European Commission

2017

Annual Activity Report

Directorate General for Economic and Financial Affairs

List of Acronyms

AFS	Anti-Fraud Strategy
AGS	Annual Growth Strategy
AMC	Account Management Centre
AMR	Alert Mechanism Report
BCS	Business and Consumer Survey
BoPs	Balance of Payments
BUFI	budgetary fines
CCEG	Counterfeit Coin Experts Group
CIP	Competitiveness and Innovation Framework Programme
CL	Clearing Letter
CNAC	Coin National Analysis Centre
COMM	(DG) Communication
CR	Country Reports
CSRs	Country Specific Recommendations
DEVCO	(DG) International Cooperation and Development
DG	Directorate General
DBP	Draft Budgetary Plan
EA	euro area
EARs	euro area Recommendations
EBCI	European Business Consumer Index
EBRD	European Bank for Reconstruction and Development
ECA	European Court of Auditors
ECB	European Central Bank
ECEG	Euro Counterfeiting Experts Group
ECFIN	(DG) Economic and Financial Affairs
ECSC i.L.	European Coal and Steel Community in liquidation
EDP	Excessive Deficit Procedure
EEAS	European External Action Service
EFC	Economic and Financial Committee
EFSD	European Fund for Sustainable Development
EFSF	European Financial Stability Fund
EFSI	European Fund for Strategic Investments
EFSM	European Financial Stabilisation Mechanism
EIAH	European Investment Advisory Hub
EIB	European Investment Bank
EIF	European Investment Fund
EIP	External Investment Plan
EIPP	European Investment Project Portal
ELM	External Lending mandate
EMF	European Monetary Fund
EMU	Economic and Monetary Union
EPC	Economic Policy Committee
ERP	Economic Reform Programme
ES	European Semester
ESCALAR	European Scale-Up Action for Risk Capital
ESIF	European Structural and Investment Fund
ESM	European Stability Mechanism
ESO	European Semester Officer
ETSC	European Technical Scientific Centre
EU	European Union
EWG	Eurogroup Working Group
FIIEG	Financial Instruments Inter-service Expert Group
FR	Financial Regulation [50]
GDP	Gross Domestic Product
GIF	Growth and Innovative SME Facility
GROW	(DG) Internal Market, Industry, Entrepreneurship and SMEs
HR	Human Resources
IAS	Internal Audit Service
IDR	In Depth Review
IFIs	International Financial Institutions
IIW	Infrastructure & Innovation Window
IMF	International Monetary Fund
IPE	Investment Plan for Europe
JRC	Joint Research Centre
MFA	Macro-Financial Assistance
MFF	Multi-Annual Financial Framework
MIP	Macro Imbalance Procedure
MoU	Memorandum of Understanding
MP	Management Plan
MS	Member States
MTO	Medium Term budgetary Objective
NEAR	(DG) Neighbourhood and Enlargement negotiations
NPB	National Productivity Boards
NRPs	National Reform Programmes
OM	Organisational Management
PEFA	Public Expenditure and Financial Accountability
PPS	Post Programme Surveillance
SCP	Stability and Convergence Programme
SDP	Significant Deviation Procedure
SG	Secretariat General
SGP	Stability and Growth Pact
SME	Small and Medium Enterprises
SMEG	Small and Medium Enterprise Guarantee
SMEW	Small and Medium Enterprise Window
SP	Stability Programmes
SRF	Single Resolution Fund
SWD	Staff Working Document
TA	Technical Assistance
TAXUD	(DG) Taxation and Customs Union
T4T	Teams for Themes
TFEU	Treaty on the Functioning of the European Union
ToR	Terms of Reference
TSCG	Treaty on Stability, Coordination and Governance
VC	Venture Capital
WLM	Work Load Management

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THE DG IN BRIEF

Our mission 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.

Within the Commission, DG ECFIN plays the leading role in ensuring the Treaty obligations that are set out in Title VIII (Economic and Monetary Policy) of part three of the Treaty on the Functioning of the European Union (TFEU) are met. It also contributes to various aspects of External Action of the Union (part five of the TFEU).

With respect to DG ECFIN's activities, policy and operational objectives through the use of budget expenditures are either achieved through direct management and grants and purchases, or through indirect management with entrusted entities and financial instruments. Similarly, the financial management of assets is either directly performed by DG ECFIN or under its supervision when entrusted to another body. This is why DG ECFIN enjoys a mix of direct assurance and third party assurance in its accountability chain. So far, this arrangement has proved to be smooth and reliable.

As the EU's system of economic policy coordination has developed to become more comprehensive and better integrated, we increasingly work in close partnership with other services of the Commission to promote the achievement of the Union's objectives in areas such as employment and social policy, environment, energy, industry and Small and Medium size Enterprises (SME) policy, research and development.

