leads to a more dynamic business environment (i.e. on the dynamics of firms' entry and exit), to a decrease of prices and mark ups, and to improved efficiency, i.e. the extent to which resources are reallocated from less to more productive uses. They correspond to ad-hoc, unforeseen requests (e.g. on investment in R&D, on trade spillovers). A few others were produced for specific use of desks distilling other pieces of analytical work (e.g. impact of regulated professions liberalization).

Within our economic function role (ISC replies, IA contributions), analysis and follow-up of economically significant EU policy initiatives, in particular state aid modernisation, industrial policy package, internal market (services and telecom), innovation (Communication under DG ECFIN-RTD co-responsibility), business insolvency. Work on energy and climate change, resource efficiency and structural funds implementation and macro-economic conditionality were also important priorities during the year.

Analysis of competitiveness in the EU through the development of a comprehensive set of sectoral indicators on trade, unit labour costs and real effective exchange rates, import content of exports, and in-depth country and sectoral review; further development of sectoral performance indicators (SPI) and online tool.

Analysis of product market reforms in services in view of EPC pilot exercise on "Ex-ante coordination of structural reforms"; Economic assessment of product market reforms in several Member States in view of EPC "thematic reviews" (on services and network industries).

Conferences and workshops

Macroprudential Policy and Housing Workshop: The project attempted to bring new information on the links between the macroprudential policy of MS and their housing market developments (house prices and credit). The workshop was organised as follow-up to a survey carried out by our housing team on the connections of different non-interest rate policies and housing. As the survey above rose a lot of interest at the LIME working group in January 2014, the housing work stream established in DG benefitted from a deeper look into the findings of recent research and country experiences with macroprudential tools in the area of real estate exposures. Various speakers shared their findings with DG ECFIN (BBVA Research and Bank of Portugal with work in progress on national experiences with macroprudential tools).

"The Durability of Current Account Adjustment in the Euro Area": the workshop allowed us to refine the view on current accounts developments over the medium term. In particular it helped to gauge the amount of consensus and uncertainty on the subject across policy institutions.

Databases:

1) MIP support page and scoreboard: The unit has set up a web page for the DG internal use to support the MIP assessment. This page contains a wide variety of data, note and graphs which are updated on a regular basis during the MIP cycle.

2) LAF database (Growth Accounting module): This database is updated twice a year (following the spring and the autumn forecasts) and provides for each MS a decomposition of the GDP growth (level and changes).

3) Assessment of reforms in product and services markets in the MS for the EU Semester; update and further development of the MICREF database on product market reforms.

4) Igrowgreen is an indicator-based analytical framework designed to assess MS' policies for achieving their low-carbon and resource-efficient goals from an economic

perspective, and notably to promote sustainable growth. The framework was designed at a specific point in time with a specific need. However, some of the indicators used are no longer relevant for today's analysis. It has been decided not to update the framework and to assess if it needs to be modified or dropped.

Studies

1) Our Fellowship Initiative 2014-2015 - DG ECFIN is asking eminent scholars to map out the 'new economic normal' in the context of reshaped economic policy frameworks and governance designs, focussing in particular on medium-term growth perspectives and newly emerging set-ups in areas such as the architecture of financial systems and European convergence and integration mechanisms. The project had a budget of 350 000 EUR with the purpose to award 15 contracts for economic studies. After the tender selection 13 contracts for "Research Fellowships" have been awarded to leading academics/researchers, covering specific topics on the general themes outlined below. In particular, we were seeking to establish a discursive interaction process between the group of fellows and our staff. These 13 contracts have been committed to completely in 2014.

2) In the Annual management plan 2014 the 2 external studies were included as outputs under ABB EMU 2: "Enhanced integrated surveillance". At the stage of the Annual activity report 2014 we decided that it is more relevant to list them under ABB activity Economic and Monetary Union EMU.6: "Analytical support & tools for integrated surveillance and EU policies ".

2.a) Study SOEs: The objective of the study would be to assess the financial situation of state-owned enterprises in the electricity, gas and railway markets. The study would build financial and non-financial indicators that would allow cross-country comparisons across SOEs. The analysis of SOEs' performances would allow to complement assessments of market functioning and to evaluate the impacts of SOEs on public finances. The expected outcome would be a database that would be regularly updated and made available to the desks for surveillance activities. The database would also be used for in-house empirical work.

2.b) Study Cost-effectiveness of support to electricity generation: The objective of the study, to be carried out together with ENER, will be to analyse the cost-effectiveness of subsidies to electricity. Following the discussions with ENER, the scope of the study was broadened and would cover not only subsidies to renewables, but also to the other technologies of electricity generation, in particular to coal-fired power plants. Therefore the title of the study was changed respectively. The scope of the study covers: 1) Updating the existing data on the scope of subsidies to electricity generation in MS; 2) Elaborating a methodology to assess the cost-effectiveness of these subsidies; 3) Application of this methodology for 4-5 countries covered in the study, 4) Analysis of impacts of subsidies on electricity prices, tariff deficits, public finances, competition, etc.; 5) Policy recommendations.

c) Risk assessment

We have implemented the necessary corrective actions to mitigate identified risks and how this is influencing progress in the implementation of the programme toward achieving its objectives. Concerning benchmark analysis of structural reforms & medium term projections (T+5 & T+10), risk assessment is not applicable. Neither for the Procurement of external commercial data supply services for DG ECFIN. The risk assessment for the FDMS+ project was updated in spring and autumn 2014. Despite some delays with the extension of the project beyond its core forecast-related functions, the project is on track.

d) Conclusion

As evidenced above, the part of the spending programme Economic and Monetary Union EMU.6: "Analytical support & tools for integrated surveillance and EU policies "managed by our Directorate is on course to meet its multiannual objectives for this objective and has achieved the annual performance indicators or outputs and milestones in the reporting year.

As evidenced above, the programme of business and consumer surveys (BCS) which is the main part of the spending programme managed by the DG is on course to meet its annual (100% timely publication of results) and multiannual (contractual base for the survey programme over 2015-2021 secured by successful Call for proposals procedure) objectives for this objective and has achieved the annual performance indicators in the reporting year.

1.1.9 ABB activity Economic and Monetary Union: Task Force for Greece (TFGR)

a) Performance table

Specific objective: To coordinate technical assistance that Greece needs to deliver the EU/IMF adjustment programme; and to recommend legislative, regulatory, administrative and if necessary (re)programming measures for an accelerated take-up of EU funds, focusing on competitiveness, growth and employment/training **Relevant general objective: To foster EU growth, employment creation and sustainable development**	☒ Non-spending	
Result indicator 1: Greek absorption rate under the cohesion policy programmes (latest figures dated end of November 2014) Source: Computations from Commission services		
Baseline (2013)	Current situation	Target
67.5%	86.83% (5th position among EU28)	N/A
Result indicator 2: N° of designed, launched and finished individual TA work strands (programmes, including dormant ones) Source: TFGR Activity Report		
Baseline	Current situation	Target
100 projects	118	N/A
Main outputs in 2014		
Description	Indicator/Current situation	Target
a) Small value contracts with external experts/consultants from Greece and abroad in order to deliver intensive TA support contributing to important reforms.	a) Small value contracts in 2014 32 operational contracts in 2014	N/A

b) Expert missions on a wide range of policy areas such as the business environment, administrative reform, reform of the tax administration, healthcare, judicial reform, and anti-corruption.	b) Expert days corresponding number of mission 795 experts days corresponding to 86 missions in 2014	N/A

b) Narrative / Policy achievements:

The Task Force for Greece (TFGR), established in July 2011, continued in close cooperation with Greek Authorities, to identify and coordinate the technical assistance (TA) that Greece needs in order to implement structural and institutional reforms and support the targeted absorption of EU funds. TFGR made substantial progress in achieving this objective. A constantly increasing number of projects, 118 in total, have been arranged for TA activities, notably in support of growth-related reforms in areas such as the business environment, administrative reform, reform of the tax administration, healthcare, judicial reform, and anti-corruption). Greece has consistently improved its absorption rate of Structural Funds, placing the country at the end of 2014 in the 5th position at the EU level (up from 18^{th} at the end of 2011) and thus ensuring an absorption rate above EU average.

b) Risk assessment:

We have implemented the necessary actions to mitigate identified risks and assure the acceptance and implementation of a stable TA programme towards achieving its objectives, including through the elaboration of TA priorities with the Greek authorities and Member States.

c) Conclusion:

As evidenced above, the objective of coordinating technical assistance to Greece to deliver structural and institutional reforms and support the targeted absorption of EU funds, managed by the TFGR, is on course and substantial progress was made in the reporting year, as *inter alia* recognised by the Eurogroup.

1.1.10 ABB activity Economic and Monetary Union: Support Group for Cyprus (SGCY)

a) Performance table

Specific objective: To help to alleviate the social consequences of the economic shock by mobilising funds from European Union instruments and by supporting the Cypriot authorities' efforts to restore financial, economic and social stability, and bring in further expertise to facilitate the emergence of new sources of economic activity. **Relevant general objective To foster EU growth, employment creation and sustainable development**	☒ Non-spending	
Result indicator: Number of designed, launched and completed short-term technical assistance projects (Source: DG ECFIN, SGCY)		
Baseline (2013)	Current situation as end of December 2014	Target (2015)
5 projects (designed and launched)	16 projects (designed, launched and completed) 6 projects (designed and launched)	25 projects
Main outputs in 2014		
Description	Indicator/Current situation as of end December 2014	Target 2014
Technical assistance service contracts in this category concerned mainly reforms in health care, the welfare system and revenue administration (Commission output)	Number of designed , launched and completed short-term technical assistance projects 16 projects (designed, launched and completed) 6 projects (designed and launched)	20 projects
Result indicator 2: Number of designed, launched and completed long-term technical assistance projects (Source: DG ECFIN, SGCY)		
Baseline (2013)	Current situation as of end December 2014	Target (2015)
0 projects	2 projects (designed and launched)	5 projects (designed and launched)
Main outputs in 2014		
Description	Indicator/ Current situation as of end December 2014	Target 2014
Technical assistance administrative arrangements in this category concerned the further development of renewable energy resources and enhancing Cyprus' performance in the area of energy efficiency (Commission output)	Number of designed, launched and completed long-term technical assistance projects. 2 projects (designed and launched)	2 projects (designed and launched)
Result indicator 3: Number of experts embedded in the Cypriot administration (Source: European Commission, DG HR,)		
Baseline (2013)	Current situation as of end December 2014	Target (2015)

0 resident experts	1 resident expert	3 resident experts
Main outputs in 2014		
Description	Indicator/ Current situation as of end December 2014	Target 2014
Completion of recruitment of 1 temporary agent as Cyprus resident expert in energy market organisation and regulation (Commission output)	Number of experts embedded in the Cypriot administration. 1 resident expert (January 2015 start dates agreed with two further resident experts)	3 resident experts

b) Narrative

SGCY technical assistance projects have as primary objectives either to facilitate the delivery of the economic adjustment programme for Cyprus or the emergence of new sources of economic activity in the country. Apart from the activities detailed in the table above, which show a steady increase in the number of short-term and long-term technical assistance projects, the SGCY arranged for about 80 expert missions with a total of more than 200 expert days of technical assistance in 2014. A total of about EUR 1.4 million was committed in 2014 through the SGCY to technical assistance activities for Cyprus.

c) Risk assessment

We have implemented the necessary corrective actions to mitigate identified risks and how this is influencing progress in the implementation of the SGCY's 2014 Annual Work Programme toward achieving SGCY's objectives.

d) Conclusion

In the reporting year, the targets set for the number of short-term and long-term projects were fully met. The SGCY narrowly missed the target of three experts embedded in the Cypriot administration due to the set-up of the SGCY in terms of human resources and time-consuming recruitment procedures. However, as evidenced above, the target was met in January 2015 and the SGCY is on course to meet all the 2015 targets for its specific objective.

1.1.11 ABB activity International Economic and Financial Affairs: "To support the enlargement process, the implementation of the EU Neighbourhood Policy and EU priorities in other third countries by conducting economic analysis and providing policy assessment, advice and input to negotiations on international economic and financial affairs"

a) Performance table

Specific objective: To support the enlargement process, the implementation of the EU Neighbourhood Policy and EU priorities in other third countries by conducting economic analysis and providing policy assessment, advice and input to negotiations on internal economic and financial affairs **Relevant general objective: To promote prosperity beyond the EU**	☒ Non-spending
Result indicator Progress in compliance with economic accession criteria: (Source: Commission Progress Report)	

b) Narrative

In order to support the enlargement process, we pursued and continued to sharpen economic and fiscal surveillance of enlargement countries. This included, inter alia, the preparation of analytical assessments of the countries' medium-term economic and fiscal programmes with stronger emphasis on external vulnerabilities and structural obstacles to growth. For the first time, this process led to more targeted policy guidance. In the case of candidate countries, these were adopted by the Joint ECOFIN Council. We contributed to the 2014 enlargement package by assessments of the countries' progress in complying with the Copenhagen economic accession criteria. Our surveillance of candidate countries also included monitoring of economic developments and full-fledged candidate countries' forecasts (winter, spring and autumn) as well as providing economic analysis of – and policy advice to the enlargement countries, also in the context of regular economic dialogues which were held with all countries.

DG ECFIN continued to play an important role in the G20 process in 2014 and coordinated the EU positions on economic and financial issues. We contributed to the successful participation of the Commission President and Vice-President at the G20 Summit in Brisbane and at the four G20 Finance Ministerial meetings that took place during the year. The outcome of the G20 Brisbane Summit fully met the EU's objectives by providing a strong Brisbane Action Plan for Growth and Jobs, delivering global policy coherence on investment which is one of the top priorities of the EU, and adding new momentum for the G20 tax agenda. We also coordinated economic and financial issues dealt with by the G7, contributing to a successful G7 Brussels Summit.

We coordinated common EU positions and statements in the IMF to advance the EU policy agenda. In 2014, we produced a number of common messages on IMF policy, including governance, resources, and multilateral surveillance as well as country programmes. We also prepared the Spring and Autumn (Annual) IMFC meetings in Washington.

In developing the EU's economic policy regarding third countries, we conducted economic dialogues with several G20 countries (China, Japan, India, Australia, Mexico, and South Africa), the Gulf Cooperation Council, EFTA, EU's pre-accession countries as well as EU's neighbourhood countries. These dialogues contribute to a better understanding of euro area and EU economic policies in our key partner countries, and create an opportunity to discuss and address common economic challenges.

We also provided economic analysis and policy advice in several areas of EU's external action, which in 2014 included inter alia climate finance and development policies in preparation of international conferences at the UN as well as trade and investment analysis.

c) Risk assessment

Not applicable

d) Conclusion

While EU enlargement countries have made gradual progress in meeting EU economic accession criteria over the last years, none of them is expected to fully meet the requirements in the short-term. For enlargement countries an enhanced economic surveillance and governance was implemented in 2014 and should guide them towards improving economic policy making, allowing for gradual progress towards the final objectives.

1.1.12 ABB activity International Economic and Financial Affairs: "To improve the EU profile, external representation and liaison with the EIB and EBRD, other international financial institutions, and relevant economic fora aiming at strengthening convergence between their strategies and operations and EU external priorities"

a) Performance table

Specific objective: "To improve the EU profile, external representation and liaison with the EIB and EBRD, other international financial institutions, and relevant economic fora aiming at strengthening convergence between their strategies and operations and EU external priorities" **Relevant general objective: To promote prosperity beyond the EU**		☒ Non-spending
Result indicator 1: Progress in enhancing effectiveness of IFI and MDB financing in the external field in particular through the EIB External Mandate and the deployment of financial instruments (Source: DG ECFIN)		
Baseline 2013	Current Situation	Target 2014
a) Proportion of financial instruments in the external blending facilities: 7% b) Amount of EIB loans signed for the period 2007-2013 under the External	a) Financial Instruments currently represent 9% of the EU grants blended. b) As of June 2014 EIB has utilised 99% of the total EUR 29.5 billion loans available	a) Increase >7% of IFIs and MDSs resources in the external field

Mandate Guarantee review c) EBRD capital review	under the external mandate 2007-2013 (extended until 30 June 2014) [9] c) Preliminary EBRD Board discussions on EBRD's future strategic directions seem to suggest that there is potential for the Bank to increase its investment volume without any further capital increase. For 2015 it is suggested to monitor EBRD's lending volume and number of operations signed.	b) Annual commitment/total target for the period c) To have a proper yearly monitoring of the shareholding
Result indicator 2: **Management and provisioning of the Guarantee Fund for the External Action**s (Source DG: ECFIN)		
Baseline 2013	Current Situation	Target 2014
a) EUR 58.4 Million were provisioned to ensure target amount for the provisioning of the Guarantee Fund for the External Actions b) 9 calls on the Guarantee Fund were received from the European Investment Bank (as at 31/12/2013)	a) The Guarantee Fund was adequately provisioned, a transfer of EUR 58,4 million took place in February 2014. b) 8 additional calls on the Guarantee Fund were received from the European Investment Bank as at 31/12/2014. The instructions for the payment of the Guarantee calls were timely handled.	a) To ensure that the Guarantee Fund is adequately provisioned in T+2 b) To give 100% timely instructions for the payment of the Guarantee calls
Main outputs in 2014*:*		
Description	Indicator / Current situation	Target
a) EIB External Mandate and ancillary agreements (guarantee agreement, technical regional operational guidelines) b) Implementation of financial instruments in the external blending facilities c) Report to the European Parliament and the Council on the EIB External Activity with EU budgetary guarantee d) Report on the functioning and work of the "EU Platform for Blending in External Cooperation" after two years of operation. e) Annual report from the Commission on the Guarantee Fund and the management thereof in 2013 f) Report to the budgetary authority on guarantees covered by the general budget - Situation as of 31 December 2013	a) Negotiations on the Guarantee and Recovery agreements were concluded in June 2014. Agreement adopted in July 2014. b) Financial Instruments currently represent 9% of the EU grants blended. c) Report adopted by the Commission in October 2014 and submitted to EP and Council d) Report adopted by the Commission in December 2014 and submitted to EP and Council. e) Adopted in July 2014 f) Adopted in August 2014	a) June 2014 b) December 2014 c) December 2014 d) December 2014 e) May 2014 f) December 2014

b) Narrative

RI 1: The Commission is actively promoting cooperation between the EIB, EBRD and the EU to improve the impact and leverage of available financing resources, including in the

[9] The 2007-2013 mandate ended on 30 June 2014. As the new external lending mandate started only in second half 2014, the updated reporting will be covered meaningfully in the 2015 AAR.

context of the EU Blending Facilities. Both Banks are key partners in facilities such as the Neighbourhood Investment Facility (NIF), the Western Balkans Investment Framework (WBIF) and the Investment Facility for Central Asia (IFCA), and cooperate closely with the EC Structural and Cohesion Funds through parallel funding. The Commission actively promotes the use of financial instruments through these blending facilities.

RI 2: The main function of the Guarantee Fund is to shield the EU budget from shocks due to defaults on loans or guaranteed loans covered by the Fund. The Guarantee Fund covers the risk of loans and loan guarantees to third countries. The lending operations covered by the Guarantee Fund relate to three different instruments which benefit from a guarantee from the EU budget: guarantees of the European Investment Bank (EIB) external lending, Euratom external lending and EU Macro-Financial Assistance (MFA) loans. The Guarantee Fund is provisioned from the EU budget and has to be maintained at a certain percentage (the target rate is currently 9%) of the outstanding amount of the loans.

c) Risk assessment

RI 1: Although in general, relations between the Commission, the EBRD and EIB are good, given the increasing overlapping coverage of the EBRD and EIB (both in terms of geography and instruments) the Commission has an interest in ensuring the EBRD and EIB explore to the maximum degree the opportunities to cooperate, coordinate and differentiate their products according to their mandates and comparative advantages.

In line with this objective, and following the Union's participation in the 2011 capital increase of the EBRD, the Commission is required to present to the European Parliament and the Council, by the end of 2015, a report assessing the effectiveness of the existing system of European public financing institutions in promoting investment in Europe and its Neighbourhood. The focus of this report, which will be prepared by DG ECFIN, will be on EBRD and EIB cooperation and will include recommendations on the optimisation and coordination of their activities.

RI 2: An assessment of the appropriateness of the 9% target rate of the Guarantee Fund is planned for the period 2015-2016 in order to see whether any risk mitigating measures are required.

d) Conclusion

As evidenced above, the part relating to "Enhancing effectiveness of IFI and MDB financing in the external field in particular through the EIB External Mandate and the deployment of financial instruments" managed by the DG is on course to meet its multiannual objectives for this objective and has achieved the annual performance indicators or outputs and milestones in the reporting year.

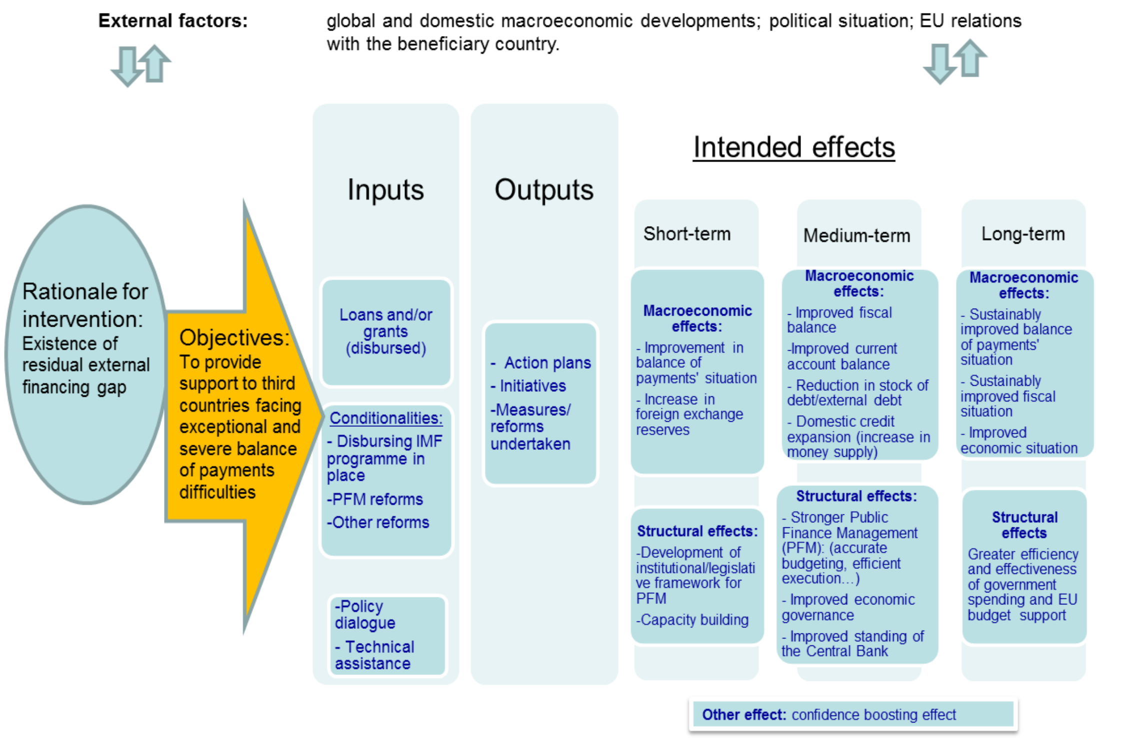
As evidenced above, the objective of managing and provisioning the Guarantee Fund for the External Actions was achieved during the reporting year.

1.1.13ABB activity International Economic and Financial Affairs: "Providing macro-financial assistance to third countries in resolving their balance of payment crises and restoring external debt sustainability"

a) Performance table

Relevant general objective: To promote prosperity beyond the EU	
Specific objective: "Providing macro-financial assistance to third countries in resolving their balance of payment crises and restoring external debt sustainability" (Source: DG ECFIN)	☒ Non-spending ☒ Spending (Macro-financial Assistance)

Macro-financial assistance(MFA) to third countries - Intervention Logic



Result Indicator 1 : Current account balance (% of GDP) (Commission estimates, IMF)

Countries	Baseline		*Milestones					Target 2020
	2013	2014 (forecast)	2015	2016	2017	2018	2019	2020
Jordan	-10.3	-7.1	-8.1	-4.1	-3.8	-3.8	-2.5	-2.5*
Kyrgyzstan	-14.8	-14.2	-14.8	-13.3	-10.2	-7.1	-6.6	-6.6*
Georgia	-5.7	-8.5	-7.9	-7.0	-6.4	-6.0	-5.0	-5.0*
Tunisia	-8.3	-7.9	-6.4	-5.0	-4.1	-3.3	-3.2	-3.2*

Armenia	-8.0	-8.1	-7.3	-7.1	-6.9	-6.6	-6.5	-6.5 *
Moldova	-4.8	-6.2	-7.3	-7.2	-7.3	-7.2	-7.1*	-7.1*
Ukraine	-9.2	-4.1	-2.8	-2.3	-2.7	-3.0	-3.2	-3.5
Result Indicator 2: External debt (% of GDP) (Commission estimates, IMF)								
Jordan	26.4	30.6	31.3	29.8	29.5	27.3	26.3*	25.4*
Kyrgyzstan**	44.8	46.8	47.7	46.8	43.8	41.9	40.1	40.1*
Georgia	81.8	82.3	81.0	79.8	77.6	75.6	73.3	73.3*
Tunisia	54.0	54.4	60.5	62.2	61.5	60.6	59.8	59.8*
Armenia	82.0	93	92.6	94.9	95.0	94.5*	92.6*	92.6*
Moldova	83.6	90	87.8	86.2	84.9	84.2*	82.3*	82.3*
Ukraine	78.6	110.0	145.0	132.5	128.0	124.0	118.0	110.0
Result Indicator 3 : Official foreign exchange reserves in months' imports of goods and services (Commission estimates, IMF)								
Jordan	5.0	6.2	6.4	6.6	7.1	7.5	6.2*	6.2*
Kyrgyzstan	3.9	3.5	3.6	4.1	4.6	4.8	4.9	4.9*
Georgia	3.4	3.1	3.3	3.7	4.3	4.6	3.9	3.9*
Tunisia	3.4	3.4	4.4	4.4*	4.42*	4.4*	4.2*	4.2*
Armenia	5.4	4.1	4.2	4.4	4.2	4.2	4.1*	4.1*
Moldova	5.0	4.7	4.3	4.0	3.7	3.4*	3.3*	3.3*
Ukraine	3.1	1.4	2.0	2.5	2.8	3.2	3.4	3.8

Main expenditure related outputs in 2014

Output	Budget line	Budget 2014	
		Number	EUR million
MFA grant commitments to third countries	01 03 02	2	38,08
Operational assessments, PEFA studies and ex post evaluations	01 03 02	2	0,2

*The instrument of MFA is by nature a short-term crisis related instrument spanning over 2 to 3 years maximum. This means that it is not possible to quantify its specific objectives in terms of indicators/milestones beyond the horizon of the MFA operations themselves or, at most, of the beneficiary countries' programmes agreed (or to be agreed) with the IMF. Therefore, for years going beyond the MFA operation or the IMF projections, the figures reflect the latest figure available, and are marked with an asterisk.

b) Narrative

As a result of the strong deterioration of the economic and balance of payments situation in Ukraine, the Council approved in April 2014 a decision on providing Macro-Financial Assistance (MFA) of up to EUR 1 billion to the country, to be disbursed in two equal tranches of EUR 500 million each. This assistance complemented an existing MFA programme of EUR 610 million based on decisions from 2002 (EUR 110 million) and 2010 (EUR 500 million).

In 2014, the Commission, on behalf of the EU, disbursed a total amount of EUR 1.36 billion under the two MFA programmes to Ukraine. The Commission plans to disburse the remaining EUR 250 million under the first MFA programme by early 2015, subject to successful implementation of the economic policy and financial conditions agreed with Ukraine, and a continuous satisfactory track record of implementing the IMF programme.

The year 2014 was further characterised by the implementation of pending MFA decisions, notably as regards Georgia (EUR 23 million grants + EUR 23 million loans), Jordan (EUR 180 million loans), Tunisia (EUR 300 million loans) and Kyrgyz Republic (EUR 15 million loans and EUR 15 million grants). Disbursements related to these operations will be carried out in 2015.

c) Risk assessment

We have implemented the necessary corrective actions to mitigate identified risks and how this is influencing progress in the implementation of the programme toward achieving its objectives.

d) Conclusion

As regards countries benefiting from macro-financial assistance, as described in the related impact and result indicators, some of them are gradually returning to macroeconomic stabilisation and to a sustainable path concerning their external financial situation over the medium-too longer term, whereas others require further efforts to be made.

Result indicator 4: To provide loan funding for necessary MFA/Euratom operations

a) Performance table

<table>
<tr><td colspan="2">Specific objective: Providing macro-financial assistance to third countries in resolving their balance of payment crises and restoring external debt sustainability"

Relevant general objective: To promote prosperity beyond the EU</td><td>☒ Non-spending</td></tr>
<tr><td colspan="3">Result indicator 4: To provide loan funding for necessary MFA/Euratom operations (Source : In accordance with the related EP and Council Decisions and in line with the Loan Facility Agreements)</td></tr>
<tr><td><u>Baseline 2013</u></td><td><u>Current Situation</u></td><td><u>Target 2014</u></td></tr>
<tr><td>a) To borrow for the requested MFA and Euratom loans at a reasonable price in the market [2013 swaps +40].
b) Borrowing, lending and management of the debt service of operations under the MFA/EURATOM facilities on time.
c) A Euratom loan was signed in 2013 to finance the upgrade of the nuclear plants in Ukraine.
d) To provide a MFA loan to Jordan</td><td>a) Fully on track ; March issue of EUR 2.6 billion at mid swaps + 9 bps, November issue of EUR 660m at mid swaps + 3 bps.
b) In principal on track; some delays due to procedures in beneficiary countries (e.g. Parliamentary elections delaying ratification).
c) The review of conditions precedent could be completed in collaboration with the EBRD and following consultations within the Commission.</td><td>a) Funding at a reasonable spread not more than swaps +50 basis point
b) To ensure 100% timely repayment and budgetary cover if necessary
c) To do the corresponding</td></tr>
</table>

	d) The loan disbursement to Tunisia was delayed to 2015 due to delays with national procedures; the disbursements for Georgia and Jordan are planned for February 2015. In addition, emergency MFA loans to Ukraine were negotiated (EUR 1.61 billion) and EUR 1.36 billion were disbursed in 2014.	borrowings operations after the loan becomes available, following the corresponding request from the borrower Energoatom. d) To disburse the loan to Jordan on time

b) Narrative

Progress with the various operations was mixed, with some operations fully on track and others subject to delays and/or amendments.

c) Risk assessment

The achievement of the policy and financial objectives in Ukraine may be compromised by the political situation in the country and its international ramifications.

d) Conclusion

As evidenced above, the part relating to macro-financial assistance and Euratom loans managed by the DG is on course to meet the multiannual objectives for this objective and has achieved the annual performance indicators or outputs and milestones in the reporting year.

1.1.14 ABB Activity Financial Operations and Instruments: "To promote the EU interest in the governing bodies of the EIB/EIF and strengthen the EU-EIB/EIF co-operation to ensure the alignment of EIB/EIF lending with EU policy priorities in particular within the EU"

a) Performance table

Specific objective: To promote the EU interest in the governing bodies of the EIB/EIF and strengthen the EU-EIB/EIF co-operation to ensure the alignment of EIB/EIF lending with EU policy priorities in particular within the EU" **Relevant general objectives: To foster EU growth, employment creation and sustainable development as To promote prosperity beyond the EU**		☒ Non-spending
<u>Result indicator 1</u>: Implementation of ex-ante coordination mechanism between the EIB and the Commission on projects and programmes and closer cooperation with the EIB Group and other financial institutions in particular within the EU. (Source: DG ECFIN – GIB plus its Article 19 IT system)		
Baseline 2013	Current Situation	Target 2014
a) In 2013, 433 Commission opinions were delivered on time out of the 477	a) In 2014,358 Commission opinions	a) 100% Timely delivery of Commission opinions issued on EIB

EIB projects received (i.e 91%). b) Number of transactions reviewed for the EIF Board of Directors until end of November 2013: 133.	were delivered on time out of 416 EIB projects reviewed (i.e. 86%). b) In 2014, Commission reviewed 129 transactions for the EIF Board of Directors.	projects b) Timely review of the transactions for the EIF Board of Directors (Forecast 2014: 192 transactions).
Main outputs in 2014:		
Description	Indicator / Current situation	Target
a) Nomination in EIF Board of Directors b) Nomination in EIF Audit Board	a) Adopted in March 2014 b) Adopted in December 2013 (anticipated due to the resignation with immediate effect of the member at the time).	a) + b) March 2014

b) Narrative

Article 19 of the EIB statute calls for ex-ante consultation of the Commission on EIB projects and programme proposals to ensure alignment of EIB lending activities with EU policies and legislation. The cooperation between the EIB and the Commission in the context of the Article 19 consultation has been smooth. The opinion is requested at very early stages of project cycle (generally before project appraisal) and based on relatively basic project information. It runs in parallel to the EIB's own internal processes and therefore does not normally slow down the approval of projects by the Bank.

c) Risk assessment

Due to the EIB capital increase effective from 2013, the number of submitted projects and issued opinions under Article 19 in 2013 increased significantly: compared to 2012, in 2013 the EIB submitted 36% more projects and Commission issued 28% more opinions. In 2014, the number of projects submitted and opinions issued were still substantially higher than in 2012 – 443 projects submitted and 416 projects reviewed. Nevertheless, the average response time has not been a limiting factor to EIB operations – most delays were caused because of EIB's long response-time to EC clarification requests for additional information. Furthermore, EIB and EC increased coordination efforts on planning of signature dates for lending operations under Art 19 which aim at preventing unnecessary time-pressure and benefit overall efficiency.

d) Conclusion

As evidenced above, the part relating to "Implementation of ex-ante coordination mechanism between the EIB and the Commission on projects and programmes and closer cooperation with the EIB Group and other financial institutions in particular within the EU" managed by the DG is on course to meet its multiannual objectives for this objective and has achieved the annual performance indicators or outputs and milestones in the reporting year.

1.1.15 ABB Activity Financial Operations and Instruments: "To improve the financial environment for business and infrastructure, promote the use and enhance the efficiency of the EU financial instruments"

a) Performance table

Specific objective: "To improve the financial environment for business and infrastructure, promote the use and enhance the efficiency of the EU financial instruments" **Relevant general objectives: To foster EU growth, employment creation and sustainable development as to promote prosperity beyond the EU**		☒ Spending Competitiveness and Innovation Programme (CIP)
Result indicator 1: Number of beneficiary SMEs receiving financial support (Source : EIF reports)		
Baseline 2013	Current Situation	Target 2014
Cumulated figures for the entire programme period as of 30 June 2013 for CIP, MAP, G&E, and as of 30 September 2013 for EPMF – latest available: CIP: 253,932 (SMEG07: 253,607; GIF 325) (Number of final beneficiaries) MAP: 234,718 (SMEG01: 234,413; ESU01: 305 (data as of June 2012 for ESU01)) G&E: 137,172 (SMEG98: 136,860; ESU98: 312) EPMF Guarantees: 6,716 micro-loans. EPMF FCP-FIS: 7,134 micro-loans	Cumulated figures for the entire programme period as of 30/09/2014 for CIP, MAP, G&E, and as of 30/09/2014 for EPMF – latest available: CIP: 357,022 (SMEG07: 356,589; GIF 433) (Number of final beneficiaries) MAP: 234,726 (SMEG01: 234,413; ESU01: 313 (data as of June 2014 for ESU01)) G&E: 137,175 (SMEG98:136,860; ESU98: 315 (data as of June 2014 for ESU98)) EPMF Guarantees: 14,973 micro-loans. EPMF FCP-FIS: 16,922 micro-loans	CIP (target for the entire duration of the programme): At least 316,950 (as per Annex to the Proposal for a Decision of the European Parliament and of the Council establishing a Competitiveness and Innovation Framework Programme 2007-2013, COM(2005)121 final, SEC(2005)433 dated 6/04/2005, p. 6). MAP: At least 200,000 EPMF: (target for the entire duration of the programme) 46,000 microloans.
Result indicator 2: Total investment/loan volume leveraged (EU + other sources)(Source : EIF reports)		
Baseline 2013	Current Situation	Target 2014
A/ Figures as of 30 June 2013 for CIP, MAP, G&E, and as of 30 September 2013 for EPMF – latest available: CIP: a) GIF: EUR 2,366 million (actual intermediary size); b) SMEG07: EUR 14,314.1 million (loan amount). MAP: a) "ESU01": EUR 1,306.0 million (actual intermediary size); b) "SMEG01": EUR 17,118.3 million (loan amount). G&E: a) "ESU98": EUR 511.3 million (actual intermediary size); b) "SMEG98": EUR 17,619.9 million (loan amount). EPMF: a) Guarantees: EUR 68.02 million (total amount of micro-credits).	A/ Figures as of 30/09/ 2014 for CIP, MAP, G&E, and as of 30/09/2014 for EPMF – latest available:: CIP: a) GIF: EUR 3,033 million (actual intermediary size); b) SMEG07: EUR 18,607 million (loan amount). MAP: a) "ESU01": EUR 1,328.6 million (actual intermediary size); b) "SMEG01": EUR 16,824.9 million (loan amount). G&E: a) "ESU98": EUR 515.0 million (actual intermediary size); b) "SMEG98": EUR 10,287.2 million (loan amount). EPMF: a) Guarantees: EUR 160.59 million (actual volume of micro-loans to final beneficiaries).	A/ CIP (target for the entire duration of the programme): EUR 13,000 million MAP: 8,000 million EPMF: (target of the entire duration of the programme) 500m loans. B/ ELENA: Minimum leverage 20/25 (technical assistance/ investment volume) C/ The new energy efficiency window introduced into the IFI-facilities as an amendment to the

b) FCP-FIS: EUR 64.95 million (total commitments amount of micro-credit agreements signed by Intermediaries). B/ During 2013 overall eight ELENA projects with commitments made for project investments in excess of EUR 697 million supported by EU project development services totalling approximately EUR 15,8 million (average leverage of 44). C/ IFI-Finance Facilities ECFIN manages the following programmes implemented through International Financial Institutions (IFIs), i.e. the EIB, EBRD and CEB/KfW (altogether the Sponsors) supporting SMEs, municipalities and energy efficiency. SMEFF, MFF, MIF and EEFF. Total grant budget 2010: EUR 546 million Cumulated disbursements end 2013: SMEFF:EUR 275 million MFF: EUR 64,9 million MIF: EUR 37,5 million EEFF: EUR 28 million Total : EUR 405,4 million	b) FCP-FIS: EUR 113.67 million (actual volume of micro-loans to final beneficiaries). B/ ELENA EIB During 2014 11 projects were approved for EUR 20.7 million, which is foreseen to generate project investments for a total of EUR 952 million. ELENA KFW During 2014 3 projects were approved for a total of EUR 7.8 million, which is foreseen to generate project investments for EUR 156 million. ELENA CEB During 2014 3 projects were approved for a total of EUR 1.94 million. The total investments generated by the projects are expected to amount to EUR 74.2 million. ELENA EBRD During 2014 only one project was approved for a total of EUR 0.26 million, which is foreseen to generate project investments for EUR 5.8 million. C/ Due to the ending of the agreed contracting deadline for new projects no new projects had been approved during 2014 (except: amendments, decommitment, reallocations of already committed amounts). The implementation of the programmes by the IFIs continued. Further disbursements were made in 2014 to grant beneficiaries as follows (final figures for 2014 are not yet available due to reporting time gap IFI to EC): Disbursements during 2014: SMEFF: EUR 18million MFF: EUR 8,5 million MIF: EUR 1,2 million EEFF: EUR 2,3 million Total: EUR 30 million	Contribution agreements foresees a standard leverage ratio of 1:5.
Result indicator 3 : Number of jobs created or maintained in SMEs receiving new financing (Source : EIF reports)		
Baseline 2013	Current Situation	Target 2014
Figures as of 30 June 2013 for CIP, MAP, G&E, and as of 31 March 2013 for EPMF – latest available:	Figures as of 30/09/2014 for CIP, MAP, G&E, and as of 30/09/2014 for EPMF – latest available:	CIP (target for the entire duration of the programme): 378,150