The Member States are required to regard their economic policies as a matter of common concern, coordinate them in the Council and avoid excessive budget deficits. DG ECFIN is charged with developing policies to facilitate and implement these requirements. When the economic crisis which began in 2008 led to the strengthening of the existing requirements as well as to the adoption of new rules to avoid the accumulation of macroeconomic imbalances, DG ECFIN was heavily implicated in the work. Subsequent efforts to reinforce economic policy coordination have focused on the Europe 2020 Strategy launched in 2010 and, more operationally, on the European Semester of economic policy coordination instigated in 2011. In terms of competence, these arrangements are hybrid: in particular some recommendations to the euro area and MS are enforceable under the provisions of secondary legislation, whilst others cannot be enforced.

DG ECFIN also plays an important role in preserving financial stability in the EU by providing financial assistance to euro area MS facing a severe deterioration of their borrowing conditions and to MS outside the euro area facing difficulties with their balance of payments. The financing for euro area countries is currently provided by the ESM, governed by a specific treaty currently outside the EU framework and subject to EU regulations which set out the roles played by EU institutions in the provision of this assistance; the latter through the Balance of Payments (BoP) facility which is governed by an EU regulation.

We also design and implement, in close cooperation with the EIB Group and the EBRD, EU investment programmes including the "Investment Plan for Europe" and the "External Investment Plan".

In addition, DG ECFIN contributes to the Commission's aim to play a key role in promoting the growth, stability, and resilience of the global economy; it does so by conducting economic surveillance of EU enlargement countries and financial operations to support EU neighbourhood policy. To that end, DG ECFIN maintains close working relations with the EIB Group, the EBRD, the World Bank Group and other multilateral development banks, where it works to promote the EU's priorities and common positions as well as ensure appropriate coordination of the Commission's financial cooperation with these institutions. DG ECFIN is also responsible for maintaining close working relations with the IMF and participating in G7 and G20 group meetings to develop international strategies in the economic and financial area; this enhances the Commission’s role, in line with the TFEU, in international economic and financial institutions and fora.

DG ECFIN has many stakeholders. Its management of programmes and financial operations on behalf of the Commission and its leading role in the definition and promotion of the economic objectives of the Union define its relations with other Directorates-General (DGs) in the Commission. Outside the

Commission, EU MS authorities are also key stakeholders, in ways that go considerably beyond the traditional and formal relationship between the Commission and MS in the Council. So too are national parliaments, social partners and other business, academic and civil society organisations owing to our increasing role in the formulation and advocacy of national economic policies. And as the Commission pursues greater efforts to promote the external dimension of the EMU, DG ECFIN's international partners in the IMF, G7, G20 and international development banks, together with key non-EU national authorities have all also become increasingly important stakeholders in our work.

Work in DG ECFIN is complemented by its interaction with the Economic and Financial Committee (EFC), the Economic Policy Committee (EPC) and the Eurogroup Working Group (EWG). The EFC is a committee set up to promote policy coordination among Member States, primarily on economic, fiscal and financial matters. The EPC focuses on structural policies for improving growth potential and employment in the EU, the prevention and correction of macroeconomic imbalances, as well as the quality and sustainability of public finances. The EWG coordinates Member States on euro area specific issues and is steered, uniquely, by a Brussels-based permanent President. These three parent committees together with their respective sub-committees and Presidents are assisted by a Secretariat based in DG ECFIN, which also provides support for the Eurogroup and its President. The Secretariat is the means through which legislative proposals start their journey through the approval process in the Council and through which DG ECFIN interacts with the Member States.

DG ECFIN's structure consists of 9 directorates, 3 devoted to country specific analysis and 6 to more horizontal issues (including financial operations, international relations, growth drivers and fiscal policy) as well as the Secretariat described in the paragraph above. Around 670 members of staff work in DG ECFIN, mostly in Brussels, but about 120 work in Luxembourg and 3 in the USA and China. The DG is shrinking at roughly 1% a year in line with the decrease in the size of the overall Commission.

EXECUTIVE SUMMARY

The Annual Activity Report is a management report of the Director-General of DG ECFIN to the College of Commissioners. Annual Activity Reports are the main instrument of management accountability within the Commission and constitutes the basis on which the College takes political responsibility for the decisions it takes as well as for the coordinating, executive and management functions it exercises, as laid down in the Treaties[1].

a) Key results and progress towards the achievement of general and specific objectives of the DG (executive summary of section 1)

DG ECFIN strives to improve the economic wellbeing of the citizens of the EU – through policies designed to promote sustainable economic growth, a high level of employment, stable public finances and financial stability.

Three Economic Forecasts were published in 2017: one on 13 February under the title**:** *Navigating through choppy waters*, *all EU Member States' economies are set to grow in 2016, 2017 and 2018*; one on 11 May under the title: *Steady growth ahead*; and one on 9 November under the title: *Continued growth in a changing policy context*

The **European Semester** remains the key vehicle for integrated economic surveillance of EU Member States. By providing economic analysis and formulating policy guidance, DG ECFIN played a major role in preparing and implementing the **2017 European Semester** which kicked off in November 2016 and ended in June 2017.