CIP: a) GIF: 6,844 (number of employees at final beneficiaries at date of first investment; data from employment report as at 31/12/2012); b) SMEG07: 935,984 (number of employees at final beneficiaries at inclusion date). MAP: a) ESU01: no information available; b) SMEG01: 940,849 (number of employees at final beneficiaries at inclusion date,). G&E: a) ESU98: no information available; b) SMEG98: 593,374 (number of employees at final beneficiaries at inclusion date). Additional information: CIP: a) GIF number of jobs created or maintained: the information is available on the number of employees at the initial and final date , namely: - GIF number of employees at date of first investment: 6,844; - GIF number of employees at the final date, as of 31.12.2012: 9,908. b) SMEG07 number of jobs created or maintained: 253,607 (this is an estimate based on the methodology outlined in the Final Evaluation of the Entrepreneurship and Innovation Programme - Final Report - April 2011 pg. 22). MAP: a) ESU01: no information available; b) SMEG01: 234,413 (estimate based on the afore-mentioned methodology). G&E: a) ESU98: no information available; b) SMEG98: 136,860 (estimate based on the afore-mentioned methodology). EPMF: EPMF Guarantees: 5,390 (Total number of employees, at first inclusion date) EPMF FCP-FIS: 8,275 (Total number of self-employed and employees of Micro-enterprise Final Beneficiaries, at signature date of Micro-credit agreement).	CIP: a) GIF: 6,844 (number of employees at final beneficiaries at date of first investment; data from employment report as at 31/12/2012); b) SMEG07: 1,264,307; (number of employees at final beneficiaries at inclusion date). MAP: a) ESU01: no information available; b) SMEG01: 940,849 (number of employees at final beneficiaries at inclusion date). G&E: a) ESU98: no information available; b) SMEG98: 593,374 (number of employees at final beneficiaries at inclusion date). Additional information: CIP: a) GIF number of jobs created or maintained: the information is available on the number of employees at the initial and final date , namely: - GIF number of employees at date of first investment: 6,844; - GIF number of employees at the final date, as of 31.12.2012: 9,908 b) SMEG07 number of jobs created or maintained[11]: 356,589 MAP: a) ESU01: no information available; b) SMEG01: 234,413 (estimate based on the afore-mentioned methodology). Up to +15% (assessment of "pure" impact of programme on employment in the 5 years following the issuance of the guaranteed loan in CESEE countries) G&E: a) ESU98: no information available; b) SMEG98: 136,860 (estimate based on the afore-mentioned methodology). EPMF: EPMF Guarantees: 21,939 (total number of employees at first inclusion date). EPMF FCP-FIS: 25,347 (total number of self-employed and employees of micro-enterprises at signature date of micro-credit loans).	(as per Annex to the Proposal for a Decision of the European Parliament and of the Council establishing a Competitiveness and Innovation Framework Programme 2007-2013, (COM(2005)121 final), SEC(2005)433 dated 6/04/2005, p. 6).

[11] This is an estimate based on the methodology outlined in the Final Evaluation of the Entrepreneurship and Innovation Programme - Final Report - April 2011 pg. 22.

Result indicator 4: Monitoring activity and Approval process (Source : DG ECFIN)		
Baseline 2013	Current Situation	Target 2014
a) Regular monitoring and reporting on existing Financial Instruments. b) Approval of projects under the Technical Assistance programmes managed.	a)10 monitoring visits done: 4 monitoring visits to FIs for guarantees (CIP SMEG 07 + EPMF guarantees) ; 4 monitoring visits to FIs for VC; 2 monitoring visits to the EIF (1 SMEG 07, 1 EPMF). b)Reports delivered: Art. 38.5: delivered to BUDG on 16 April 2014 Art. 49.1.e: delivered to BUDG on 16 April 2014 Art. 140.8: report adopted on 30 October 2014	a) To ensure timely monitoring and reporting b) To ensure timely approval

Main outputs in 2014:		
Description	Indicator / Current situation	Target
Financial and Administrative Framework Agreement between the European Union and the European Investment Bank	Adopted in April 2014	March 2014
Financial and Administrative Framework Agreement between the European Union and the European Investment Fund	Adopted in May 2014	March 2014
To contribute to the reporting package on financial instruments to the Budgetary Authority and to coordinate the Article 140(8) reporting according to the new Financial Regulation.	Adopted in October 2014	December 2014
To contribute to the report to the Budgetary Authority and to coordinate the reports on financial instruments according to Articles 38(5) and 49(5) of the new Financial Regulation.	Delivered to BUDG on 16/4/2014 and published by BUDG in June 2014	December 2014
Communication on National Promotional Banks	Discussions still ongoing	September 2014
Financial Instrument Delegation Agreement under the Connecting Europe Facility	The adoption has been postponed to early 2015.	December 2014

b) Narrative

The Competitiveness and Innovation (CIP) programme meets EU objectives through its contribution to regional development as it works through a number of regionally based financial intermediaries and towards increasing competitiveness and productivity of SMEs in general.

In 2014, the CIP programme, particularly with its SMEG 07 (providing guarantees) and GIF (providing venture capital) components provided again an essential contribution to SMEs' support in the EU, with a specially counter-cyclical role devoted to the Guarantee Facility (SMEG07) under CIP, which helped final beneficiaries to face the difficulties still arising from the economic conditions in 2014, namely to obtain or maintain access to finance and to create or maintain jobs over the period.

i) In particular, the **SME Guarantee Facility** catalysed EUR 18.6 billion of loans into SMEs with the limited EU budget of EUR 637.8 million that was used to guarantee loans[12] underlying the instrument. In this regard, the leverage effect for the Facility (total loan volume received by the beneficiary SMEs / EU guarantee cap amount) is around 31[13].

Moreover, 356,589 SMEs received financial support under the Facility (the numbers are still growing) whereby more than 234,000 had received such support under the predecessor MAP programme)[14].

The relevance of the SME Facility under CIP as assessed by the beneficiary SMEs is significant[15]. 46% of SMEs stated that the EU financing scheme was the only option available for them to get financing, Further, 18% stated that without the EU support they would have received only part of the funding needed and 42% stated that the EU support helped them to get additional finance. Finally, 64% of SMEs emphasized that EU support was crucial to find the finance needed.

The impact extends to the real economy as the investments into SMEs support growth and employment opportunities.

ii) Under the **High Growth and Innovative SME Facility (**GIF) – the support is much more focused and targeted on a relatively limited number of companies that have the potential to achieve high growth, to bring innovation to the market and to create high added value jobs.

As of end September 2014, EUR 555 millions of EU resources has been invested in venture capital funds, catalysing a total investment of EUR 3.0 billion. Consequently, 433 such investees (SMEs) had received equity finance facilitated by this financial support. Such SMEs experience a larger growth in sales, assets and employment than those not backed by an equity or venture capital fund and are also less likely to default than other companies. Moreover, there is evidence of increased operating margins, productivity and capital efficiency.

In this context, the High Growth and Innovative SME Facility contributes to the re-engineering of the EU economy.

In this respect, although the overall effect of EU programmes on SMEs' financing remains limited (by nature, EU intervention is limited to market gaps or sub-optimal market situations, meaning by far the largest part of financing is provided by banking and finance market players), those programmes contributed very positively to the

[12] Providing for a partial coverage

[13] Source: EIF SMEG 2007, Quarterly Report issued on 30/12/2014 with data as at 30/9/2014.

[14] Source: EIF SMEG 2007, Quarterly Report issued on 30/12/2014 with data as at 30/9/2014.

[15] Source: Centre for Strategy & Evaluation Services (CSES) LLP, Final Evaluation of the Entrepreneurship and Innovation Programme, April 2011. The figures in the text are the results of a telephone survey conducted within the evaluation. For the Guarantee Facility, in total 256 beneficiaries were interviewed of which 206 receiving support under the loan window and 50 under the micro credit window. In the case of High Growth and Innovative SME Facility, in total 53 beneficiaries were interviewed.

development and sustainability of EU SMEs throughout 2014. Moreover, the estimated number of jobs created under CIP (both SMEG 07 & GIF) is nearly 360,000[16]; the number of employees in CIP-supported SMEs (under both SMEG 07 & GIF) as at portfolio inclusion date is more than 1,271,000.[17].

Apart from the operational management of the existing programmes, DG ECFIN contributed heavily to the new 2014-2020 framework for Financial instruments (design, implementation), by:

- chairing the informal coordination mechanism of the "Financial Instruments Interservice Expert Group (the FIIEG)", foreseen in the "Communication on Innovative Financial Instruments" adopted on 19 October 2011 (COM(2011)662);
- contributing to the proposal for a Regulation (the Common Provision Regulation or CPR) of the European Parliament and of the Council under the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the future European Maritime and Fisheries Fund (altogether the CSF funds) and the related Delegated Act and Implementing Act;
- contributing largely to the design of the SME Initiative;
- contributing to the design of a number of specific financial instruments in various policy fields: DG ECFIN developed the Template for Delegation Agreements and set it at the disposal of policy DGs in order to enable them to negotiate their own Delegation Agreements with their relevant IFIs, while ensuring a cross-DGs consistency among the various programmes and compliance with the Financial Regulation; subsequently, DG ECFIN took in 2014 a large part in the drafting/reviewing/negotiation of the Das, notably for COSME, Horizon2020, ERASMUS+ and EaSI.

In addition, we will continue to work with DG REGIO and Task Force for Greece on the support of the Greek economy and provide liquidity to the Greek Financial Institutions.

Finally, we took part in the Vienna Initiative's Working Group on CGS and, jointly with the EIF, contributed to the Group's final report with a thorough impact assessment of MAP-guaranteed loans in CESEE countries.

We co-ordinated the Commission position in relation to the **Project Bond Initiative** (PBI) developed in co-operation with the EIB to stimulate investment in European infrastructure projects through a greater involvement of institutional investors in the long term debt financing of such projects. The PBI is still in the pilot phase, with eligible projects approved by the EIB Board by December 2014 to reach financial close until end 2016.

So far, four projects in four different countries have reached financial close under the PBI (the EIB supported two further project bonds, in Spain and the UK, without however

[16] Estimate based on the methodology outlined in the Final Evaluation of the Entrepreneurship and Innovation Programme, Final Report, April 2011.
[17] Source: EIF Quarterly Report as of 30/9/2014.

any contribution from the EU budget) with an overall EIB credit enhancement of EUR 293 million for a total project capital cost of over EUR 2 billion. Therefore the achieved leverage on the signed transactions to date (defined as total project cost per EC Contribution committed) was around 7, which shows that the initiative was able to mobilize an impressive volume of additional finance.

Furthermore, the pilot phase of the initiative has demonstrated early success when measured against the objectives set initially and an expectation of 5-10 transactions to be closed. Further projects have been approved by the EIB's Board of Directors. The project pipeline includes in particular motorways eligible under the TEN-transport Regulation such as the Passante di Mestre motorway in Italy, the Port de Calais expansion project in France, as well as the N25 motorway in Ireland. The next signature is expected to take place in Q1 2015. Total EIB financing of EUR 270m is estimated to be provided in support of a total bond issue of approx. EUR 1.1 billion for the financing of these projects. The final uptake will depend on whether the bond solution will be the favourite solution of the procuring authorities and sponsors for all the projects in the pipeline.

Key achievements and results of the PBI to date:

1) Compared to EIB senior lending, both under EIB own risk or under joint facilities such as RSFF, the subordinated position taken by the EIB under the PBI had a clearly demonstrable catalytic effect in attracting private investors to projects. The presence of the EIB and the Commission in providing support to the financing of projects demonstrated a proof of concept for the PBI. The credit enhancement provided to infrastructure projects allowed the bonds issued by the respective project companies to have risk profiles that are attractive to a wide range of institutional investors;
2) The project bond option associated with the PBI credit enhancement resulted in significant pricing advantages for the public authority compared to bank financing, which resulted in higher value for consumers; this was highlighted by the conclusions of the Interim Evaluation of the PBI (concluded in 2014) and also by the several studies and press articles[18] published to date;
3) The design of the product allowed sufficient flexibility to attract the interest of institutional investors into the financing of infrastructure projects. For example:
    a. A number of PBI transactions incorporated innovative mechanisms that allowed a deferred drawdown structure (not all funds are drawn at bond issuance but are drawn as project completion progresses), hence mitigating the impact of negative carry typical for bond financing;
    b. Whereas project bond structures in Europe are frequently used to refinance operations after construction, the credit enhancement under the PBI allowed covering greenfield and brownfield operations as well as being adapted to cover not only availability risk, but also construction

[18] Moody's "*Pilot Phase of the project Bond Initiative demonstrates early proof of concep*t", November 2014.

and traffic risks ;

4) The EIB's role as a credit enhancement provider gave private investors assurance that the Bank will become involved at an early stage in the project procurement. This early involvement and a proven delivery model helped to mitigate the deliverability risk attached to bond financing during the procurement;
5) Despite the small number of projects signed to date, the instrument helped establishing positive capital markets benchmarks for the future.

A comprehensive assessment of the relevance, efficiency and effectiveness of the PBI Pilot Phase will be done during the evaluation of the Initiative in 2015. In the light of this assessment, the Commission may consider proposing regulatory changes if the predicted market uptake is not satisfactory or if alternative sources of long-term finance have become available. The initiative will be pursued under the Connecting Europe Facility Debt Instrument, to be launched in 2015.

The EU investment in the **Marguerite Fund** was meant to promote equity investment in infrastructure projects, in particular TEN-T, through an equity fund established in cooperation with the EIB and other National Promotional Banks. The Fund has so far closed ten deals, the majority of which in the renewables sector. In April 2014 Marguerite made its 10th investment – a TEN-T road in Ireland. This brings the number of TEN-T projects to three and the number of countries to eight.

The **ELENA** facility is delivered in cooperation with the EIB, KfW, EBRD and CEB (the Sponsors). The aim of the ELENA Facility is to support local and regional authorities via grants to contribute to the "20-20-20" Initiative (initiative aims at reducing greenhouse gas emissions by at least 20%, increasing the share of renewable in energy consumption to at least 20% and improving energy efficiency by at least 20%, all by 2020). During 2014, 18 projects were approved for EUR 30.7 million in the form of pre-financing, which is foreseen to generate project investments for a total of EUR 1,188 million.

As indicated in the executive summary, we played a central role in the preparation of the **investment plan proposed by President Juncker** at the end of 2014. Arguably, experience with PBI fed into the investment initiative. In this context, DG ECFIN co-ordinated a new special joint Commission – EIB – MS Task Force (TF), set up at the end of September. The work of the TF was completed in December 2014 (final report accompanied by lists of potential investment projects, appr. 2000 submitted by MS and appr. 700 by the Commission) with next steps now being considered.

Following its final meeting, in December the TF published its final report on the Investment Offensive site http://ec.europa.eu/priorities/jobs-growth-investment/plan/what/index_en.htm (European Commission → 10 Priorities → Jobs, growth, investment → Plan). The TF final report also included follow-up recommendations and was presented at the 9 December ECOFIN and the European Council meetings held on 18-19 December. An important follow up is the promotion of a comprehensive pipeline of investment projects to be disseminated on MS and central Commission portal.

c) Risk assessment

The risk assessment exercise conducted in Q4 2014 did not reveal any major risk-exposure, while every risk outlined has been addressed through appropriate risk-mitigation procedures and thus was "accepted".

As we are no longer designated service in charge for the new 2014-2020 Financial Instruments (FIs), there might be a risk of loss of expertise. Yet this risk has been properly addressed and mitigated since we will act at governance level and have a reinforced position as a Competence Centre with its ongoing work with Designated Services within the Commission for FI related matters. Moreover by producing and coordinating the reporting package under the new MFF (Reports Art. 38.5, Art. 49.1, Art. 140.8) initiated in 2014 and to be continued, DG ECFIN will keep an overall overview of all FIs under the new FR reporting package.

d) Conclusion

As evidenced above, the part relating to Financial Instruments under G&E, MAP, CIP, EPMF managed by the DG is on course to meet its multiannual objectives for this objective and has achieved the annual performance indicators or outputs and milestones in the reporting year.

As evidenced above, the part relating to ELENA and IFI-Facilities managed by the DG is on course to meet its multiannual objectives for this objective and has achieved the annual performance indicators, e.g. the ratio of grants to induced loans/investments in the reporting year. With a view to the termination of the IFI facilities, the last payment transactions from the EC to the IFIs´ trust accounts will be executed till 31 December 2015 as planned.

1.1.16 ABB Activity Financial Operations and Instruments: "To ensure sound and efficient management and follow-up of non-budgetary operations"

a) Performance table

Specific objective: "To ensure sound and efficient management and follow-up of non-budgetary operations" **Relevant general objective: To foster EU growth, employment creation and sustainable**		☒ Non-spending
Result indicator 1: Active treasury management - Continuation of asset management for ECSC optimise return while mitigating risks. (Source :DG ECFIN)		
Baseline 2013	Current Situation	Target 2014
The income on the ECSC portfolio is used by RTD to finance research in the coal and steel sector ECSC portfolio (EUR 1,704 million as of 31/12/2013) delivered a positive return of 0.48% for the period January-December 2013 resulting on a negative performance of 89 basis points compared with the benchmark's positive return of 1.38%. The exposure in bonds issued by France and Germany negatively impacted the performance of the portfolio versus its	The ECSC portfolio delivered a positive return of 3.40% for the period January – December 2014.	Achieve a performance in line with the benchmark.

benchmark.		
Result indicator 2: Competition fines - Continuation of managing the assets obtained by the Commission as provisionally cashed fines from competition cases. (Source : DG ECFIN)		
Baseline 2013	Current Situation	Target 2014
The BUFI portfolio (EUR 1,894 million as of 31/12/2013) delivered a positive return of 0.08% for the period January-December 2013 resulting on a positive performance of 23 basis points compared with the Index's negative return of 0.15%. This over performance was influenced by the non-benchmark position of the portfolio (25% by the end of December 2013) which improved the overall portfolio yield. As of 31 December 2013, according to accounting figures, the BUFI buffer reserve stood at EUR 16.38 million or 0.9% of the nominal amount of cashed fines.	The BUFI portfolio delivered a positive return of 0,43% for the period January – December 2014.	Achieve a performance in line with the guaranteed return.
Result indicator 3: Mandates as Asset Management Designated Service (AMDS) - Monitoring of certain asset management mandates outsourced under which the EIB invests off-budget funds on behalf of the Commission. (Source : DG ECFIN)		
Baseline 2013	Current Situation	Target 2014
To monitor the compliance of EIB's asset management with Asset Management Guidelines. The number of Asset Management mandates increases as the new Multiannual Financial Framework 2014-2020 is implemented.	A procedure is in place to monitor the compliance and timely receipt of the reports.	To ensure timely monitoring by the EIB / To make sure the reports are received on time
Result indicator 4 : Borrowing and lending activity Source : In accordance with the relevant Council Implementing Decisions and the Commission Decisions on release and borrowing of the funds		
Baseline 2013	Current Situation	Target 2014
a) To be involved in supporting the joint efforts of the Commission with the ECB and the IMF to address the consequences of the financial crisis in particular concerning the different financial instruments and facilities like the EFSM, the EFSF, the Greek Loan Facility and the ESM. b) The EFSM must still borrow EUR 4.7 billion for both countries to complete the approved programmes that amount to EUR 48.5 billion in total. c) The extension of the maturities for the existing EFSM loans to Ireland and Portugal was approved and countries may request extension of existing loans in 2013. d) To continue to administer the Greek Loan Facility (GLF).	a) All contributions provided timely. b) Funding transactions have been executed at rates in line with the rates of the EIB. The amount disbursed under the EFSM in 2014 was lower than planned (EUR 3 billion instead EUR 4.7 billion) as Portugal did not request the entire programme amount. c) No loans to Ireland and Portugal due in 2014; next maturity for Ireland in December 2015. d) No administrative issues are to be reported for the GLF.	a) To provide timely contribution. b) Funding of the borrowings at a rate not higher than the rate of the EIB. c) To carry out the extension operations at the time of the maturity of the loans to be extended. d) Timely collection of reimbursements from Greece and transmission to Euro Area lenders.
Main outputs in 2014		

Description	Indicator / Current situation	Target
H2020: a single Participants Guarantee Fund (PGF) will be created to replace and succeed the two existing FP7 Guarantee Funds (EU and Euratom). The financial management of the assets of the single PGF for the H2020 programme is going to be assigned to DG ECFIN, which will also necessitate the transfer of the balance of the FP7 Guarantee Funds' assets from EIB to ECFIN.	The completion of the preparatory work for taking over the H2020 PGF portfolio and start of operational management was done.	April 2014
Financial Report ECSC in Liquidation at 31 December 2013	Adopted in July 2014	June/July 2014
Report on borrowing and lending activities of the European Union in 2013	Adopted in August 2014	December 2014
Potential legislative proposal to the Council regarding the future of the Euratom loan facility and a proposal for a new ceiling.	Adoption postponed to 2015	December 2015
Quarterly Risk Report on Directorate L's Off Budget financial activities to senior management.	Deliveries were made in February, May, August, and November 2014	Quarterly

b) Narrative

The active asset management was evaluated in 2014 by the World Bank in the context of a peer review, benchmarked against public financial institutions' practice (i.e. central banks, international development banks, etc.). The evaluation report concluded that we achieved its objectives in the management of the portfolios under its responsibility. To further enhance our asset management capabilities, a set of medium or low priority improvements was recommended to be gradually implemented over the coming years.

c) Risk assessment

We are implementing the necessary corrective actions to mitigate identified risks and this is influencing progress in the implementation of the activity toward achieving its objectives.

d) Conclusion

As evidenced above, the performance of the portfolios was on course to meet its objectives during the reporting year.