A key step in that surveillance occurred on 22 February 2017, when the Commission[2] published 27 **country reports** (one for all MS except Greece, which is covered by a macroeconomic adjustment programme) analysing Member States' economic and social policies and assessing their progress in addressing the issues identified in the 2016 **Country Specific Recommendations** (CSRs). For 13 Member States identified in the 2017 Alert Mechanism Report (AMR) published in November 2016, the country reports included in-depth reviews (IDRs) under the Macro Imbalance Procedure (MIP). The Commission concluded on the basis of those reviews that 6 Member States experienced imbalances and 6 Member States excessive imbalances. For 1 Member State, no imbalances were identified. The country reports underpinned discussions with Member States about their national policy choices ahead of their National Programmes in April 2017, and the formulation of the Commission's 2017 CSRs.

The Commission also reviewed the national transposition of the intergovernmental Fiscal Compact. The report, adopted alongside the Winter Package, shows that all Contracting Parties (the euro area countries plus Bulgaria, Denmark and Romania) have significantly adapted their national fiscal frameworks as a result of the Fiscal Compact requirements, in conjunction with Union legislation.

On 22 May, the European Commission published its **2017 CSRs**. These set out its economic policy guidance to individual Member States for the following 12 to 18 months. The economy in the EU and the euro area is proving resilient but with slow productivity growth, as the legacies of the crisis – including high debt, persisting inequalities and imbalances – and uncertainty arising mostly from external factors continue to weigh on economic performance and growth potential. The Commission therefore called on Member States to use this window of opportunity to strengthen the fundamentals of their economies by implementing economic and social priorities identified in common at the European level: boosting investment, pursuing structural reforms and ensuring responsible fiscal policies. Particular attention is paid to the challenges and priorities identified for the euro area. Countries

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

[2] All references to "the Commission" or the "European Commission" should be understood to mean "the Commission, with substantial input from DG ECFIN".

identified with imbalances or excessive imbalances under the Macro Imbalance Procedure (MIP) have follow up and peer review through **specific monitoring** on their progress implementing the reform agenda to address their imbalances. Based on the assessment of the 2017 Stability and Convergence Programmes, the Commission has also taken a number of steps under the Stability and Growth Pact.

With its **European Semester Autumn Package,** which kicks off the 2018 surveillance cycle and was released on 22 November, the Commission has i) set out the EU's economic and social priorities for the year ahead in its Annual Growth Survey (AGS) for 2018, ii) proposed policy recommendations for the euro area, iii) identified in its Alert Mechanism Report (AMR) the Member States that need an in-depth review under the MIP, and iv) assessed euro area Member States' Draft Budgetary Plans.

DG ECFIN prepared a series of notes for the thematic discussions on growth and jobs in the Eurogroup. Notes were prepared on "Investment: common principles" for the February 2017 Eurogroup, on the "Ease of doing business" for the April 2017 Eurogroup, on "Economic resilience in EMU" for the September 2017 Eurogroup, on "Financing of labour tax cuts" for the October 2017 Eurogroup, on "Investment in human capital" for the November 2017 Eurogroup, and on the "Tax wedge – stocktaking based on Draft Budgetary Plans" for the December 2017 Eurogroup. Also, a note was prepared on the "Implementation of country-specific recommendations related to the business environment" for the March ECOFIN Council[3].

A major priority for DG ECFIN in 2017 continued to be the implementation of the **Investment Plan for Europe**, launched by President Jean-Claude Juncker, in close partnership with the European Investment Bank (EIB) group.

Two and a half years after the launch of the **European Fund for Strategic Investments (EFSI)**, the initiative is being successfully implemented and has supported innovative and strategic projects that contribute to job creation and growth. As of 31 December 2017, EFSI operations mobilising EUR 256.3 billion were approved across all Member States, with about 549,500 SMEs expected to benefit.

The Regulation to extend and enhance the European Fund for Strategic Investments (EFSI 2.0)[4], entered into force on 30.12.2017, extending the EFSI's lifetime to end-2020 and raising its investment target to EUR 500 billion. It also aims, *inter alia*, at increasing the transparency of the investment decisions and providing more technical support at a local level. In addition, work has already started on the preparation of EU instruments supporting investment post 2020.

The **European Investment Advisory Hub (EIAH)** received 641 requests as of end December 2017 from 28 Member States of which 500 were project-related and more than half came from the private sector.

Being a part of the second pillar of the Investment Plan for Europe together with the EIAH, the **European Investment Project Portal (EIPP)** was designed as a bridge between EU project promoters and investors worldwide. As of end 2017, it already provided nearly 240 investment opportunities in all Member States.

The successful implementation of the **SME Window[5] of EFSI** continued in 2017. By the end of the

[3] The Economic and Financial Affairs Council, commonly known as the Ecofin Council, is responsible for **economic policy**, **taxation** matters, **financial markets** and **capital movements**, and **economic relations** with countries outside the EU. It also prepares the **EU's annual budget** and takes care of the legal and practical aspects of the **single currency**, **the euro**.

The Ecofin Council is made up of the economics and finance ministers from all member states. Relevant European Commissioners also participate in meetings.

The Ecofin Council coordinates member states' economic policies, furthers the convergence of their economic performance and monitors their budgetary policies. It also coordinates **EU positions for international meetings**, such as the G20, the International Monetary Fund and the World Bank. It is also responsible for the financial aspects of international negotiations on measures to tackle climate change.

[4] http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32017R2396

[5] **EFSI is a EUR 16 billion guarantee from the EU budget**, complemented by a EUR 5 billion allocation of the EIB's own capital. In December 2017, it was decided to extend EFSI until the end of the 2014-2012 Multi-Annual Financial Framework and increase the EU guarantee to EUR 26 billion. At the same time, the EIB's own contribution was increased to EUR 7,5 billion. EFSI has two components to support projects with wide sector eligibility:

year, operations under the SME window reached EUR 89.6billion of expected mobilised investment. That represented a 9% overshooting of the target originally to be achieved only in mid-2018. At the end of 2017, the second amendment of the EFSI Agreement was signed with the EIB, which provides a further boost to guarantee instruments for SMEs under EFSI and should generate EUR 30-40 billion of additional financing to EU SMEs.

DG ECFIN continued to provide financial expertise to DGs managing **financial instruments for SMEs, innovation and employment**. In 2017, DG ECFIN negotiated, alongside the policy DGs concerned, the amendments to the EFSI agreement and the delegation agreements with the EIF. DG ECFIN also participated in the strategic governance decision-taking for these instruments in the respective Steering Committees.

As part of the EU's wider engagement with neighbouring countries, **Macro-Financial Assistance** (MFA) is intended as an exceptional EU crisis response instrument made available to EU neighbouring countries with severe balance-of-payments problems.

In 2017, the Commission proposed a MFA programme of EUR 100 million for the Republic of Moldova (adopted by the co-legislators in September 2017) and a new MFA operation of EUR 45 million to Georgia (adoption by the co-legislators pending). The Commission concluded the Memoranda of Understanding related to the MFA operations with Moldova as well as with Tunisia (EUR 500 million) and Jordan (EUR 200 million). The Commission also released the second instalment under MFA III Ukraine of EUR 600 million; the second and last instalment of EUR 23 million under its previous MFA programme to Georgia, the third (and last) instalment under MFA I Tunisia (EUR 100 million) and the first instalments under MFA II Tunisia (EUR 200 million) and MFA II Jordan (EUR 100 million).

On 31 May, the European Commission published its reflection paper on the **Deepening of the Economic and Monetary Union** (EMU), building on the vision set out in the Five Presidents' Report of June 2015. The paper summed up different policy options with an eye to complete the EMU by 2025. Following the reflection paper, on 6 December, the Commission presented its roadmap for EMU deepening, including concrete steps to be taken over the next 18 months. The overall aim is to enhance the unity, efficiency and democratic accountability of Europe's Economic and Monetary Union by 2025.

DG ECFIN ensures the economic and budgetary surveillance of **Greece** by conducting economic analysis and designing the policy conditionality in the programme. Greece has been receiving financial support from euro area MS and the IMF to cope with its financial difficulties and economic challenges since May 2010. In August 2015 a **stability support programme** was launched under the European Stability Mechanism (ESM) framework. The ESM programme includes measures to sustain the Greek government’s efforts to address economic imbalances, tackle social challenges, ensure financial stability and pave the way for sustainable economic growth and job creation. Extensive and high level contacts with other international institutions (International Monetary Fund (IMF), European Central Bank (ECB), European Investment Bank (EIB), World Bank (WB), Organisation for Economic Co-operation and Development (OECD)), Member States (Greece, but also others within the euro area), and various actors, observers, and investors who closely follow Greek developments, are a key aspect of ECFIN's work.

Following their exit from the EU-IMF economic adjustment programmes (**Ireland, Portugal & Cyprus**) and financial assistance programme for the recapitalisation of financial institutions (**Spain**), 5 Member States are now subject to **post-programme surveillance** (PPS). The objective of PPS is ultimately to measure the countries' capacity to repay their outstanding loans to EFSM, EFSF, ESM, bilateral lenders, or in the case of **Romania**, the Balance of Payments Financial Assistance Facility.

In 2017 DG ECFIN prepared a number of **publications** which can be found here.

- the **Infrastructure and Innovation Window**, deployed through the EIB, and
- the **SME Window**, implemented through EIF. The financial instruments used for the purposes of the EFSI SME Window are mainly guarantees and equity investments. Supporting access to finance for SMEs is one of the key objectives of EFSI, the first pillar of the Investment Plan for Europe. Some 600,000 small and medium-sized businesses and midcaps are expected to benefit from improved access to the finance they need to expand, create jobs and innovate.

b) Key Performance Indicators (KPIs)

Specific objective 1: Promoting growth and employment enhancing policies in the euro area and the EU

Result indicator 3: Percentage of CSRs partially or fully complied with **Source of data**: European Commission database			
Baseline (2015)	**Interim Milestone** (2016-2020)	**Target** (2020)	**Latest known results as per Annual Activity Report**
Country Specific Recommendations (CSRs)	Annual Communication of the European Semester package	To improve the implementation of CSRs	Level of implementation By May 2017, Member States achieved at least some progress with the implementation of 51% of the CSRs issued in the 2016 European Semester round. From a longer term perspective, for 67% of the CSRs issued since the start of the European Semester in 2011, there has been at least some progress with implementation.