1.1.17 ABB Activity Policy Strategy and coordination" EFC-EPC Secretariat

a) Performance table

Specific objective: To contribute to the co-ordination of economic and financial policies in the EU through the efficient functioning of the EFC, EPC and EWG. **Relevant general objective Policy strategy and coordination**		☒ Non-spending	
Result indicator 1: Number of workshops, conferences, meetings and teleconferences (Source: Meeting statistics and MeetingOne reports)			
Baseline (2013)	Current situation	Target	
Meetings: 94 Teleconferences: 153	96 104	To meet the obligations as set by the 2014 Work Program of the Committees and their Working Groups	
Result indicator 2: Number of notes and reports (documents registered in ARES) Source: ECFIN Document Management Statistics 2014			
Baseline (2013)	Current situation	Target	
441	606	n/a	
Result indicator 3: Level of satisfaction of EFC/EPC members with DG ECFIN's work and output Source: ECFIN Document Management Statistics 2014			
Baseline (2012)	Current situation	Target	
3.67 out of 5	N/A	3.75 to be obtained at the next stakeholder survey	
Main outputs in 2014:			
Description	Indicator	Current situation	Target
Meetings	96 (2014 result)	Target met	94 (Baseline 2013)
Documents	606 (2014 result)	Target met	441 (Baseline 2013)

b) Narrative

In 2014 the Secretariat contributed to the formulation, co-ordination and surveillance of economic and financial policies in the EU through the smooth and efficient functioning of the Economic and Financial Committee (EFC), the Economic Policy Committee (EPC), and the Eurogroup Working Group (EWG), as well as their subcommittees and working groups, in particular as regards administrative and general support. This included the preparation of reports and opinions for the EFC, the EPC, the EWG, the Council and the Eurogroup; as well as Ecofin and Eurogroup draft conclusions and statements. The Secretariat also provided support and policy advice to the President of the Eurogroup, the EFC President and the Brussels-based permanent President of the EWG, the EPC President, as well as to the presidents of sub-committees, working groups and task forces, and represented the EFC President in the ESRB structures. At the year-end of the reporting year, no new stakeholder survey had been launched.

c) Risk assessment

We have implemented the necessary corrective actions to mitigate identified risks and how this is influencing progress in the implementation of the programme toward achieving its objectives.

d) Conclusion

Not available (Horizontal activity)

1.2 Examples of EU-added value and results/impacts of projects or programme financed

Example 1

Study cost-effectiveness (SOE) of support to electricity generation: Due to its impact on energy prices, competitiveness and public finances, the issue of cost-effectiveness of support to electricity generation is an important matter of economic policy concern. The results of the study will be used for ECFIN's country surveillance of MS, including the European Semester. They will be also an important input to the inter-service work on the post-2020 framework on energy and climate, to the future policy proposal on renewable energy post-2020 and to the guidelines on support schemes for renewables. The involvement of external consultants is necessary to gather and analyse the relevant and precise country-specific data and information about subsidies in Member States and their reforms. In order to reduce the cost of the study and to improve its policy impact, the project will be carried out jointly and co-financed by DGs ECFIN and ENER, with ECFIN's and ENER's contribution up to EUR 100,000 each. ENER's framework contract will be used to select the contractor. As regards EU value added, internalising cross-country spillovers is one element of added value of coordination at EU level. Furthermore, synergies of targeted support to electricity generation can stem from defining priorities for best practice-based action.

Example 2

Spending activities: "To improve the financial environment for business and infrastructure, promote the use and enhance the efficiency of the EU financial instruments":

The CIP market-oriented instruments under GIF and SMEG facilities have shown high efficiency and relevance in addressing current market conditions, dominated in recent years by a tightening of credit conditions and more difficult access to finance for SMEs. The SMEG Facility is a counter-cyclical instrument and has helped final recipients to face difficulties arising from the economic conditions since the crisis, namely to obtain or maintain access to finance and to create or maintain jobs over the period.

In this respect, although the overall effect of EU programmes on SMEs' financing remains limited (by nature, EU intervention is limited to market gaps or sub-optimal market situations, meaning by far the largest part of financing is provided by banking and finance market players), the Facility did, however, make a very positive contribution to the development and sustainability of EU SMEs throughout 2014.

The latest evaluation of the Competitiveness and Innovation (CIP) programme reiterated that the financial instruments appeared to be on track to achieve the targets set and confirmed that the effectiveness of the financial instruments has increased over time. In more detail, regarding:

a) Effectiveness and efficiency:

The financial instruments appear to be on track to achieve the targets set and seem to be acquiring a certain momentum that may lead them to exceed expectations. [19]

Moreover, SMEG07 is a cost-effective financial instrument; compared to grants, where 1 EUR of budgetary resources provide 1 EUR of financing, the SMEG07 is expected to support 31.6 EUR of finance to SMEs for 1 EUR of budgetary contribution.

In addition, there have been improvements in monitoring systems at the level of both EIF (entrusted entity) and financial intermediaries involved in implementation which contributed to tracking performance of the instrument and thus more effectively pursuing the policy objectives of the instrument.

b) Relevance:

The relevance of the instrument as assessed by the recipient SMEs is significant[20]:

- 46% stated that the EU financing scheme was the only option available for them to get financing,
- 18% stated that without the EU support they would have received only part of the funding needed, 42% stated that the EU support helped them to get additional finance and
- 64% stated that EU support was crucial to find the finance needed.

Furthermore, the instrument offers tailor-made solutions that are based on the common principles set out in the guarantee policy and operational guidelines of the programme. Due to the embedded flexibility of the programme, countries', and intermediary's specific needs could be effectively addressed when considering an appropriate guarantee product.

In this regard, SMEG07 has a wide geographical coverage. The instrument involves 57 financial intermediaries, which have been providing finance to SMEs in 24 participating countries.

Examples of businesses which have benefited from guarantees under the CIP programme:

1) SPAIN – The Dance school

The added value of the EU guarantee is clearly demonstrable. MicroBank has confirmed in writing that they could assume the additional risk of guaranteeing EUR 67 million of microloans, on top of their capacity of EUR 36 million (thus reaching a total of EUR 103 million), only as a result of the EU guarantee. One of the loans granted is detailed

[19] CSES (2012).
[20] CSES (2011).

below.

Company: The Dance School, Barcelona

Type of business: School

EU-guaranteed loan from MicroBank: EUR 25,000

"Securing micro-credit was quite easy. I presented my business plan, they saw that I had a clear idea backed with solid experience and supported my new challenge." – Dance Teacher concerned.

The dance teacher concerned is a choreographer, artistic director and flamenco dancer and now owns her own dance school in Sant Esteve de Palautordera (Barcelona), Spain. The dance school for all ages and various genres opened in July 2007. The school originally began with 20 pupils and now there are more than 60 budding dancers!

The Dance teacher concerned received an initial micro-credit contribution of EUR 25,000 from the Spanish microlender MicroBank. This loan was used to refurbish the premises and helped her to take her very first steps towards opening her dance school.

Initially, the dance teacher concerned started off with six employees but was able to expand to ten following her loan. Her short-term ambitions are to make it a flagship dance school and to increase the number of pupils.

2) HUNGARY – Biotech – Implant specialist

The added value of the EU guarantee is demonstrated through the reduced interest rate (reduction of the applicable margin) and reduced collateral requirements (from 75% to 25% of the loan amount in certain cases). Biotech has beneficiated from both a lesser margin and reduced collateral requirements.

Company: Biotech GmbH
Type of business: Implant specialist
EU-guaranteed loan from UniCredit Bank Hungary: EUR 546,000

"Without this CIP loan, we would not have been able to grow our business so quickly"– Managing Director concerned.

Biotech was set up in 2006 and has since become a key player in the Hungarian medical market. The company both produces and trades orthopaedic, trauma and spine implants, providing mobility solutions for patients.

Biotech's owner and CEO is a trained orthopaedist. He initially set up Biotech in a rented factory but the premises soon became too small and unsuitable for the high quality production process necessary for manufacturing these products.

'We soon realised that we needed even more space and additional finance to continue developing new products and providing new services' states the Managing Director.

So in 2010, Biotech went to UniCredit Hungary for a loan, bought a new factory, warehouse and office in Diósd near Budapest and also created a new R&D centre.

Thanks to this recent expansion, the company can now increase its production and research and also has the infrastructure to take on new employees.

1.3 Economy and efficiency of spending and non-spending activities.

According to the financial regulation (art 30), the principle of economy required 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 the best price. The principle of efficiency concerns the best relationship between resources employed 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 according to the principle of economy (e.g. the procurement rules ensure procurement in optimal conditions).

DG ECFIN is continuously fine-tuning its internal arrangements in order to improve the efficiency and economy of its operations. The following two initiatives show how these principles are implemented in our DG:

1.3.1 Example 1

Pooling resources for the study on cost-efficiency of electricity generation across DGs ECFIN and ENER contributes to the economy of operations in terms of integrating work on substantives issues which are closely interconnected, avoiding the launch of partly overlapping initiatives from different services. The study at EU level (typically not carried out at national level) creates value added to the extent that will help spread good practices and align Member States policies in their operation of electricity generation in a manner that exploits synergies and minimises negative cross-border spillovers.

1.3.2 Example 2

Example 2 relating to a spending programme. DG ECFIN is continuously fine-tuning its internal arrangements in order to improve the efficiency and economy of its operations. The following initiative shows how these principles are implemented in our DG:

Launch by DG ECFIN of a new monitoring item "Return & decommitments of funds"

The purpose of this new monitoring is to give reasonable assurance regarding the procedures implemented by the EIF with a view to determine the amounts to be decommited/returned to the EU budget under Competitiveness and Innovation Programme (CIP) and EPMF (European Progress Microfinance Facility).

As the same procedures are used also for the new generation of financial instruments under the EU programme - the Competitiveness of Enterprises and Small and Medium-sized Enterprises (COSME) and Horizon 2020 (H2020) - this monitoring is highly significant as it will allow the validation of the decommitment/recovery process at the level of EIF for the four programmes mentioned above, i.e. CIP, EPMF, COSME and H2020.

The monitoring will be carried on in two steps:

a) kick off meeting between the ECFIN service and EIF representatives to launch the process at both levels and define the principles/scope/aim of this monitoring (held on 22/01/2015);

b) actual monitoring visit foreseen in September 2015 with check-points and controls defined on the basis of the documentation provided by the EIF by end of Q12015.

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-General. The reports produced are: the reports by AOSD[21]s; the reports from Authorising Officers in other DGs managing budget appropriations in cross-delegation; the reports on control results from entrusted entities in indirect management as well as the result of the Commission supervisory controls on the activities of these bodies; the contribution of the Internal Control Coordinator, including the results of internal control monitoring at the DG level; the reports of the ex-post supervision or audit; the opinion and the observations of the Internal Audit Capability (IAC); the observations and the recommendations reported by the Internal Audit Service (IAS) and the observations and the recommendations reported by the European Court of Auditors (ECA).

This section reports the control results and other relevant elements that support managements' assurance on the achievement of the internal control objectives[22]. 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. It is also worth noting that the declaration of assurance with respect to the true and fair view includes all elements showing under Annex 3.

The **scope of the assurance** provided by the Director-General extends to all elements showing under Annex 3: budget expenditures and revenues (tables 2 and 7); assets and liabilities (table 4); off-balance sheet disclosures (table 5bis). This assurance because of the various management modes and operations is a mix of direct assurance and third party assurance as disclosed in the various sub-sections.

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[21] Authorising Officers by sub-delegation (AOSD)

[22] 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).

ECFIN Annual Activity Report	Expenditure in million	Revenue in million	Assets & liabilities (incl. treasury) in million	Off Balance Sheet items in million
Section 2.1 Direct management & assurance	(62) -> 19,2	23,3	6976 + 57568	18849
Section 2.2 Indirect management & assurance (3rd party)	(173) -> 215,2	n/a	2000 375 (243 + 132)	n/a
Not to be reported items	**n/a**	**n/a**	**299**	**2343**
Total coverage	**234,4**	**23,3**	**67218**	**21192**
Ref to Annex 3	Table 2	Table 7	Table 4	Table 5-bis

The following tables illustrate **more in detail the scope of this assurance** – they also provide **references to sections in the report** where the achievements of the respective control objectives are discussed:

Table of revenues (€ 23 343 143,16 – all revenues were recognised and cashed in 2014)

Accepted Amount (Eur)	Justification	Central Appropriation
15.035.790,71	Recovery of interests or unused funds to be returned to the budget of the EU for spending programmes (ELENA, G&E, MAP, TTP)	BGUE-I2014-5210-IC1
123.434,10	Regularisation of interests generated on the trust account and to be added to the resources of the actions	BGUE-I2014-5230-IC1
3.270.929,37	Allocation of retained earnings for BOP, MFA, EURATOM and EFSM	BGUE-I2014-5510-IC4
50.938,00	Recovery of BUFI related IT service costs	BGUE-I2014-5730-IC4
-7.588,63	Partial concellation of JOP projects outstanding amounts	BGUE-I2014-6600-IC11/IC41
4.698.000,00	EIF dividends for financial year 2013	BGUE-I2014-8500-IC1
171.639,61	Commission fees from the EIF for financial year 2013	BGUE-I2014-9000-IC1

Revenues are discussed under section 2.1 "revenues"

Table of expenditure budget implementation (commitments: € 158 216 914,33 payments: € 234 375 503,89)

Comm.Cons.	Pay.Cons.	Description
7 997 964,62	7 510 791,20	ADMINISTRATIVE EXPENSES
5 111 771,49	5 462 818,16	COORDINATION, SURVEILLANCE AND COMMUNICATION
5 270 725,00	4 917 978,87	BCS GRANTS
598 479,52	533 411,30	COMMUNICATION ACTIONS WITH COMM
1 982,70	183 891,36	DÉLÉGATION CHINE/JAPON/ETATS-UNIS
48 000,00	108 432,96	COORDINATION, SURVEILLANCE AND COMMUNICATION with EMPL and SCIC
181 874,00	179 806,15	MACRO-FINANCIAL ASSISTANCE EVALUATIONS AND ASSESSMENTS
38 000 000,00	0,00	MFA GRANTS
58 432 294,00	58 432 294,00	PROVISIONING OF THE GUARANTEE FUND
42 517 445,55	42 517 445,55	ENTRUSTED ENTITY EUROPEAN INVESTMENT FUND CAPITAL INCREASE
0,00	241 972,00	NUCLEAR SAFETY
0,00	107 355 405,00	FINANCIAL INSTRUMENTS COMPLETION OF FORMER SME's PROGRAMMES
56 377,45	6 931 257,34	FINANCIAL INSTRUMENTS COMPLETION OF FORMER SME's PROGRAMMES with NEAR

Administrative expenses, coordination/surveillance/communication, evaluations and nuclear safety are discussed under section 2.1 "other direct management expenditure)

BCS grants are discussed under section 2.1 "bcs grants"

MFA grants are discussed under section 2.1 "mfa grants"

Provisioning of the guarantee fund is discussed under section 2.2 "guarantee fund"

Entrusted entities and financial instruments are discussed under section 2.2 "financial instruments"

At DG ECFIN, payments made relate to one of three categories: direct management; indirect management; off-budget transactions such as budgetary covers with payment orders and corresponding recovery orders authorised in advance of the payment due by the loan beneficiaries (such transactions do not form part of Annex 3). Because each of these categories has its own specificities, inherent risks, and assigned staff, the integrated control system at DG ECFIN uses these categories as building blocks.

Payments under direct management are processed against Title 01 Chapter 01 (Administrative expenditures); Chapter 02 (Economic and monetary union); Chapter 03 (Macro-financial assistance); and Chapter 04 (Participation in the EIF and nuclear safety). The total 2014 payments against direct management amount to 61,7M€.

Payments under indirect management are processed against Title 01 Chapter 03 (Provisioning of the Guarantee Fund); Chapter 04 (Completion of SME's programmes); and Title 22 Chapter 02 (Completion of former pre-accession assistance). The total 2014 payments against indirect management amount to 172,7M€.

It should be noted however that control systems and management modes do not overlap perfectly. For that reason, some operations are re-qualified impacting the respective amounts of direct versus indirect management (see further down)

Table of assets under management and supervision (€ 66 919 million - € 299 million also form part of the balance sheet but are not managed by DG ECFIN e.g. pre-financed payments to grant beneficiaries)

	EUR Million
Value of assets under treasury management	6.976
Outstanding Loans and Borrowings	57.568
EIF Guarantees and Venture Capital programmes (Cash)	243
IFI Facilities Cash	132
Guarantee Fund for external actions	2.000
Total	66.919

Assets under treasury management are discussed under section 2.1 "treasury activities)
Outstanding loans and borrowings are discussed under section 2.1 "borrowing and lending operations"
Cash on EIF and IFI is discussed under section 2.2 "financial instruments"
Guarantee Fund for external actions is discussed under section 2.2 "guarantee fund"

Table of Off Balance Sheet items (contingent assets: € 349 million contingent liabilities: € 19.198 million - € 2.343 million of other significant disclosures do not relate to financial instruments)

	EUR Million
Guarantees received for financial instruments	-349
Guarantees given for financial instruments	19.198

Off-balance sheet items are discussed under section 2.1 "contingent assets and liabilities"

2.1 Management of human and financial resources by DG ECFIN – Revenues, Direct Management expenses and non-expenditure items.