The experience of the past few years confirms that the Member States are committed to pursuing structural reforms. By May 2017, around two thirds of the CSRs issued since the start of the Semester in 2011 had been implemented with at least 'some progress'. Since the start of the Semester, the pace of progress - as assessed one year after the adoption of the recommendations - has been slightly decreasing. This might partly be because politically easier reforms were implemented first and because of the greater sense of urgency during the crisis. However, this decrease in the pace of progress has been halted with the implementation of the 2016 CSRs.

Looking specifically at progress with the implementation of the 2016 CSRs, Member States made most significant progress in the area of fiscal policy and fiscal governance, as well as in active labour market policies. Steps have been taken in taxation policies (such as to reduce the tax burden on labour), labour market and social policies (notably social inclusion and childcare) and financial services. The areas showing least progress include competition in services and the business environment. Overall, Member States continue to make efforts to implement reforms, but so far the degree of progress ranges between 'limited' and 'some' for most policy areas identified in the 2016 CSRs.

Specific objective 3: Promoting investment in the EU

Result indicator 1: European Fund for Strategic Investments (EFSI) – Total investment **Source of data:** EIB, KPI3 (as per the EFSI Agreement) included in the monthly update of EFSI figures provided by the EIB Group; the total investment will also be part of the KPI/KMI reporting provided on an semi-annual basis to the Commission and the annual reports submitted by the EIB to the Commission, European Parliament and Council		
Baseline (2015)	**Target** (2018 - EFSI Regulation (Preamble 8)	**Latest known results as per Annual Activity Report**
No baseline as it	Mobilise a total investment of EUR	Volume of investment expected to be

is the start of the activity	315 billion by July 2018 as per the EFSI Regulation (Preamble 8).	mobilised at the end of 2017: EUR 256.3 billion or 81% of the mid-2018 target.

As of end-December 2017, the volume of investment mobilised by the approved EFSI operations stood at 81% of the target of mobilising EUR 315 billion of total investment, i.e. EUR 256.3 billion across both investment windows.

In the Infrastructure and Innovation Window, the European Investment Bank approved 362 projects of around EUR 166.7 billion in investment value, with EFSI-guaranteed European Investment Bank financing expected to amount to EUR 39.3 billion. These projects are situated in 27 Member States. In the SME window, 355 operations have been approved by the European Investment Fund for a total investment value of EUR 89.6billion. About 549,500 SMEs and mid-caps in all Member States are expected to benefit. Out of the 717 approved operations, 606 were signed. Therefore at the reporting date one could conclude that EFSI is on track in terms of approved operations.

Financial instruments are an increasingly frequent way of deploying EU budgetary resources, complementing grants. They are used to support financing and investment under many EU programmes covering SMEs, employment, competitiveness, innovation, infrastructure, energy or climate change.

In 2017, the Commission[6] continued to optimise the use of financial instruments and explore synergies with other means of financial support. To this end, the financial instruments for SMEs under the Competitiveness of Small and Medium-sized Enterprises (COSME), EU Finance for Innovators (InnovFin), Employment and Social Innovation (EaSI) programmes and the Cultural and Creative Sectors (CCS) Guarantee Facility under the Creative Europe programme were further enhanced by EFSI.

In the second half of 2017, the Commission started working on the plans for the next Multiannual Financial Framework. In the post 2020 MFF, financial instruments and budgetary guarantees will play an increased role. The guiding theme for the preparation of the MFF is streamlining and harmonisation, with the aim of reducing the number of scattered financial instruments into a system of highly coordinated instruments with critical mass.

In addition, the Commission has used its representation in the governance bodies of the EIB and EIF and in Steering Committees for these instruments to ensure that EIB and EIF adhere closely to EU policy objectives in implementing financial instruments, including support for social entrepreneurship, the fight against youth unemployment, the fight against climate change or the promotion of best practices in taxation.

[6] To recall, whenever there is a discussion in this report of results, all references to "the Commission" or the "European Commission" should be understood to mean "the Commission, with substantial input from DG ECFIN".

Specific Objective 5: Improving the efficient functioning of the Economic and Monetary Union

Result Indicator 6: Completion of stage 1 of Five Presidents' Report by 2017 and progress towards completing stage 2 by 2020		
Baseline (2015)	**Target**	**Latest known results**
The Five Presidents' Report of June 2015[7] laid out the principal steps necessary to complete EMU in two stages at the latest by 2025. To that end, the Commission presented a series of initiatives implementing stage 1: • national Competitiveness Boards and an advisory European Fiscal Board • more unified representation of the euro area in international organisations • steps towards a Financial Union, notably via a European Deposit Insurance Scheme In the second stage ('completing EMU'), concrete measures of a more far-reaching nature would be agreed to complete EMU's economic and institutional architecture. Specifically, during this second stage, the convergence process would be made more binding through a set of commonly agreed benchmarks for convergence that could be given a legal nature.	1st Stage completed by 2017; stage 2 to be completed by 2020 Commission presented a White Paper on the Future of Europe and the reflection paper on the Deepening of the EMU, assessing progress made in Stage 1 and outlining the next steps needed, including measures of a legal nature to complete EMU in Stage 2.	The annex attached to the reflection paper on the Deepening of the EMU presented progress with initiatives taken by the Commission to implement the Five Presidents' Report. As far as Stage 2 is concerned, on 6 December, the Commission proposed to integrate the European Stability Mechanism into the EU law framework. The Commission also announced new budgetary instruments for a stable euro area, including a stabilisation function in order to protect investments in the event of large asymmetric shocks. The idea will be developed as part of the proposal for the post-2020 Multiannual Financial Framework. The discussion on completing the Banking Union is ongoing in the Council on the basis of the Commission's proposals, including those presented in October 2017.

The single currency is one of Europe's most significant and tangible achievements. While major steps were taken to reinforce the integrity of the single currency in the wake of the financial and sovereign debt crisis, there is a broad consensus that the current setup of EMU remains incomplete. The robust recovery in the EU and euro area economies, with growth in all Member States, unemployment at its lowest level since 2008, and economic sentiment at its highest since 2000, creates the space to make the reforms necessary for a more united, efficient and democratic EMU.

7 https://ec.europa.eu/priorities/publications/five-presidents-report-completing-europes-economic-and-monetary-union_en

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

In accordance with the governance arrangements of the European Commission, (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/principles, based on international good practice, aimed to ensure the achievement of policy and operational objectives. The financial regulation requires that the organisational structure and the internal control systems used for the implementation of the budget are set up in accordance with these standards/principles. DG ECFIN has assessed its internal control systems during the reporting year and concluded that the internal control standards/principles are implemented and function as intended. Please refer to AAR section 2.1.3 for further details.

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

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

d) Provision of information to the Commissioner

In the context of the regular meetings during the year between the DG and the Commissioner on management matters, the main elements of this report and assurance declaration have been brought to the attention of Commissioner Moscovici, responsible for Economic and Financial Affairs, Taxation and Customs.

1. KEY RESULTS AND PROGRESS TOWARDS THE ACHIEVEMENT OF GENERAL AND SPECIFIC OBJECTIVES OF THE DG[8]

- **Aim**

Section 1 of the AAR provides information on the key results and progress towards the achievements of general and specific objectives set in DG ECFIN's 2016-2020 Strategic Plan and towards the achievements of the outputs set out in our 2017 Management Plan.

During the reporting period, we were responsible for the contribution to two general objectives of the Commission:

i) A new boost for jobs, growth and investment;

ii) A deeper and fairer EMU.

In order to contribute to the general objectives, there are 5 specific objectives that define more concrete areas of action for DG ECFIN. Often however the control of the achievement of the specific objectives is shared between DG ECFIN and Member States. In this regard, the influence over result indicators by us is often rather limited.

DG ECFIN's mission is to contribute to raising the economic welfare of citizens in the European Union (EU) and beyond by fostering competitive, employment-rich economies. To this end, the DG contributes to the development of smart, sustainable and inclusive economic growth policies which preserve macroeconomic and financial stability. Broadly, these policies cover: i) implementing necessary structural reforms; ii) achieving and maintaining sound public finances and an appropriate policy mix; iii) preventing and correcting macroeconomic imbalances; and iv) promoting investment in productive and human capital. The processes aimed at a deeper and fairer Economic and Monetary Union (EMU) and at completing the EMU architecture are central to this mission.

1.1 General objective 1: a new boost for jobs, growth and investment

1.1.1 Specific objectives 1 & 2: promoting growth and employment-enhancing policies in the euro area and the EU and promoting macro-economic and fiscal stability in the euro area and the EU

The Winter 2017 Economic Forecast was published on 13 February under the title**:** *Navigating through choppy waters, all EU Member States' economies are set to grow in 2016, 2017 and 2018*.

The Spring 2017 Economic Forecast was published on 11 May under the title: *Steady growth ahead*. The European economy has entered its fifth year of recovery, which is reaching all EU Member States. This is expected to continue at a largely steady pace in 2017 and 2018 as wages remain constrained by slack in the labour market and investment is held back by still high uncertainty and balance-sheet adjustment in the corporate and banking sectors.

[8] An Executive Agency uses as heading: "Implementation of the Agency's Annual Work programme - Highlights of the year".

The Autumn 2017 Economic Forecast was published on 9 November under the title: *Continued growth in a changing policy context*. The euro area economy is on track to grow at its fastest pace in a decade in 2017, with real GDP growth forecast at 2.2%. This is substantially higher than expected in spring (1.7%). The EU economy as a whole is also set to beat expectations with robust growth of 2.3% this year (up from 1.9% in spring). An external evaluation of DG ECFIN's forecasting services concluded that the forecast production process is effective while recommending a more intense use of quantitative tools.

The Joint Harmonised Programme of Business and Consumer Surveys continued to provide important data for business cycle analysis in the EU, its member states and candidate countries.