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.

Revenues

Revenues have a more limited scope of assurance than expenses. For obvious reasons, the intended purpose principle is not applicable (that principle will apply to the corresponding expenses). Nevertheless, the control system applied to revenues is very robust: the vast majority of revenues are recoveries based on balance sheet items from entrusted entities which are audited and certified (e.g. interests, retained earnings). In addition the authorising officer by delegation has no counter-evidence in that respect. Therefore, the control objectives of the reliability of the financial reporting as well as the legality and regularity materiality threshold of no more than 2% are fulfilled. Furthermore, because revenues are cashed the same year as they are recognised and with most of the controls performed by external auditors from the entrusted entities the principles of sound financial management are also complied with.

Direct Management Expenses - control efficiency and cost-effectiveness

Financial activities at DG ECFIN are vastly different and carry significant differences in risks which call for a differentiated yet integrated framework (and strategy) to be implemented. In other words, modules are the building blocks of the overall assurance and cost-effectiveness required and these proposed modules are budget transactions of the direct management type; budget transactions of the indirect management type and off-budget transactions. Within the direct management category, three sub-modules are identified – each with a dedicated internal control system[23]:

- Macro-financial assistance (MFA) grants
- Business and Consumers Surveys (BCS) grants
- Other direct management expenditures

The control objectives: these are defined under art. 32 of the FR[24] and can be broken down into the effectiveness, efficiency and economy of the operations; the reliability of the (financial) reporting; the legality and regularity (L&R) of the (financial) transactions including the management of risks; the safeguarding of assets and information; the fight against fraud[25].

The cost-effectiveness of the controls: when dealing with budgetary transactions of the direct management type, errors prevented or detected as the main benefit of the controls should be mitigated[26]. Controls that have to be exercised irrespective of their outcome are measured through risk-assessment and efficiency. A well-designed, well disseminated instruction that results in a correct, compliant transaction is a very effective control procedure which meets the control objective of managing risks relating to L&R.

The main benefit of controls should be that the control objectives are achieved e.g.:

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[23] Any transaction with the EIB and the EIF is considered of the indirect management type because these (entrusted) entities are listed under art. 58.1.c of the FR on the methods of implementation of the budget. This implies that 42,5M€ (participation in the EIF) out of the 61,7M€ shown under direct management are actually re-classified as indirect management for the purpose of internal control reporting. As a consequence, the direct management internal control block weighs 19,2M€ against 215,2M€ for indirect management and 122,2M€ for off-budget transactions (budgetary covers procedures – not the assets management).

[24] Art. 33 of the FR also refers to the cost-effectiveness of the control systems for revised or new spending proposals

[25] Art. 66.2 of the FR requires authorising officers to implement cost-effective organisational structures and control systems in accordance with art. 32

[26] Controls are exercised throughout the whole expenditure lifecycle from the selection of possible expenditures to the closing and archiving of projects and files.

error-free financial statements; legally compliant transactions. Some control objectives are explicitly provided for all DG's such as time-to-pay (all); time-to-inform (grants); time-to-contract (grants) (and these "time-to" indicators have to be reported in the AAR[27]). These controls will then be cost-effective if their costs are considered acceptable by management and if periodically these controls are re-assessed, improved and made less costly.

The effectiveness of the controls should be evidenced by the error rate and the efficiency by comparing the costs of the controls with the amounts controlled. While identifying costs at the level of each stage of the procedure for grants and procurements, it is also possible to exercise professional judgement to assess which indicators should be reported. Because DG ECFIN does not implement its policies through the direct management category with the exception of MFA, the various stages of procedures will not be used for the administrative expenses or the collection of data through surveys (BCS). Furthermore, the approach taken for direct management is to consider that transactions were subject at a given point in time to a procurement or grant procedure and that rather than comparing the costs associated to the call for tenders/proposals with the amount of these calls, an aggregate indicator will be used. This aggregate indicator will therefore be the costs of controls irrespective as to whether for a call, a contract, a commitment, a payment etc. with these costs then divided by the yearly payments made.

With respect to the <u>minimum set of efficiency indicators</u>, this translates into a <u>single indicator</u>: the overall costs of controls (total cost of controls of process / total expenditure executed during the year (the payments made)).

Through the periodical re-assessment in 2013 and 2014 actions and measures were taken to improve the cost-effectiveness of controls – based on risk assessments. In 2013, for low-risk transactions[28], a new and shorter financial circuit was used with an authorising officer in our financial unit combining the verifying and authorising duties. In 2014, a risk scoring system was implemented to determine for each financial transaction whether basic checks or full checks should be performed by the verifying agents. This risk scoring system is based on the management mode, the nature of the transaction and financial thresholds.

Direct Management Expenses - control effectiveness as regards legality and regularity, control efficiency and cost-effectiveness, use of resources for their intended purpose, reliability of reporting, safeguarding of assets and information.

DG ECFIN 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 multiannual character of programmes and framework partnerships as well as the nature of the payments concerned.

The principle of efficiency concerns the best relationship between resources employed

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[27] Annual Activity Report (AAR)

[28] De-commitments, pre-financing payments and 15K€ payments

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 achievement of the five control objectives, the efficiency of the control systems, including an overall assessment of the costs and benefits of controls.

- Macro-financial assistance (MFA) grants. N/A. In 2014 no payments were made with respect to MFA grants. MFA grants are meant to provide financial support to the budgets of third countries facing severe economic problems.
- **Business and Consumers Surveys (BCS) grants** (Payments: 4,9M€) BCS grants are meant to collect harmonised data and information on the state of the economies in the Member States and Candidate Countries.

- Effectiveness, efficiency and economy (3 E's): after careful consideration was given to alternative means such as procurement procedures; unit costs method; lump sums; or imposing a legal framework to MS that would include reporting requirements and finally discarded, we decided to opt for framework partnership agreements coupled to annual specific grant agreements. As a result, the 3E's were largely included in the calls for proposals, not only at the level of the award criteria (e.g. the methodology and the efficient use of resources), but also by deciding to cap expenses in the grant agreements; to include new reporting requirements from the partners to assess achieved results and performance; or to exclude depreciation costs as eligible costs.

- Reliability of financial reporting: to ensure a true and fair view of the state of affairs, all payments are subject to a verification of their amounts and accounting classes. Furthermore, horizontal accounting verification and reporting are performed quarterly. The cut-off is reviewed by the accounting correspondent (in a different unit) and by DG Budget. All financial and budgetary statements are automatically generated by ABAC/SAP[29].

- Legality and regularity (and managing risks): the new control approach developed in 2014 hinged on the following actions and the new ex-ante checks when processing the requests for grants were applied to all grants.

- Reinforced ex ante controls of the budget estimates of the grants. At the budget submission stage, staff costs are standardised using pre-defined staff categories and instructions on how to calculate the daily rates. Staff costs deemed excessive or deviating from past figures for the related profiles are investigated further. This also shows that in respect of cost-effectiveness these controls are more cost-effective.

- Similarly, partners are requested to provide and explain their method to calculate staff costs (staff in a broad sense i.e. including human resources which are possibly listed under another heading than staff costs) and to calculate the apportionment of costs to the BCS action during the ex-ante verification of the estimated budgets. This ex-ante

[29] Accrual Based Accounting (ABAC) Accounting (SAP)

analysis is complemented on a case-by-case basis by on-the-spot visits to partners where significant doubts about staff cost documentation and apportionment to the BCS action remain and cannot be clarified through email/telephone contacts.

- Requests for a couple of invoices/payroll slips etc. to have a first assessment e.g through these invoices of the quality of the procedures, internal control implemented. This request can be done either before or after submission of the final payments.

The materiality threshold/tolerable error rate: the residual error rate must not exceed 2% of the payments. Given that on average the EU contribution is 100K€, it would be firstly costly and secondly, not justified to ask for additional assurance from the partners such as audit certificates from independent auditors or similar documents.

The new ex-ante checks when processing the requests for grants were applied to all grants and showed that the applied methodology by partners for recognising eligible costs, the staff costs structures and other relevant items were acceptable. Furthermore, ex post controls in the past have not led to significant financial corrections. These ex post controls target an average of one beneficiary per year and the recoveries issued – if any – have shown to be not material. There are nevertheless inherent risks attached to these grant transactions such as an inadequate sharing key between the EU and other parties when apportioning costs. Therefore, even if the 2% threshold cannot be fully demonstrated through a representative sample of audited transactions, it is nevertheless the best estimate of the error rate given these inherent risks. DG ECFIN has, decided that at this stage it would be more cost-effective and more adequate towards partners to assess in two-three years' time whether the result of the new control approach require additional actions to decrease the potential error rate and keep it more under control. In conclusion, we can state that the controls in place did not reveal any material issue that could impact the assurance.

- Safeguarding of assets and information: the pre-financing payments which remain to be cleared show as assets on our balance sheet. Safeguarding is achieved through two main means: the financial capacity of the partner is assessed before entering into a framework partnership with them and throughout the year the operational unit regularly monitors whether data is delivered on time.

- Fight against Fraud: refer to the section on fraud prevention and detection in this report

- Other direct management expenditures (Payments: 14,3M€)

The other direct management expenditures are comprised of expenses against the global envelope, evaluations, communication activities and EMU-related expenses such as dedicated IT systems, rating contracts, etc.

- Effectiveness, efficiency and economy: this is essentially achieved through the adequate selection of contractors through competition and the use of relevant selection and award criteria (and where necessary relevant deliverables). This is complemented by the monitoring of the implementation of the projects and the related deliverables by the operational units. In addition, requests to spend funds are screened before the start of the budget year by an independent committee to assess their (policy-) relevance, usefulness and cost-effectiveness (ACUR)[30].

- Reliability of financial reporting: to ensure a true and fair view of the state of affairs, all payments are subject to a verification of their amounts and accounting classes. Furthermore, horizontal accounting verification and reporting are performed quarterly. The cut-off is reviewed by the accounting correspondent and by DG Budget. All financial and budgetary statements are automatically generated by ABAC/SAP.

- Legality and regularity (and managing risks): with the other direct management expenditures, the pre-set target is 0%. In other words, controls aim at systematically detecting and preventing breaches of legality and regularity; but nevertheless the threshold of 2% of error rate as materiality threshold applies (combined to the other requirements for a reservation to be issued). Having trained and competent staff performing these tasks in a central financial unit, coupled with adequate instructions and procedures provide the required reasonable assurance in that respect. Validation of financial transactions is documented by detailed check-lists showing the controls carried out and control material is available.

The first measure of the error rate is therefore the one resulting from the analysis of the recording of exceptions: control overrides and non-compliant events. The analysis of these exceptions shows that the pre-set target of 0 % was complied with. However, the error rate has to be established through a process independent from the financial actors. By applying ICS 9 on management supervision with the use of ex post sampling as a quality assurance activity, DG ECFIN will be able to compute as of 2015 an estimated (residual) error rate.

- Safeguarding of (assets) and information: no local system is used to store financial information.

- Fight against Fraud: see section on fraud prevention and detection in this report

A caveat that applies to all control objectives is the fact that for those cross sub-delegations and co-delegations where reporting and assurance rest with us for the Annual Activity Report, achieving the objectives is almost entirely in the hands of the sub-delegated/co-delegated DG.

[30] ACUR (Advisory Committee on the Use of Resources)

COSTS-BASED EFFICIENCY INDICATORS				
N°	Type of expenditure or management mode or ICS	Indicator (all stages combined)	Ratio	Description
	Internal Control System	Overall cost of control[31]	Overall cost of control (%)	Total cost of controls of process / total expenditure executed during the year (payments made)
1	MFA grants	Full cost with 7% overhead	N/A	N/A
2	BCS grants	Full cost with 7% overhead	10%	0,56M€/5,6M€[32]
3	Other direct management expenditures	Full cost with 7% overhead	13,5%	1,84M€/13,6M€[33]

We will strive to improve these ratio's – which in themselves cannot be considered inadequate considering that the costs of all stages are included even filing and archiving but compared only to the payment stage amounts and that no high-value transactions form part of this table - in the coming years. It is also worth mentioning that for these expenses no economies of scale can be achieved at the level of the controls: total amounts are low and broken down in many transactions.

[31] No indirect costs: operational costs show under direct costs: no specific IT systems for controlling tenders, calls, commitments or payments, limited ex post controls for direct management; limited legal assistance

[32] 4 FTE's (Financial initiating agent(FIA)/ Operational initiating agent (OIA)/ Verifying agent (VA)

[33] 13 FTE's (FIA/OIA/VA)

Time-to indicators

TIME-BASED EFFICIENCY INDICATORS				
N°	Type of expenditure or management mode or ICS	Stage	Efficiency indicators[34]	Description
1	all management mode and type of expenditure taken together	up to payment	time to pay (Art. 92.1FR) 16,3 days	one indicator for all management modes taken together (as per annex 3)
2	BCS grants[35]	up to legal commitment	average time to inform applicants of the outcome of the evaluation of the application (Art. 128.2FR) SGA's 32,5 days FPA's 155,0 days	average time to inform applicants of the outcome of the evaluation of the application (Art. 128.2 FR)
2	MFA and BCS grants	up to legal commitment	Average time to grant (Art. 128.2FR) SGA's 11,3 days FPA's 37,0 days GA's 65 days	average time to sign agreements or to notify grant decisions (Art. 128.2FR)

In 2014 the average time-to-pay with suspension was 16,3 days (19,6 days in 2013). The periods specified in article 92.1 of the Financial Regulation were complied with and less than 2% of the transactions were in excess of the time-limits.

The average time-to-inform with the time period starting from receiving the estimated budget and ending with sending the draft grant agreement for signature was 32,5 days for specific grant agreements. The average time-to-sign with the time period starting from sending the draft grant agreement for signature and ending with signing the grant agreement (GA) at Commission level was 11,3 days for specific grant agreements (SGA). With respect to the framework partnership agreements (FPA), time-to-inform was 155 days and time-to-sign was 32,5 days. With respect to MFA grant agreements with third countries the average time-to-sign was 65 days.

The periods specified in article 128.2 of the Financial Regulation (a maximum of six months for informing all applicants and a maximum of three months for signing grant agreements with applicants) were therefore fully complied with.

Conclusion on effectiveness, efficiency and cost-effectiveness: management considers that the level of effectiveness, efficiency and cost-effectiveness of the controls operated in direct management is adequate and will monitor efficiency (and cost-effectiveness) over time and with comparable DG's to better benchmark this process.

[34] Special Grant Agreement (SGA); Framework Partnership Agreement (FPA); Grant Agreement (GA)
[35] There is no such procedure for MFA grants

Non-expenditure items

Non-Expenditure items: Treasury and Asset Management, and Borrowing and Lending operations (ICT 1 from Annex 5):

DG ECFIN manages two categories of non-expenditure financial operations: the Treasury activities and the Borrowing and Lending operations.

a. The Treasury activities: This mainly involves the management of the available assets of the European Coal and Steel Community in Liquidation (ECSC i.L.) as well as of certain other funds whose management has been mandated to us, notably the management of the Participants Guarantee Fund (FP7/Horizon 2020), the Competition fines - BUFI (budgetary fines) Portfolio and the Reserve of the Joint Sickness Insurance Scheme – (JSIS) Portfolio. The general aim is to generate the highest return available, while maintaining a high degree of stability and security over the long-term and after having ensured there is sufficient liquidity to meet the obligations payable out of these funds.

Value of assets of the European Coal and Steel Community in liquidation (ECSC i.L.) and other mandated funds under treasury management by DG ECFIN as at 31 December 2014	
Value of assets under treasury management	EUR thousands
European Coal and Steel Community (ECSC) i.L.	1.737.780,6
Régime Commun d'Assurance Maladie (RCAM)	272.656,4
Budgetary Fines (BUFI)	3.292.435,3
Participants Guarantee Fund PGF FP7/H2020[36]	1.591.375,8
Other miscellaneous mandates	82.516,4
Total	**6.976.764,5**

b. The Borrowing and Lending operations: Financial support for third countries and Member States is provided by the Commission under various Council Decisions, depending on the geographical areas concerned and the objectives pursued[37]. Such financial support takes the form of loans from the EU. To finance the lending activities decided by the Council, the Commission is empowered to borrow funds on the capital markets, on behalf of both the European Union and Euratom, with the guarantee of the EU budget. The aim is to obtain funds from the market at best available rates by using the top (AAA) credit status (except for S&P, which rates the EU with AA+ since 20 December 2013) of the EU/Euratom and then on-lend them to eligible borrowers in the context of lending under the European financial stabilisation mechanism **(**EFSM), balance of payments (BoP), macro-financial assistance (MFA) and to Euratom projects. Borrowing and lending is conducted as a back to back operation, which ensures that the

[36] 7th Framework Programme for Research and Technological Development (FP7)(Horizon (H2020)

[37] Detailed presentation of the borrowing and lending activities of the Commission is available at http://ec.europa.eu/economy_finance/eu_borrower/index_en.htm.

EU budget does not take any interest rate or foreign exchange risk[38].

Volumes of outstanding loans and borrowings as at 31 December 2014		
EUR million (value date)	Loans	Borrowings
EURATOM	347.8	347.8
Balance of Payments (BOP)	8,400.0	8,400.0
European Coal and Steel Community (ECSC) i.L.	191.9	191.9
European Financial Stabilisation Mechanism (EFSM)	46,800.0	46,800.0
Macro Financial Assistance (MFA)	1,828.6	1,828.6
Total	57,568.3	57,568.3

The following tables show the indicators used to assess (i) the effectiveness, (ii) the efficiency and (iii) the costs/benefits of the monitoring and supervision controls carried out during the reporting year:

[38] The EFSM Regulation allows resorting to advance borrowing for refinancing the Portuguese and Ireland debt.

Non-Expenditure Items. Treasury and Assets Management / Borrowing and Lending Operations

N°	Type of expenditure or management mode or ICS	Stage	Indicators (annual indicators)[39]	Description	Effectiveness of controls
1	Treasury and assets management	Selection of counterparties and investment instruments	Cost of selection/assets managed (%) 686.000/6.976.764.500 98.4€ per 1M€	cost of selection procedure / total assets managed 4.7 FTEs (includes our front office + management + secretariat apportionment of FTE and our TBO) + 0.5 FTEs (Risk management) / total assets of € 6 976 764 500	Number of incidents and number of audit findings: no material findings
2	Borrowing and lending operations	Selection of counterparties	Cost of selection/borrowing and lending operations (%) 699.600/5.900.000.000 118.5€ per 1M€	cost of selection procedure / borrowing and lending operations 5.3 FTEs (back office + management + secretariat apportionment of FTE) / Total operations of € 4.400.000.000 of borrowing operations carried out in 2014 and 1.500.000.000 of loan agreements signed in 2014	Number of findings in the checks on compliance with rules and procedures: No material audit findings. 5 funding transactions carried out successfully according to procedures. 4 loan agreements signed with MFA beneficiaries. 2 LAs amended (EFSM). Cost/benefit ratio: Internal control through the 4-eyes-principal (the back office) which monitors the adherence of the debt service of the EU and

[39] The full cost approach will be applied next year and include overheads; the current costs are the direct and indirect costs

N°	Type of expenditure or management mode or ICS	Stage	Indicators (annual indicators)[39]	Description	Effectiveness of controls
					Euratom debt with internal rules.
3	Treasury and assets management and borrowing and lending operations	Protection: recording, follow-up and accounting of the Commission's rights in terms of Treasury and Asset Management, and Borrowing and Lending operations	Cost of protection / total of assets and outstanding loans and borrowings 930.200/64.545.100.000 14.4€ per 1M€	Cost of protection / value of assets managed and outstanding loans and borrowings 5 FTEs (DG ECFIN) + 2 FTEs (Risk management) and €6.200 in accounting support / 6.976.800.000 (assets) + 57.568.300.000 (loans and borrowings)	Number of control failures: None Number of litigation settlement and court cases lost (e.g due to lack of evidencing documents); amounts of the items concerned: None Number of internal and external auditors findings about incorrect registration of items: None Number of exceptions (bank reconciliation incidents): Two exceptions with no financial impact
4	Treasury and assets management and borrowing and lending operations	Assurance building on the process and systems of DG ECFIN in terms of Treasury and Asset Management, and Borrowing and Lending operations	Cost of assurance / total of assets and outstanding loans and borrowings 893.400/64.545.100.000 13.8€ per 1M€	Cost of assurance / value of assets managed and outstanding loans and borrowings 4.7 FTEs (includes our front office + management + secretariat apportionment of FTE and our TBO) + 0.25 FTE (Risk management) and 125.000 in evaluation fees and 115.000 in audit fees / 6.976.800.000 (assets) + 57.568.300.000 (loans and borrowings)	Percentage of sampled non-expenditure operations checked by the financial risk management which are in compliance with internal procedures (e.g. reconciliation items, bank accounts, etc.): 100% of the sampled non-expenditure operations checked by the financial risk management were in compliance with internal procedures. Number of recommendations from the audit bodies (see under Mitigating controls) which have been followed up systematically: In 2014, the treasury and asset management function was

N°	Type of expenditure or management mode or ICS	Stage	Indicators (annual indicators)[39]	Description	Effectiveness of controls
					evaluated by the World Bank. The report was received in April 2014. Three observations on minor deficiencies in internal control made by the external auditor in its 2013 Management letter were fully solved by 31.12.2014 (Segregation of duties associated with new Transactions Programmes[40]; Lack of monitoring over activities performed with Firefighters accounts in SAP; Mismatch between the list of bank accounts as per SAP and as per the list retained by the Nostri Reconciliation) Two recommendations made by DG BUDG in Dec 2014 in its Report on validation of our local systems have been followed up (Formalise the supervision of the calculation of certain closing entries – Implementation dl 30.06.15; Amend the checklist for low-risk transactions – Implemented by 31.12.14)

[40] These are SAP functions used for posting and validating manual journal entries.