The Winter Package was adopted on 22 February. It included (i) country reports for 27 Member States (i.e. all apart from Greece) which contained in-depth reviews under the Macro Imbalance Procedure (MIP) for 12 Member States where this was deemed warranted on the basis of the 2017 Alert Mechanism Report; excessive imbalances were identified for 6 countries (CY, IT, PT, FR, BG, HR), imbalances for 6 countries (ES, SI, IE, DE, NL, SE) and no imbalances for FI; (ii) a Chapeau Communication that assessed progress on structural reform implementation and concluded on the existence of macroeconomic imbalances for those countries for which an IDR was carried out, (iii) a Fiscal Compact Communication and a Fiscal Compact Report, (iv) a Report according to TFEU Art. 126.3 assessing Italy's compliance with the debt criterion of the Treaty; and (v) a Report on the investigation related to the manipulation of statistics in Austria and a Proposal for a Council Implementing Decision imposing a fine on Austria.

The Commission has reviewed the **transposition of the Fiscal Compact** (i.e. the cornerstone of the intergovernmental Treaty on Stability, Coordination and Governance in the EMU) and adopted its assessment on that alongside the Winter Package, following extensive consultation with the 22 Contracting Parties concerned (the euro area countries plus Bulgaria, Denmark and Romania). That assessment consisted of the following documents: (i) a cover Communication recalling the origins of the Fiscal Compact and presenting the main conclusions of the Commission's analysis; (ii) a Report presenting conclusions on compliance of national provisions adopted by each of the 22 Contracting Parties; and (iii) 22 country annexes to the Report (each country fiche detailed the elements taken into account in the Commission's assessment for each building block composing the Fiscal Compact: the legal status of the provisions, the formulation of the structural balanced budget rule, the correction mechanism and the independent national monitoring). The report showed that all Contracting Parties had significantly adapted their national fiscal frameworks as a result of the Fiscal Compact requirements, in conjunction with Union legislation.

The European Semester 2017 Spring Package was adopted on 22 May. The European Commission's proposals for the 2017 country-specific recommendations (CSRs) set out its economic, social and fiscal policy guidance for individual Member States for the next 12 to 18 months. The reforms needed to ensure the longer term sustainability of the economic recovery and improve resilience to future economic and societal challenges, including by increasing productivity, tackling the legacies of the crisis and reducing inequality. This required more focus on reforms that facilitate investment in social infrastructure, education, early childhood education and care and lifelong learning. There was also a need for more reforms promoting research and innovation capacity and improving productivity. In addition, specific attention had to be given to the overall efficiency of welfare and tax-benefit systems. In countries with excess savings and low investment, additional investment was needed to ensure future economic success, particularly given the ageing of the population. There were also still many restrictions that weigh on business activities.

The Spring package took account of the conclusions of and follows up on the European Semester Winter Package, including on the Macroeconomic Imbalances Procedure. For Cyprus, Italy and Portugal, which were among the countries identified as experiencing excessive macroeconomic imbalances in February, the Commission confirmed that there was still no analytical ground for stepping up the procedure, provided that the three countries fully implement the reforms set out in their country-specific recommendations. During late autumn, for countries identified with imbalances or excessive imbalances under the MIP, there was follow-up and peer review of the progress with the implementation of the reform agenda to address imbalances through **specific monitoring**.

Since the adoption of the 2016 set of country-specific recommendations, Member States by May 2017 had made most significant progress in the area of fiscal policy and fiscal governance, as well as in active labour market policies. Steps had been taken in taxation policies (such as to reduce the tax burden on labour), labour market and social policies (notably social inclusion and childcare) and financial services. The areas showing least progress included competition in services and the business environment. The overall picture that emerges was that Member States were continuing to make efforts to implement reforms, but the degree of progress ranged between 'limited' and 'some' for most policy areas identified in the 2016 country-specific recommendations.

The Commission has in May 2017 also taken a number of steps under the Stability and Growth Pact based on the assessment of the 2017 Stability and Convergence Programmes.

- First, the Commission recommended that the **Excessive Deficit Procedures (EDP) be closed** for **Croatia** and **Portugal**. The Council adopted these decisions in June 2017. Somewhat later, the Commission also proposed the closure of the EDP for **Greece**, which was confirmed by the Council in September. This leaves only two Member States under the corrective arm of the Pact, down from 24 countries in 2011.