N°	Type of expenditure or management mode or ICS	Stage	Indicators (annual indicators)[39]	Description	Effectiveness of controls
5	Treasury and assets management and borrowing and lending operations	Sound financial management in terms of Treasury and Asset Management, and Borrowing and Lending operations	Cost of financial management / total of assets and outstanding loans and borrowings 620.400/64.545.100.000 9.6€ per 1M€	Cost of financial management / value of assets managed and outstanding loans and borrowings 4.7 FTEs (includes our front office + management + secretariat apportionment of FTE and our TBO) / 6.976.800.000 (assets) + 57.568.300.000 (loans and borrowings)	Number of errors caused by a counterparty financial institution and detected during the reconciliation of bank accounts: Concerning off-budget financial operations, in 2014 out of some 2400 transactions, 2 errors caused by a counterparty financial institution were detected during the reconciliation of bank accounts. The discrepancies discovered were cleared within a few days without financial damage for the Commission. Error rate of off-budget operations caused by a counterparty financial institution: 2/2400=0,08%.

Since a quantitative estimation of the volume of errors prevented and detected is not available, it is not possible to quantify the related benefits. In consequence, it is not possible to determine the cost-effectiveness of controls by directly comparing costs with benefits; it is necessary to consider the efficiency indicators retained. Given that the non-expenditure activity is not following the budgetary ex-ante validation circuit, it is important to have the existing internal control environment in place.

The overall cost effectiveness of controls of non-expenditure items in 2014, as measured by the proportion of overall cost of control (based on the FTEs involved) over total treasury transactions and total borrowing and lending activities lead us to consider that the controls are sufficiently efficient and cost-effective. There are a number of non-quantifiable benefits resulting from the controls operated during the control stage "Assurance building on the process and systems". Furthermore, we consider 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.

In all these cases, our supervision arrangements are based on the principle of controlling. For more details, please see ICT 1 on Non-Expenditure items in Annex 5.

In respect of the activities, we consider that a positive conclusion can be reached on the control efficiency and cost-effectiveness.

Moreover the various measures described under ICT 1 and the positive results of these measures lead us to conclude on the effectiveness of controls and the achievements of control objectives, as regards the control objectives of "Safeguarding of Assets and Information" "Reliable (true and fair view) Reporting" and "Legality & Regularity."

This positive conclusion is the outcome of the implemented control procedures summarised further and their positive recorded results such as no incidents, no material audit findings, no control failure, no exception with financial impact, etc. The control system relies on comprehensive rules and detailed manuals of procedures with respect to the investment policy (cf. mandate balancing risks vs. returns, see below). The Treasury Management Committee exercises supervisory duties on the implementation of the investment policy and there is adequate segregation of duties between front-office and back-office. Furthermore, the risk management team is independent from the processing of transactions and annual financial audits are performed by external audit firms on the financial statements of the bodies for which DG ECFIN manages the assets.

The aim of ensuring the highest return while maintaining stability and security for the treasury activities has been achieved as stated in the Final Report of the World Bank peer review of the off-budget treasury and asset management activities finalised in April 2014, quote "*The World Bank Team has reviewed the historical excess performance resulting from the Treasury's active management for the ECSC and BUFI portfolios. Results are good and consistent with the amount of risks that the portfolio managers are allowed to take*." In addition, if compared to the performance of similar portfolios managed by the European Investment Bank, it can be stated that the performance obtained by the Commission portfolio managers has been very similar over the longer run and comparatively advantageous during last year. Likewise, the aim to obtain funds at the best available rates for the borrowing and lending activities has also been achieved since those rates are in line with the peer institutions (EIB, EFSM, ESM …). These elements demonstrate the compliance with the sound financial management principles.

Contingent assets and liabilities

Contingent assets and liabilities are guarantees received or given in the framework of various financial instruments. This implies that these operations are essentially accounting bookings to reflect the maximum exposure to defaulting risks and in that respect the control objectives of the true and fair view and of the legality and regularity with a material threshold are complied with. These achievements are the result of the accounting control systems in place with further monitoring by the Commission Accounting Officer. Given the limited time staff has to devote to contingent disclosures given their very nature, the principles of sound financial performance are also complied with.

2.2 Budget implementation tasks entrusted to other DGs and entities – Indirect management.

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 DG's supervisory controls on the budget implementation tasks carried out by other Commission DGs and entrusted entities distinct from the Commission.

As regards indirect management and the total payments of 215,2M€ two sub-modules of the control systems are identified. One in respect of the financial instruments with payments in amounts of 42,5M€ for the capital increase of the EIF and 114,3M€ for the CIP and MAP spending programmes. And one in respect of the provisioning of the guarantee fund with payments in amounts of 58,4M€.

It is also worth noting that the total 2007-2014 of the spending programmes under the financial instruments amount to 1.927M€ and that the total assets of the guarantee fund amount to 2.000M€. These values are used to assess the cost-efficiency of the respective control systems as shown in the table below.

The 375M€ in cash on the trust account are also covered in this section.

The capital increase of the EIF has been reclassified from direct management to indirect management because of the control system applied to such transactions. It is however not included in the tables and comments under financial instruments because the achievements of the control objectives follow a logic of their own (even if the control system is the one for financial instrument).

Following the adoption of the Decision No 562/2014/EU of the European Parliament and of the Council, and in line with the Statutes of the Fund, the General Meeting of the Fund authorised on 27 May 20014 the Fund to increase its capital by 50% in nominal terms of which 20% will be paid-in. The price of the new shares will be set annually during 2014-2017 based on a formula agreed between the Fund's shareholders. In total, the European Commission, on behalf of the Union, will subscribe to up to 450 shares of the Fund during 2014-2017.

As a consequence, the amount to be committed and paid each year is the result of joint discussions between DG ECFIN and DG BUDGET. That is why with respect to the objectives of the true and fair view, (the safeguarding of assets) and the legality and regularity principles, all objectives are complied with because the amounts committed and paid were in line with the Council/EP decision and with the corresponding financing decision as well as with the agreed decision with DG BUDGET. Furthermore, sound financial management principles are also complied with considering that the funding of the EIB is entirely managed in-house and with few staff resources.

Indirect Management				
N°	**Type of expenditure or management mode or ICS**	**Stage**	**Indicators (annual indicators) per type of entrusted entity (FI, executive agency…)**[41]	**Description**
1	Indirect – Financial instruments	overall indicator	overall supervision/total budget of managed programmes 1.851.410/1.926.860.000 960.8€ per 1M€	staff FTE * standard staff cost + other outsourced supervision costs (possibly outsourced audits and monitoring missions by EC)+ management or administrative fees paid / annual amount delegated (excluding any remuneration paid) 168.31 man/months for 1.9KM€ of total budget of managed programmes
2	Indirect – Guarantee Fund for external actions	overall indicator	overall supervision/total assets of the fund 446.500/2.000.000.000 223.3€ per 1M€	staff FTE * standard staff cost + other outsourced supervision costs (possibly outsourced audits and monitoring missions by EC)+ management or

[41] The full cost approach will be applied next year and include overheads; the current costs are the direct and indirect costs

				administrative fees paid / annual amount delegated (excluding any remuneration paid) 37 man/months and EIB's external auditors for 2KM€ of total assets of the guarantee fund

1. Financial Instruments managed via international financial institutions (period 2007-2013) / indirect entrusted management (ICT 2 from Annex 5)

DG ECFIN has overall responsibility for the implementation of the facility for some Financial Instruments from the previous Multiannual Financial Framework 2007-2013. The first line of monitoring of this programme is to be performed by the entrusted entity EIF as defined in the Fiduciary Management Agreements. For the existing 2007-2013 instruments DG ECFIN provides for an additional line of monitoring, including monitoring of the financial and operational progress of the facility on the basis of reports provided by the EIF as well as visits to the EIF and to the Financial Intermediaries.

For the new Multiannual Financial Framework 2014-2020 Financial Instruments, the whole budget reporting process is the responsibility of the AOD in each relevant DG. Likewise for those EU programmes for which DG ECFIN acts as "Asset Management Designated Service", the responsibility of reporting goes to the AOD in the Designated Service and it is not DG ECFIN's role to report in its AAR.

In the context of the Asset Management Designated Service, DG ECFIN specifies that no limit breaches were identified in the information reported by EIB/EIF.

The international financial institutions are the EIF, for DG ECFIN budget lines, and the EIB, the EBRD, KfW and the CEB which are implementing programmes where DG ECFIN is sub-delegated.

Budgetary funds (cash) from DG ECFIN budget lines held on the Trust Accounts managed by the Entrusted Entity "European Investment Fund" (EIF) for the implementation of Guarantee and Venture Capital programmes as of 31 December 2014:

EIF Mandates	EUR thousands (nominal value)
CIP (GIF Venture Capital)	84.771,6
CIP (SMEG 07 (Guarantees)	135.693,4
Growth & employment (Venture Capital)	15.486,0
Growth & employment (Guarantees)	3.965,9
MAP (Venture Capital)	368,2
MAP (Guarantees)	2.803,2
Total	243.088,3

Budgetary funds (cash) from DG ECFIN budget lines held on the Trust Accounts managed by the Entrusted Entities EIB, KfW/CEB and EBRD for the implementation of IFI-Facilities as of 31 December 2014:

Mandate	EIB	EBRD	KfW/CEB	**Total** (EUR thousand)
SMEFF	20.076,6	28.862,6	17.993,4	66.932,6
MFF	15.371,8	14.114,0	5.042,6	34.555,4
MIF	3.385,7	0	0	3.385,7
EEFF	1.973,0	3.621,8	1.241,8	6.836,6
ELENA	12.420,0	2.988,0	5.720,0	21.128,0
Total	53.227,1	49.586,4	29.997,8	**132.811,3**

The following tables show the indicators used to assess (i) the effectiveness, (ii) the efficiency and (iii) the costs/benefits of the monitoring and supervision controls carried out during the reporting year:

Entrusted Entities. Financial Instruments					
Nº	Type of expenditure or management mode or ICS	Stage	Indicators (annual indicators)[42]	Description	Effectiveness of controls
1	Financial instruments	Identification & selection of International Financial Intermediaries (IFIs) and Financial Intermediaries (FIs) & projects	Cost of identification and selection / Total budget of managed programmes 536.800/1.926.860.000 278.6€ per 1M€	a) 33.5 man/months (i.e. 368 500 EUR standard staff costs), as compared to total CIP budget 2007-2013 = 1,168.86 million EUR, i.e. 0.028 man/months (315 EUR standard staff costs) per million EUR budget. The slight decrease as compared to 2013 is due to a decrease in Front-office approval workload and tasks reallocation towards design of new 2014-2020 instruments subsequent to the end of the 2007-2013 Instruments signing period (30/6/2014) b): 15.3 man/months (i.e 168,300 EUR standard staff costs) compared to total budget of managed programmes 2007-2014 is EUR 758 million or 0.02 man/months (222 EUR standard	Quality of the selection work, analysis, approval notes, reports, and so on (Implementation status). Transaction with FIs all approved within contractual deadlines set out in the contract and procedures Improvement by FI to proposed submissions in response to comments received from L - SMEG 07: By the end of September 2014, as from the start of the Facility, 110[43] transactions with 57 financial intermediaries from 24 countries had been approved. . - GIF: By the end of September 2014, as from the start of the Facility, 43[44] transactions with venture capital funds targeting investments in 26 participating countries were approved. - EPMF Guarantees: By the end of September 2014, as from the start of the Facility, 35 guarantee agreements in 18 countries have been reviewed. - EPMF – FIS: By the end of September 2014, as from the start of the Facility, 27 agreements in 12 countries have been reviewed. **Effectiveness**: - Correct filling-in of the standard check-list: OK

[42] The full cost approach will be applied next year and include overheads; the current costs are the direct and indirect costs
[43] Including extensions of existing contracts, with deduction of cancelled contracts.
[44] Including extensions of existing contracts, with deduction of cancelled contracts.

Entrusted Entities. Financial Instruments					
N°	Type of expenditure or management mode or ICS	Stage	Indicators (annual indicators)[42]	Description	Effectiveness of controls
				staff costs) per million EUR budget.	- Timeliness and quality of the drafting of approval selection notes & briefing: OK - Quality of the selection work, analysis, approval notes, reports, etc. (Implementation status)/ OK - exhaustiveness of approval request' coverage: OK **Efficiency:** a) very low man-months/managed budget cost ratio b) number of missing check-lists: NONE c) late or incomplete approval notes & briefings: NONE d) approval requests coverage : 100% of approval request were analysed according to the process/procedures in force e) number of discrepancies (Agreements' compliance default towards FMA, Programmes' Legal Basis) in agreements: NONE f) number of approvals/signed agreements: see above 3) reporting framework from IFI to us **Effectiveness**: a) timely follow-up of reports received as regards their exhaustiveness all reports shall be received), content and format (shall be the same as defined in FMA/SLA with IFI): OK b) compliance of the reports with FMA provisions (deadline, content, coverage) and SLA signed with the IFI (EIF) : OK **Efficiency**: a) reports not received or incomplete or not in line with template foreseen in the FMA/ SLA: NONE b) discrepancies in content: NONE c) discrepancies in format: NONE

Entrusted Entities. Financial Instruments					
N°	**Type of expenditure or management mode or ICS**	**Stage**	**Indicators (annual indicators)[42]**	**Description**	**Effectiveness of controls**
					d) discrepancies in timeliness : no material discrepancy - ELENA: Project approvals (2014): 18 - IFI-Facilities: Project approvals(2014): 25 (including project amendments, increases or de-commitments)
2	Financial instruments	Monitoring of the implementation	Cost of monitoring / Total budget of managed programmes 494.470/1.926.860.000 256.6€ per 1M€	**Preventive measures :** a): 13 man/months (143 000 EUR standard staff costs), as compared to total CIP budget (2007-2013) = 1,168.86 million EUR, i.e. 0.01 man/months (123 EUR standard staff costs) per million EUR budget. b): 11.1 man/months (EUR 122,100 standard staff costs) compared to total budget of managed programmes 2007-2014 is EUR 758 million or 0.014 man/months or EUR 161 per million EUR budget. **Monitoring policy of the Commission services:** a): 12.5 man/months (EUR 137 500	Analysis, monitoring reports, letter of findings to the EIF and so on. - SMEG Guarantees: 4 visits (3 to FIs, 1 to the EIF), out of which 2 with two minor observations, signalled to the EIF in our follow-up letters to the EIF; the 2 related remarks have been taken into account, and the 2 FIs were made aware of this recommendation by EIF letters (9/1/2015).No issue pending. Moreover, the monitoring visit undertaken to the EIF on 27 August 2014 regarding the review of the performance and findings of the EIF in a monitoring visit to a FI carried out by the EIF had no findings. - EPMF: 2 monitoring visits (1 to a FI, 1 to the EIF) , out of which 2 minor observations were signalled to the EIF in our follow-up letters to the EIF; the 2 related remarks have been taken into account, and the FI involved was made aware of this recommendation by EIF letter (8/1/2015); no issue

Entrusted Entities. Financial Instruments					
N°	Type of expenditure or management mode or ICS	Stage	Indicators (annual indicators)[42]	Description	Effectiveness of controls
				standard staff costs) and EUR 9 600[45] of mission costs[46]. Hence, total monitoring costs of EUR 147 100 as compared to total CIP budget (2007-2013) of EUR 1,168.86 million, i.e. EUR 126 of monitoring costs per million EUR budget. b): 6.05 man/months (EUR 66,550 standard staff costs) and EUR 15,720 of mission costs. Hence, total monitoring costs of EUR 82,270 as compared to total budget of managed programmes 2007-2014 of EUR 758 million i.e. EUR 108 of monitoring costs per million EUR budget.	pending. - Venture Capital: 4 monitoring visits, out of which no finding; no issue pending. The four monitoring visits undertaken to GIF and ESU01 VC funds under the 2014 DG ECFIN Monitoring Plan did not raise findings concerning the review of the contractual compliance, the eligibility, the process compliance and the performance of the funds. **Effectiveness:** - number of analysis check-lists/set of sample-check-lists/ monitoring reports/letter to the IFI (EIF): during 2014 10 Monitoring visits were conducted by us (6 SMEG-EPMF, 2 GIF, 2 ESU01). **Efficiency:** - number of findings and/or minor observations reported to the IFI (EIF): SMEG 07 : 2 / Equity facilities : 0 / EPMF – G: 2 - number of findings still open SMEG 07: NONE/ Equity facilities: NONE / EPMF (G):NONE - key indicators (number of Final Recipients; number of jobs created or maintained; total investment/loan volume leveraged) of achievement: see AMP and yearly mid-term-updates + section 1.1.12 of present AAR.

45 8 monitoring visits abroad per year (4 for guarantees, 4 for venture capital): 8 * EUR 1200 = EUR 9600/year.

46 Mission costs are proforma budget, real costs may be less or little more depending on the location.

Entrusted Entities. Financial Instruments					
N°	Type of expenditure or management mode or ICS	Stage	Indicators (annual indicators)[42]	Description	Effectiveness of controls
					The 2013 Statements of Assurance (management letters) regarding CIP SMEG, CIP GIF and EPMF programmes were received from the EIF as at 31st of March 2014. The 2014 Statements of Assurance (management letters) regarding CIP SMEG, CIP GIF and EPMF programmes are still awaited as at writing date (January 2015). - ELENA: Monitoring Missions / Reports (2014): 4 - IFI-Facilities: Monitoring Missions / Reports (2014): 3
3	Financial instruments	Assurance building on the process and systems of DG ECFIN	Cost of assurance / Total budget of managed programmes 186.560/1.926.860.000 96.8€ per 1M€	a): 13.6 man/months (149 600 EUR standard staff costs), as compared to total CIP budget (2007-2013) = 1,168.86 million EUR, i.e. 0,012 man/months (127.98 EUR standard staff costs) per million EUR budget. b): 3.36 man/months (EUR 36,960 standard staff costs) compared to total budget of managed programmes 2007-2014 is EUR 758 million or 0.004 man/months or EUR 48.7 standard staff costs per million EUR budget.	Number of controls and quality (Results of the controls listed in column 2 of ICT) Action plans established following CoA, IAS, IAC or ex-post control recommendations; number of recommendations agreed in the Action Plan, implemented or addressed. **Effectiveness**: During 2014, the Designated Service continued to follow-up the implementation of OLAF's recommendations in two cases, where fraud was detected at the level of the fund manager and at the level of a final beneficiary. Corrective action for both cases was progressing normally during 2014. In August 2012, an ex-post control of the EIF guarantee calls paid under CIP was launched. The provisional scope and objective of this ex-post control includes reviewing of the sample of guarantee calls initiated since 2007 to-date with the objective to examine their legality and regularity and to review related sound financial management aspects. Our Financial Intermediaries (FI) have been sampled. The control is still ongoing and we have not been informed of any critical

Entrusted Entities. Financial Instruments					
Nº	Type of expenditure or management mode or ICS	Stage	Indicators (annual indicators)[42]	Description	Effectiveness of controls
					issues so far. We also accompanied the ECA to an audit visit to Slovenia, within the framework of the ECA's controls for the DAS 2014 (ECA's random selection process); although the related reports from ECA has not been communicated as at writing date, the verbal final observations made by the ECA's officer to the contractor were very positive, considering that there was no finding during the visit (provided no further element arises during the post-visit analysis). No finding has been communicated to us so far. **Efficiency**: - Number of closed findings/minor observations: SMEG 07 : 2 (out of 2, 100% closed); EPMF-G: 2 (out of 2, 100% closed); Equity : 0 (out of 0, 100% closed); - Number of OLAF inquiries: SMEG & EPMF: NONE; Equity: 2 inquiries (implementation of recommendations ongoing). - Number of IAC inquiries: SMEG & EPM: NONE Equity: NONE. - Number of open recommendations in action plans established following ECA, IAS, IAC or ex-post control recommendations: NONE The ex-post control on SMEFF in Cyprus was finalised during 2014. It has been agreed that a recovery of EUR 640 due to the wrong calculation of the outstanding balance will be initiated in 2015. In addition the ex-post controls on MFF in Croatia on EEFF in Bulgaria were finalised. The controls established that the respective facilities had been implemented in an efficient and

Entrusted Entities. Financial Instruments					
N°	Type of expenditure or management mode or ICS	Stage	Indicators (annual indicators)[42]	Description	Effectiveness of controls
					regular way. No recommendation with financial impact was issued. No Court of Auditors or IAC reports were received in 2014 by us. The 2013 Statements of Assurance (management letters) regarding CIP SMEG, CIP GIF and EPMF programmes were received from the EIF as at 31st of March 2014. The 2014 Statements of Assurance (management letters) regarding CIP SMEG, CIP GIF and EPMF programmes are still awaited as at writing date (January 2015). Nota: a)the Statements of Assurance are mentioned already at Stage 2; b) no other audit report received for the SMEG07 and GIF; c) The ECA's preliminary findings on Microfinance EU support actions identifies that even though EPMF legal basis is aiming among others at supporting "micro-enterprises in the social economy" there is no strong evidence that it has reached this target. Even though there are good reasons for not having a high number of microenterprises acting in the social economy included in the MFIs portfolios, DG EMPL and we have acknowledged that more has to be done in this area of intervention. As a result special focus has been given in the 2014-2020 EaSI Programme to support the Social Economy by setting up a separate segment of intervention dedicated to the development of the social enterprises.

Entrusted Entities. Financial Instruments					
N°	Type of expenditure or management mode or ICS	Stage	Indicators (annual indicators)[42]	Description	Effectiveness of controls
4	Financial instruments	Budget commitments and payments	Cost of budget management / Total budget of managed programmes 152.900/1.926.860.000 79.4€ per 1M€	a): 10.5 man/months (115 500 EUR standard staff costs) allocated to budget management of Financial Instruments, as compared to total CIP budget (2007-2013) = 1,168.86 million EUR, i.e. 0,009 man/months (98.8 standard staff costs EUR) per million EUR budget. b): 3.4 man/months (EUR 37.400 standard staff costs) compared to total budget of managed programmes 2007-2014 is EUR 758 million or 0.004 man/months or EUR 49.3 standard staff cost per million EUR budget.	Compliance with budget procedures and financial management procedures & Financial Regulation ECFIN was not concerned by any findings or errors. **Effectiveness**: no exception reporting Positive DAS letter by ECA as at 31/3/2014 - number of operations outside official procedures (2014) : NONE - number of erroneous operations (2014): NONE - return to Trust Account (2014) linked to errors : NONE - results on the checks on the balance of the TA (2014): : no errors/discrepancies
5	Financial instruments	Audit and evaluations[47]	Cost of audit and evaluation / Total budget of managed programmes 692.560/1.926.860.000 359.4€ per 1M€	a): 13.6 man/months (149 600 EUR standard staff costs), as compared to total CIP budget (2007-2013) = 1,168.86 million EUR, i.e. 0,012 man/months (127.98 EUR standard staff costs) per million EUR budget.	Number of controls and quality (Results of the controls listed in column 2 of ICT) Action plans established following CoA, IAS, IAC or ex-post control recommendations; number of recommendations agreed in the Action Plan, implemented or addressed. In February 2012 IAS and ECFIN IAC finalised their audit on

[47] Please note that both our units concerned included twice the costs under stages 3 and 5. Hence, if a total cost of control needs to be estimated, then the costs under stages 3 and 5 should be calculated only once.

Entrusted Entities. Financial Instruments					
N°	Type of expenditure or management mode or ICS	Stage	Indicators (annual indicators)[42]	Description	Effectiveness of controls
				b): 3.36 man/months (EUR 36.960 standard staff costs) compared to total budget of managed programmes 2007-2014 is EUR 758 million or 0.004 man/months or EUR 48.8 standard staff cost per million EUR budget. Ex-post control: 46 man/months (EUR 506.000) The total overall cost would also have to include IAC and ECA means which are dedicated to those tasks in their yearly Audit plans and Internal Control plans	the implementation by the EIF of the High Growth and Innovative SME Facility. The audit resulted in 6 recommendations. All recommendations were implemented during 2013. No additional findings or recommendations were made in 2014. During 2014, the Designated Service continued to follow-up the implementation of OLAF's recommendations in two cases, where fraud was detected at the level of the fund manager and at the level of a final beneficiary. Corrective action for both cases was progressing normally during 2014. In August 2012, an ex-post control of the EIF guarantee calls paid under CIP was launched. The provisional scope and objective of this ex-post control includes reviewing of the sample of guarantee calls initiated since 2007 to-date with the objective to examine their legality and regularity and to review related sound financial management aspects. Our Financial Intermediaries (FI) have been sampled. The control is still ongoing and we have not been informed of any critical issues so far. We also accompanied the ECA to an audit visit to Slovenia, within the framework of the ECA's controls for the DAS 2014 (ECA's random selection process); although the related reports from ECA has not been communicated as at writing date, the verbal final observations made by the ECA's officer to the contractor were very positive, considering that there was no finding during the visit (provided no further element arises during the post-visit analysis). No finding has been

Entrusted Entities. Financial Instruments					
N°	Type of expenditure or management mode or ICS	Stage	Indicators (annual indicators)[42]	Description	Effectiveness of controls
					communicated to us so far We were not concerned by other audits or evaluations. No Court of Auditors or IAC reports were received in 2014 by us. In addition the ex-post controls on MFF in Croatia on EEFF in Bulgaria were finalised. The controls established that the respective facilities had been implemented in an efficient and regular way. No recommendation with financial impact was issued.

Since a quantitative estimation of the volume of errors prevented and detected is not available, it is not possible to quantify the related benefits. In consequence, it is not possible to determine the cost-effectiveness of controls by comparing costs with benefits; it is necessary to consider the efficiency indicators retained.

The overall cost effectiveness of controls in 2014 on Financial Instruments managed via international financial institutions / indirect entrusted management, as measured by the proportion of overall cost of control (based on FTEs involved) over the total of the spending programmes lead us to consider that the controls are sufficiently efficient and cost-effective.

In all these cases, our supervision arrangements are based on the principle of controlling with the relevant entities. For more details, please see ICT 2 on indirect management/financial instruments in Annex 5.

Moreover the various measures described under ICT 2 and the positive results of these measures lead us to conclude on the effectiveness of controls and the achievements of control objectives as regards "Safeguarding of Assets and Information"; "Reliable (true and fair view) Reporting"; and "Legality & Regularity". More specifically, the 2% threshold for legality and regularity applied to payments is applied in two steps. The first information is an estimate of the detected error rate and that one is close to 0% (e.g. ex post controls, management letters). The inherent risks of the guarantee and venture capital transactions have to be taken into consideration as they are implemented through a multi-layer chain. This is why, the most appropriate measure of the error rate is a range between 0% and 2%.

The control system for entrusted entities relies heavily on third party assurance and in that respect DG ECFIN will continue to stress to the entrusted entities the utmost importance of having the statements of assurance (to the extent foreseen) and audit certificates in due time. It has to be acknowledged however that this is largely outside DG ECFIN's control and that the multi-layer chain of implementation at the level of the entrusted entities has to be taken into account. More importantly, this situation is inherent to these legacy instruments concluded years ago and with less stringent provisions on the timeline for reporting procedures than the new instruments. From our own monitoring and supervision work, which includes regular contacts/representation or desk reviews of relevant management reports or audit reports (see details in Annex 5), we faced no material control issue.

Consequently, in view of our residual responsibility for the management of the parts of DG ECFIN budget via the Entrusted Entity mentioned above, we can conclude that there are no material control weaknesses affecting the assurance building in terms of the five internal control objectives. However DG ECFIN acknowledges that so long as third-party assurance is not formally available in due time this conclusion is meant to cover the residual assurance i.e. the one directly from DG ECFIN as opposed to third party assurance. Nevertheless, in view of the scope of assurance as defined in the introduction of section 2 additional comfort in the form of (informal) assurance from the discussions with the entrusted entity during the closure process also plays a role in the process.

2. Guarantee Fund for external actions[48] (ICT 3 from Annex 5)

The purpose of the Fund is to ensure that the EU creditors can be reimbursed in the event of any default by the beneficiaries of loans granted or guaranteed by the EU or Euratom. The main function of the Fund is to shield the EU budget from shocks due to defaults on loans or guaranteed loans covered by the Fund. The Fund covers the risk of loans and loan guarantees to third countries. The lending operations covered by the Fund relate to three different instruments which benefit from a guarantee from the EU budget: guarantees of the European Investment Bank (EIB) external lending, Euratom external lending and EU Macro-Financial Assistance (MFA) loans. The Fund is provisioned from the EU budget and has to be maintained at a certain percentage (the target rate is currently 9%) of the outstanding amount of the loans and loans guaranteed. If the Fund is in surplus or deficit vis-à-vis its target amount, the Fund is brought back into target via a transfer from or to the EU budget. If the Fund is called to honour a guarantee or to make up for a non-payment by an EU debtor, there is a financial flow from the Fund to either the EU budget or to the EIB.

The EIB manages the Fund's portfolio. The Commission services oversee the investment policy, its implementation and agree with the EIB on the main investment guidelines. The convention with the EIB defines both the eligible assets and the prudential rules. Furthermore, the annual investment strategy has to be approved by the Commission. The EIB has to provide monthly reports on the management of the portfolio which are then reviewed by DG ECFIN's risk management team for compliance. More details about assurance, governance and supervisory arrangements in place vis-à-vis the entrusted entity, together with the characteristics and intensity of the supervisory approach can be found under ICT 3.

Assets (cash and securities) of the Guarantee Fund for external actions which are entrusted to the Entrusted Entity "European Investment Bank" (EIB) for the management of the Fund's portfolio as of 31 December 2014 :

EIB	EUR billion
Guarantee Fund for external actions	2,0

The following tables show the indicators used to assess (i) the effectiveness, (ii) the efficiency and (iii) the costs/benefits of the monitoring and supervision controls carried out during the reporting year:

48 The **legal basis** for the Guarantee Fund (GF) is Council Regulation (EC, Euratom) No 480/2009 of 25 May 2009 establishing a Guarantee Fund for external actions (codified version), the "Guarantee Fund Regulation" (OJ L 145, 10.6.2009, p.10).

Entrusted Entities. Guarantee Fund for external actions					
Nº	**Type of expenditure or management mode or ICS**	**Stage**	**Indicators (annual indicators)[49]**	**Description**	**Effectiveness of controls**
1	Guarantee fund for external actions	Management of the Guarantee Fund ("GF") and the payments from/into the GF	Cost of the management and payment / assets of the guarantee fund 396.000/2.000.000.000 198€ per 1M€	Control-related tasks: 3 FTE's 36 man/months (EUR 396.000 standard staff cost), as compared to ca. EUR 2 billion, the size of the Guarantee Fund at the end of 2014, i.e. 0.018 man/months (EUR198 standard staff costs) per million EUR of Guarantee Fund assets.	Compliance with budget procedures and financial management procedures & Financial Regulation. In 2014, no material finding was identified neither by the European Court of auditors nor by the external auditors during their recurrent annual audit missions. The Guarantee Fund was managed with respect of the budget procedures. The reporting, compliance reviews, internal and external controls and audits confirmed that the financial management and financial regulation procedures were respected. The payments from the budget to the Guarantee Fund were done in line with the regulation. No material breach of the investment guidelines happened.

[49] The full cost approach will be applied next year and include overheads; the current costs are the direct and indirect costs

Nº	Type of expenditure or management mode or ICS	Stage	Indicators (annual indicators)[49]	Description	Effectiveness of controls
2	Guarantee fund for external actions	Assurance building on the process and systems of DG ECFIN	Costs of assurance / assets of the guarantee fund 11.000/2.000.000.000 5.5€ per 1M€	Financial risk-assessment function: 1 man/month 1 man/months (EUR 11.000/year standard staff cost), as compared to ca. EUR 2 billion, the size of the Guarantee Fund at the end of 2014, i.e. 0.0005 man/months (EUR 5.5 standard staff costs) per million EUR of Guarantee Fund assets.	Compliance with budget procedures and financial management procedures & Financial Regulation. No material issues were identified during 2014. The Guarantee Fund management worked as designed. The existing mechanisms and processes were adequate to the functioning of the Guarantee Fund. The annual financial audit certificate by the EIB's external auditors was received for the FY 2013. The 2014 audit certificate should be received by end of March 2015.
3	Guarantee fund for external actions	Sound financial management	Cost of external audit / assets of the guarantee fund 39.500/2.000.000.000 19.8€ per 1M€	The cost of audit by EIB's external auditors in 2014 was EUR 39.500 as compared to ca. EUR 2 billion, the size of the Guarantee Fund at the end of 2014.	Compliance with budget procedures and financial management procedures & Financial Regulation. In 2014, no material finding was identified neither by the European Court of auditors nor by the external auditors during their recurrent annual audit missions. The financial management of the Guarantee Fund was in line with the budget procedures and financial regulation. No erroneous financial operations were registered.

Since a quantitative estimation of the volume of errors prevented and detected is not available, it is not possible to quantify the related benefits. In consequence, it is not possible to determine the cost-effectiveness of controls by comparing costs with benefits; it is necessary to consider the efficiency indicators retained.

The overall cost effectiveness of controls in 2014 on the Guarantee Fund for external actions, as measured by the proportion of overall cost of control over the assets managed by the EIB lead us to consider that the controls are sufficiently efficient and cost-effective.

In all these cases, our supervision arrangements are based on the principle of controlling with the relevant entities. For more details, please see ICT 3 on indirect management/guarantee fund in Annex 5.

Moreover the various measures described under ICT 3 and the positive results of these measures lead us to conclude on the effectiveness of controls and the achievements of control objectives as regards "Safeguarding of Assets and Information"; "Reliable (true and fair view) Reporting"; and "Legality & Regularity". More specifically, the 2% threshold for legality and regularity applied to payments is applied to the replenishment of the guarantee fund i.e. the yearly payments made to the fund. It should be noted that such replenishment is based on audited and certified financial statements to which pre-defined risk exposure percentages are applied. In other words, given the mechanism applied the best estimate of the error rate is 0%.

The control system for this entrusted entity relies heavily on third party assurance and in that respect DG ECFIN will continue to stress to the entrusted entity the utmost importance of having audit certificates in due time. It has to be acknowledged, however, that this is largely outside DG ECFIN's control. More importantly, this is inherent to legacy instrument concluded years ago and with less stringent provisions on the timeline for reporting procedures than the new instruments. From our own monitoring and supervision work including the reviews of the periodic reporting throughout the year by the EIB, as well as regular contacts/representation or desk reviews of relevant management reports or audit reports (see details in Annex 5), we faced no material control issue.

Consequently, we can conclude that there are no material control weaknesses affecting the assurance building in terms of the five internal control objectives. However DG ECFIN acknowledges that so long as third-party assurance is not formally available in due time this conclusion is meant to cover the residual assurance i.e. the one directly from DG ECFIN as opposed to third party assurance. Nevertheless, in view of the scope of assurance as defined in the introduction of section 2 additional comfort in the form of (informal) assurance from the discussions with the entrusted entity during the closure process also plays a role in the process.

Fraud prevention and detection

DG ECFIN has developed its anti-fraud strategy as foreseen in the Commission's overall anti-fraud strategy[50]**.** The strategy was adopted in January 2014, with a number of measures foreseen. These measures can be grouped as follows:

1) Measures to promote fraud awareness,
2) Ethics and Integrity, and
3) Measures to improve cooperation with implementing partners in the areas of fraud prevention and detection.

A number of initial steps to implement the aforementioned measures were taken during 2014. We will continue to improve the implementation of the anti-fraud strategy in 2015, and we also consider that the risk of fraud is low on a basis of our risk-assessments made across the DG. Implementing the anti-fraud strategy implies that this control objective will be addressed under each of the control system both in direct and indirect management.

Controls aimed at preventing and detecting fraud are not essentially unlike those intended to ensure the legality and regularity of the transactions.

Thus throughout 2014 the fraud prevention and detection aspect was an integrated part of regular controls performed throughout in DG ECFIN.

In addition, an ad-hoc ex-post control was carried out, in the beginning of 2014, on the BCS programme in Austria following the receipt of an anonymous e-mail indicating fraudulent behaviour by the organisation involved. As a conclusion, no fraud was detected in that case.

In 2014 we did not transmit any new cases to OLAF/IDOC[51] for investigation, and OLAF did not initiate cases which concern our activities based on other sources of information.

Cross-sub-delegations

As in previous years, DG ECFIN has cross-sub-delegated:

- 598,6 KEUR in commitments and 534,7 KEUR in payments to DG COMM to finance an Euronews magazine and organise ECFIN-related events
- 295,0 KEUR in payments to DG DEVCO for legal advice on Euratom loans to Ukraine
- 108,4 KEUR in payments to DG EMPL for a study on tax wedge
- 29, KEUR in commitments and payments to DG DIGIT for the IT quota services

The cross-delegation agreements require the AOD's of the a/m DG's to report on the

[50] COM(2011) 376 24.06.2011.
[51] Investigation and disciplinary Office (IDOC) is to ensure compliance by (former) officials and other agents with their obligations as laid down in the Staff Regulations (SR) by conducting administrative inquiries and disciplinary procedures in a fair, transparent and timely manner.

use of these appropriations. In their reports, the AOD's do not communicate any events, control results or issues which could have a material impact on assurance.

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.

The DG is audited by both internal and external independent auditors: its internal audit capability (IAC), the Commission internal audit service (IAS) and the European Court of Auditors (ECA).

During the period of reference, the IAS completed one audit on Risk Management and Planning Processes in the New Economic Governance Context. DG ECFIN was involved in another IAS audit on the Administrative Processes supporting the implementation of the European Semester across the Commission to which no recommendations were addressed to it. Additionally, all recommendations were deemed by the IAS as 'implemented' in relation to the IAS Follow-Up on Off-budget operations: EFSM[52] and another IAS Follow-up on the Joint Audit on Implementation by the European Investment Fund (EIF) of the High Growth and Innovative SME Facility (GIF) under the Entrepreneurship and Innovation Programme (EIP) in DG ECFIN.

Equally, all IAS audits carried out concluded that the internal control system in place provides reasonable assurance regarding the achievement of the business objectives set up for the process examined. No critical or very important recommendations were issued by the IAS to DG ECFIN during the reporting year.

The ECA conducted three audits related to financial and economic governance (Implementation of the BOP and EFSM), EDP[53] corrective arms and Greek adjustment Program (also covering DG EMPL, DG REGIO, DG AGRI and TFGR[54]). No ECA reports were finalised by the end of the reporting year as all the contradictory phases of their three audits will be undertaken during the course of 2015.

Furthermore, the IAC carried out a total of two audit assignments in addition to five follow-up engagements, in accordance with its multiannual audit planning, which covers the DG management processes, on a risk basis, over a period of five years and which led to one very important recommendation related to the use of external resources in the context of the IT security. Consequently, the IAC expressed the opinion that the internal control system in place in DG ECFIN provides reasonable assurance regarding the achievement of the business objectives set up for the processes audited, except for that

[52] European Stability Financial Stabilisation Mechanism(EFSM)
[53] Excessive Deficit Procedure (EDP)
[54] Task Force for Greece (TFGR)

very important issue resulting from that IT Security audit, see also Part 3.

Management has accepted all the auditors' recommendations and submitted action plans which have been assessed favourably by the auditors. For the three ECA's audits conducted in 2014 the contradictory phases will be undertaken during the course of 2015. The various management measures included in these action plans have been or are being implemented as foreseen.

As regards the implementation of recommendations issued in previous years, the relevant action plans are implemented as planned and are on schedule except for the following one very important recommendation being in progress because of the fine-tuning its existing strategic HR plan. Full implementation is now expected by first half of 2015 instead of the original expected implementation date set as by the end of the reporting year. In the meantime, risks are mitigated by alternative measures (existing HR plan). Consequently, the current state-of-play does not lead to assurance-related concerns.

As a result of the assessment of the risks underlying the auditors' observations, including the availability of the ECA's preliminary findings of the on-going ECA audits at the time of drafting the 2014 Annual Activity Report together with the management measures taken in response we believe that the recommendations issued do not raise any assurance implications and are being implemented as part of the on-going continuous efforts in terms of further improvements. Still, *inter alia* taking into account some of the audit results, ICS 8 on Processes and Procedures has been selected as priority ICS for further improvement of its effectiveness.

3. ASSESSMENT OF THE EFFECTIVENESS OF THE INTERNAL CONTROL SYSTEMS

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

DG ECFIN 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.

DG ECFIN annually assesses the effectiveness of its key internal control systems, in accordance with the applicable Commission guidance. The assessment relies on a number of monitoring measures and sources of information including *inter alia* a survey-based management self-assessment, including its update, reported instances of exceptions, non-compliance events and internal control weaknesses; relevant audit findings; its annual internal Financial Management report; and the risk assessment process.

The annual review carried out in February 2014 led to the update of 'top-down' assessment of the DG's internal control status undertaken in February 2015, with respect to both the ICS compliance and the effectiveness of the control arrangements in place. The update confirmed the results of the 2014 annual review that ICS are effectively implemented in DG ECFIN; some areas of improvement remain for ICS 3 on Staff Allocation and Mobility, ICS 8 on Processes and Procedures, ICS 11 on Document management and ICS 12 on Information and Communication. Furthermore, the 'bottom-up‘ information on internal control issues received through the AOSDs' Management Reports has been checked for confirmation or any counter-indications. Finally, the IAC's annual opinion on the state of control has been taken into account as well. This analysis had enabled the ICC to report the state of internal control and his recommendations to the Director-General.

It its management plan for the reporting year, DG ECFIN had foreseen a number of measures to improve the effective implementation of ICS 8 on Processes and Procedures, ICS 11 on Document Management and ICS 12 on Information and Communication (see in details in the Table below) in addition to ICS 6 on Risk Management process. Staff Survey 2014 was conducted in November 2014 (DG ECFIN participation rate (60 %) exceeded the overall response rate (49 %)), of which results were not available by the end of the reporting year. Additionally, in the course of the reporting year, DG ECFIN's organisational structures and staff allocations were aligned with DG's own and the new Commission's priorities. By the end of the reporting year, these measures are still being implemented and expected to be further enforced in the course of 2015.

The management revision of the KPI 5 related to the internal control resulted in a change of that result indicator in the 2015 MP to focus on the avoidance related to the financial exceptions (overrides and non-compliant events) with respect to procurement procedures and grant procedures.

The Annual Risk Management exercise showed a downward trend of number of critical and high risks identified across DG ECFIN compared to what was reported in the previous year. It also revealed that 40 % of the identified critical and high risks are external and largely outside management's (or the Commission's or both) control. The Annual Risk Management exercise indicated that necessary corrective actions to mitigate identified risks were implemented towards achieving our objectives to the extent possible within the remit of DG ECFIN's control.

Further enhancing the effectiveness of the DG's 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.

In conclusion, the annual review carried out in February 2014 led to the update of 'top-down' assessment of the DG's internal control status undertaken in February 2015, with respect to both the ICS compliance and the effectiveness of the control arrangements in place. The update confirmed the results of the 2014 annual review that ICS are effectively implemented in DG ECFIN but some areas of improvement remain for ICS 3 on Staff Allocation and Mobility, ICS 8 on Processes and Procedures, ICS 11 on Document management and ICS 12 on Information and Communication.

Prioritised ICS in the ECFIN 2014 MP	
Context	Progress made
ICS 8 - Processes and procedures	
This standard remains a priority area for DG ECFIN in 2014. The first baseline requirement states in particular that main operational and financial processes and procedures and IT systems must be adequately documented. Particular emphasis should be put on the DG's security policy, where action is required to ensure that the DG's internal procedures are aligned with HR DS rules.	To mitigate the security related risks the following measures were undertaken: • Specific Manual for handling sensitive information was approved by the Director General in January 2014. It is fully implemented since the adoption by the HR.DS of the revision of the Security Notice n°1 in June 2014 The manual includes instructions and guidelines for handling sensitive information e.g. use of marking and handling of sensitive documents. • Specific training on handling of sensitive information issues was provided to ECFIN staff in July and October 2014. • Security assessments of sensitive business processes were conducted during 2014. Reports were finalised concerning business processes related to forecast, internal audit and the European semester.
ICS 11 - Document management	
In 2014, particular emphasis was placed on four objectives to further strengthen document management: i) to provide personalised training sessions (on demand) ii) to formalise the role of the ECFIN file manager, iii) to update the MyECFINnet microsite with interactive guidance videos and documentation, and iv) to step out and address particular challenges within units on the basis of sound benchmarks.	The document management action plan endorsed by senior management called for a series of actions which were further refined in 2014. The personalised trainings allowed further strengthen know-how whereas more support, pragmatic guidance and coaching helped the colleagues in highly demanding areas. To increase the quality of DG ECFIN's files almost every file was linked to a file manager. Those colleagues received personalised reports on their individual filing activities. Interactive training material was made available to staff to help them in this context. The overall performance showed gradual progress (e.g. better filing, less unused files, etc.) compared to previous reporting years.
ICS 12 – Information and Communication	
Communication methods and channels with respect to the support to programme countries and the implementation in the design of stronger EMU governance (i.e. banking union): in response to the economic crisis, the European Commission has been given significant new responsibilities in the area of economic policy, especially for the euro area. Economic governance has been strengthened in legislations such as the 6 pack and 2 pack. In the area of both fiscal policy and macroeconomic policies, the Commission has new instruments for monitoring the economic situation and policy responses of Member States (MS), and also for follow-up surveillance. Recommendations addressed to MS have a high political profile, and euro area MS falling under the corrective arm of the Stability and Growth Pact (SGP) and the	DG ECFIN has stepped up its communication effort as regards communication actions on economic governance (SGP/MIP) and on programme countries. For programme countries, DG ECFIN has Resident representative who engage in communication and outreach activities to key stakeholders. DG ECFIN has also developed targeted platforms for communication to specific stakeholder audiences, such as financial market actors, trade unions, officials in national Finance Ministries, and journalists specialised in economic policy. At MS level, DG ECFIN also closely works with the network of European Semester Officers (ESOs). DG ECFIN Communication unit has intensified its collaboration with DG COMM and SG, exploiting further synergies and building on their strategic

Prioritised ICS in the ECFIN 2014 MP	
Context	Progress made
Macroeconomic Imbalance Procedure (MIP) possibly face the prospect of financial penalties for non-compliance. The European Commission has significant responsibilities for the provision of macroeconomic support to both euro area MS as part of Troika, a role now enshrined in Community law under the 2 pack legislation. The Commission is also involved in the provision of Balance of Payments support to non-euro area countries. The ability of the Commission to effectively fulfil its responsibilities in economic policy depends upon having sound economic analysis to underpin policy recommendations addressed to MS and the euro area, as well as on the judicious use of the new economic governance instruments. Effective communication is also key since the policy recommendations can only be acted upon at national level if (i) the new economic governance instruments are understood by relevant stakeholders, and (ii) if the policy recommendations proposed by the Commission are understood and broadly supported by stakeholders and EU citizens alike . The economies of many MS are undergoing extremely difficult economic and fiscal adjustments, and the process of unwinding unbalances has some way to go. These difficult adjustment processes can only be sustained if there is a broad level of support within society for them, and if there is a high degree of trust in the EU institutions.	partnership. In 2014, DG ECFIN granted a cross sub-delegation to DG COMM to continue the co-financed programme "Real Economy" by "Euronews" targeting generally interested citizens, and to finance events related to DG ECFIN's policy issues to be organised by ESOs and the Representations, as well as priority visits on economic and financial affairs organised through the Commission Visitor's Centre. These initiatives contribute to the ongoing development of a targeted, devolved and proactive approach to communication on economic policy issues involving all Commission partners in the new project-oriented teams, including SG-SPP-COMM-EMPL (and others). These efforts are intended to further combine communication actions/ policies of the DGs concerned so that they achieve a critical mass, and to make full use of all the instruments/tools at the Commission's disposal. In addition to working with the press, DG ECFIN Communication unit's activities also encompass dealing with key stakeholder groups. Based on DG ECFIN's annual communication plan and linked to DG COMM's corporate communication, further communication actions needed at EU level, in MS and internationally (e.g. financial market centres) are regularly assessed. The overall level of resources devoted to press and communication activities on economic policy has been further strengthened, combined with better use of synergies and collaboration. Further improvements are scheduled in 2015 to follow up on recommendations of the ongoing external evaluation on DG ECFIN's forthcoming communication challenges in view of its evolving role.

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 by providing elements supporting assurance. Our overarching elements of the management and control systems are the following:

Functions:

- Internal and external audits confirm that the internal control system in place provides reasonable assurance regarding the achievement of our objectives and compliance with applicable rules and procedures, and audit recommendations are actively being followed up;
- Additionally, outside the auditors work, during the reporting year, DG BUDG conducted its assessment of validation of our local accounting systems including direct management, borrowing and lending operations, fiduciary accounts, Guarantee fund and related contingent liabilities, investment in EU organisations and asset management. They concluded that the provisions for the validation criteria drawn by the Accounting Officer were met.
- Each and every file is checked by a central, independent ex-ante verification team in the Financial Unit, of which results are detailed in the Part 2.1
- A centralised Ex-post control function provides additional assurance regarding the correct implementation of our financial operations as regards their legality, regularity and compliance with the principle of sound and efficient management and Ex-post control recommendations are actively being followed up. In this context, a total amount of 11.874,49 Euros was recovered/ corrected due to ex-post controls performed, see in details in Annex 5, ICT 2, Stage 3;
- As far as off-budget operations are concerned, both the Treasury Management Committee (TMC) and the Risk Management function continues to be in place of which results are detailed in Part 2.1, especially non-expenditure items. The former meets normally every month to assess the implementation of the investment strategy, discuss recent developments in the markets and possible tactical reactions to these, taking into account the financial risks affecting the portfolios. The latter ensures – and reports on - the monitoring of potential risks for the off-budget asset management and serves as a control entity for the treasury (e.g. limit control).
- Being ultimately responsible for the sound financial management of the different activities and projects under their control, the Authorising Officers by Sub-Delegation (AOSD) and the operational units under their supervision carry out the monitoring and control activities which they deem necessary or appropriate.
- The Annual Financial Management Report, based also on assurance reports drafted by AOSDs, concludes that, overall, our budgetary and financial operations have been implemented smoothly in 2014 with budgetary consumption rates on both administrative and operational lines reaching very high levels;

Management steering groups:

- The Internal Control Management Group (ICMG) oversees the functioning of our internal control systems and steers the ex-post control programme. It provides a forum to discuss specific internal control-related issues and possibly formulate appropriate corrective actions.
- The Human Resources (HR) Management Board decides on the optimal allocation of human resources, based on our strategic priorities. Posts maybe transferred to other units/directorates if priorities so justify.
- The Advisory Committee on the Use of Resources (ACUR) ensures that the allocation of budgetary resources reflects the DG's priorities and work

programme, as explained in Part 2.1. For this purpose, it examines the quality and costs of individual proposed projects, makes proposals to senior management on prioritising projects and suggests actions which it considers necessary. ACUR also discusses the budgetary planning of projects and programmes.

Other:

- The management revision of the exceptions and non-compliance events lead to a change of the result indicator in the 2015 MP to focus on the avoidance related to the financial exceptions with respect to procurement procedures and grant procedures.
- As regards fraud detection, we have not sent any case to OLAF in 2014.
- As regards the policy formulation activities of the DG, it is important to recall that since the economic and financial crisis erupted, DG ECFIN has seen a major shift in its activities and responsibilities. Concretely, we are expected to design and implement the new governance framework for EMU, including a deepening and broadening of the surveillance at country level. At the same time, there is a need for a greater involvement and contribution of horizontal services within DG ECFIN to country surveillance (including macroeconomic imbalances), so as to bring in their particular expertise and insights.
- To help execute these new tasks, we have received a substantial reinforcement of human resources to be able to cope with these challenges. Since 2012, a HR Board helps ensuring a more systematic and strategic approach to the allocation of resources to needs, and moreover to develop the potential of the human capital through training programmes.
- In consequence, in order to ensure that these resources have been used effectively and efficiently as well as in accordance with the principles of sound financial management, the existing horizontal control mechanisms and structures have been reinforced and reactivated to support the abovementioned sections leading to the assurance.
- Furthermore, in 2014, we have stepped up several efforts in the fields of security policy, document management and communication.
- As far as the completeness of the information is concerned, all our financial (budgetary or off-budget) activities are covered by appropriate and efficient control systems, on which information has been provided. Particular emphasis has been put on the activities for which specific control procedures have been put in place, because of their inherent risks and/or the amounts concerned.
- Concerning the reliability of the information, all operational services with financial responsibilities and all control actors in the DG have been actively involved in the provision of relevant information and in the final approval of the AAR, including the ICMG work.

The review of the available evidence reported in Parts 2 and 3 is complete as regards the coverage of budget related to both direct and indirect management. All control elements related to the direct management provide the reasonable assurance not to disclose any reservation; the level of effectiveness, efficiency and cost-effectiveness of the controls operated in direct management is adequate and we will monitor efficiency (and cost-effectiveness) over time and with comparable DG's to better benchmark this process.

We further consider that overall controls related to indirect (entrusted) management (Financial instruments managed via international financial institutions and Guarantee fund for external actions) are efficient and cost-effective. No material control weaknesses affecting their assurance building in the context of internal control objectives were noted. Due to the unavailability of the quantitative estimation of the volumes of errors prevented and detected, no cost-effectiveness of controls compared with the benefits was determined.

We have 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. We will continue to improve the implementation of our anti-fraud strategy in 2015 and we consider that the risk of fraud is low on a basis of our risk-assessments made across DG.

In conclusion, the internal control standards are effectively implemented. Continuous efforts will be made to further improve the effective implementation of the prioritised internal control standards 8 on Processes and Procedures, ICS 11 on Document management and ICS 12 on Information and Communication where measures are expected to be further enforced in the course of 2015, see in details in Part 3. In addition, we have taken measures to further improve the efficiency of our internal control systems in the area of risk management process.

We have systematically examined the available control results and indicators, including those aimed to supervise entities to which we have entrusted budget implementation tasks, as well as the observations and recommendations issued by the auditors. These elements have been assessed to determine their impact on the management assurance as regards the achievement of control objectives, see in details in Part 2.

In conclusion, management has reasonable assurance that overall, suitable controls are in place and working as intended; the information at disposal and contained in this report gives a true and fair view; risk are being appropriately monitored and mitigated, and necessary improvements and reinforcements are being implemented, see in details in Parts 2 and 3. The Director General, in his capacity as Authorising Officer by Delegation (AOD) has signed the Declaration of Assurance.

4.2 Overall conclusion on assurance and reservations

In view of the control results and all other relevant information available, the AOD's best estimation of the risks relating to the legality and regularity for the expenditure authorised during the reporting year is between 0% and 1.4%, which implies an amount at risk of between EUR 0,1 million and EUR 3,2 million.

The internal control strategy foresees the implementation of further controls during subsequent years aimed to detect and correct these errors if such a procedure is cost-effective. It is not possible to identify the specific errors and amounts which will be effectively corrected in the coming years, yet the implementation of these corrective controls since 2009 has resulted in recoveries representing EUR 3.0 million over the 2009-2014 period or 0.3% of the total payments over the same period[55]. This provides the best available indication of the corrective capacity of the ex-post controls systems implemented by the DG. Indeed ex ante financial corrections such as credit notes received and offset against the relevant invoices already impact the error rate because the error rate is assessed against payments made. Given the scarce resources that we can allocate to ex post controls because of our policy priorities, a more adequate, reliable and prudent approach is to consider that there is no implied corrective capacity for 2014.

Taking into account the conclusions of the Part 4.1, the multiannual character of programmes and the expected corrective capacity of the controls to be implemented in subsequent years, it is possible to conclude that the internal controls systems implemented by us provide sufficient assurance to adequately manage the risks relating to the legality and regularity of the underlying transactions. Furthermore, it is also possible to conclude that the internal control systems provide sufficient assurance with regards to the achievement of the other internal control objectives.

DG ECFIN	Scope: payments made (FY 2014; M€)	Error Rate (%)	Amount at risk (FY 2014; M€)
Activity-level	*as per AAR annex 3, table 2*	*error rate*	*= (2) x (3)*
Direct Management			
MFA	0	N/A	
BCS	4.9	2%	0.1
Other administrative expenses	14.3	0%	0.0
Indirect Management			
Guarantee Fund for external actions	58.4	0%[56]	0
Entrusted entities for financial instruments	156.8	0%-2%[57]	0-3.1
Off-budget assets management	N/A	N/A	
Weighted average error rate and implied amounts at risk	234.4M €	0%-1.4%	0.1-3.2 M €

The estimation of the implied corrective capacity is 0%.

55 Source of information: ABAC

56 This percentage refers to the replenishment of the fund.

57 This percentage refers to payments at the level of the final beneficiaries. The range shows the minimum and maximum values of the estimated error rate. However, the actual amount, which was recovered, based on actual checks undertaken is well below the maximum value of the estimated error interval.

DECLARATION OF ASSURANCE

I, the undersigned,

Director-General of Economic and Financial Affairs

In my capacity as authorising officer by delegation

Declare that the information contained in this report gives a true and fair view[58].

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 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.

Brussels, 20th March 2015

"Signed"

Marco Buti

[58] True and fair in this context means a reliable, complete and correct view on the state of affairs in the DG.