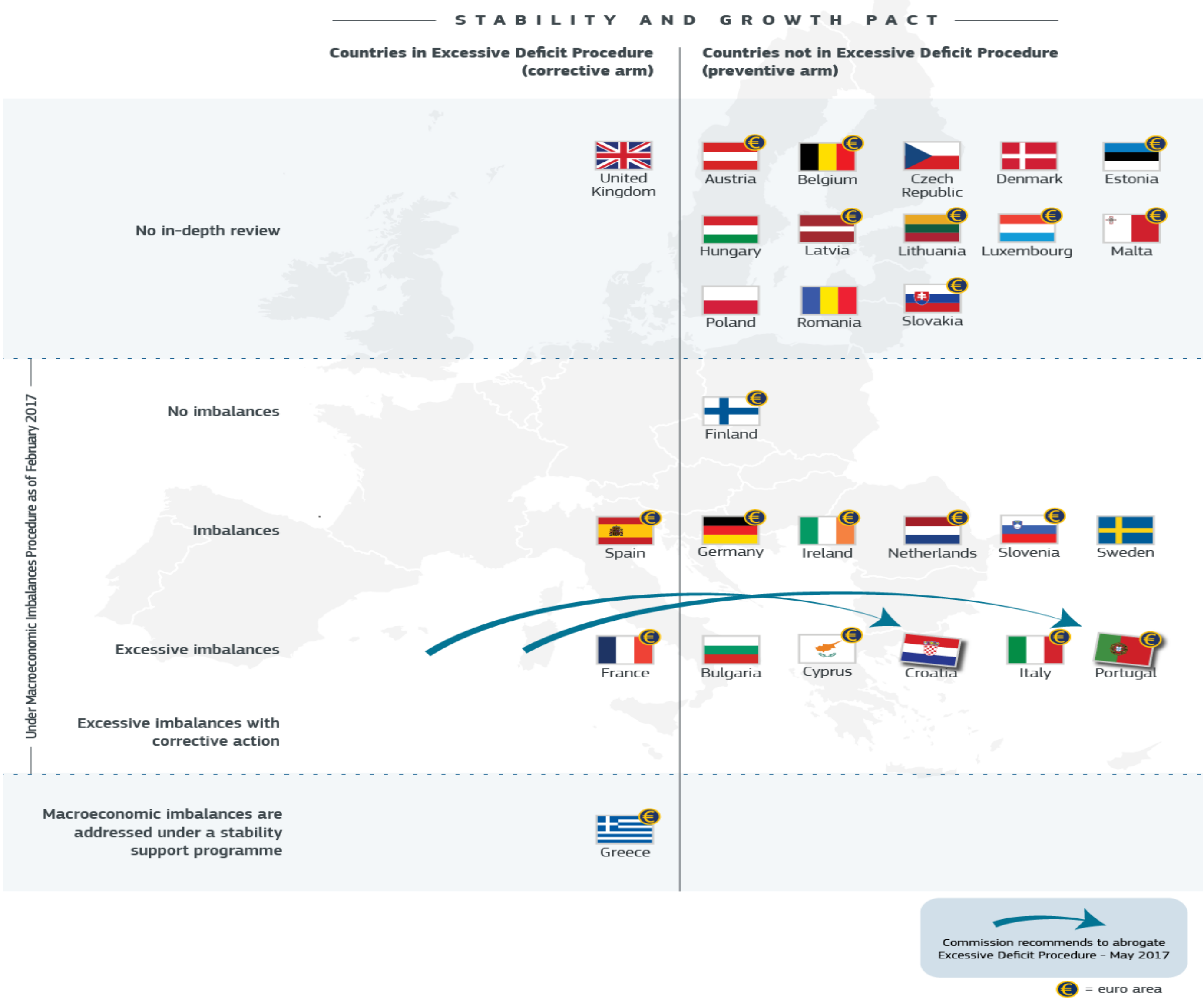
- Second, the Commission also adopted **reports** for **Belgium** and **Finland** under Article 126 (3) of the Treaty on the Functioning of the European Union (TFEU), in which it reviewed their compliance with the debt criterion of the Treaty. In both cases, the conclusion was that the debt criterion should be considered as currently complied with. Concerning **Italy**, the Commission confirmed that the requested additional fiscal measures for 2017 had been delivered and that therefore no further steps were necessary in spring.

- Third, the Commission addressed a **warning** to **Romania** on the existence of a significant deviation from the adjustment path toward the medium-term budgetary objective in 2016 and recommended the Council to adopt a **recommendation** for Romania to take appropriate measures in 2017 with a view to correcting this significant deviation. It is the first time that this procedure of the EU economic governance framework was applied.

In its **European Semester Autumn Package,** which kicks off the 2018 surveillance cycle and was released on 22 November, the Commission (i) set out the EU's economic and social priorities for the year ahead in its Annual Growth Survey for 2018, (ii) proposed policy recommendations for the euro area, (iii) identified in its Alert Mechanism Report the Member States that need an in-depth review under theMacro Imbalance Procedure (MIP), and (iv) assessed euro area Member States' Draft Budgetary Plans. The Commission also recommended that the Excessive Deficit Procedure (EDP) be closed for the **United Kingdom**. It also concluded that **Romania** had not taken effective action in response to the recommendation under the significant deviation procedure of spring (see above) and proposed that the Council adopt a revised recommendation to Romania to correct its significant deviation from the adjustment path towards the medium-term budgetary objective.

European Semester 2017

Situation under the Macroeconomic Imbalances Procedure and the Stability and Growth Pact



Building on previous guidance, and taking account of Member States' different situations in the economic cycle, the **Annual Growth Survey** calls on Member States to boost investment as a way to support the expansion, as well as help increase productivity and long-term growth. The Commission also recommended further structural reforms that are needed to make Europe's economy more stable, inclusive, productive and resilient. Fiscal policies should strike the appropriate balance between ensuring the sustainability of public finances and supporting the economic expansion. Reducing high levels of debt and re-building fiscal buffers where needed must continue to be a priority. Closing tax loopholes, improving the quality of the composition of public finances and better targeted spending can help in this effort. Social fairness remains a cross-cutting priority and the principles and rights of the European Pillar of Social Rights will become an integral part of the European Semester from now on.

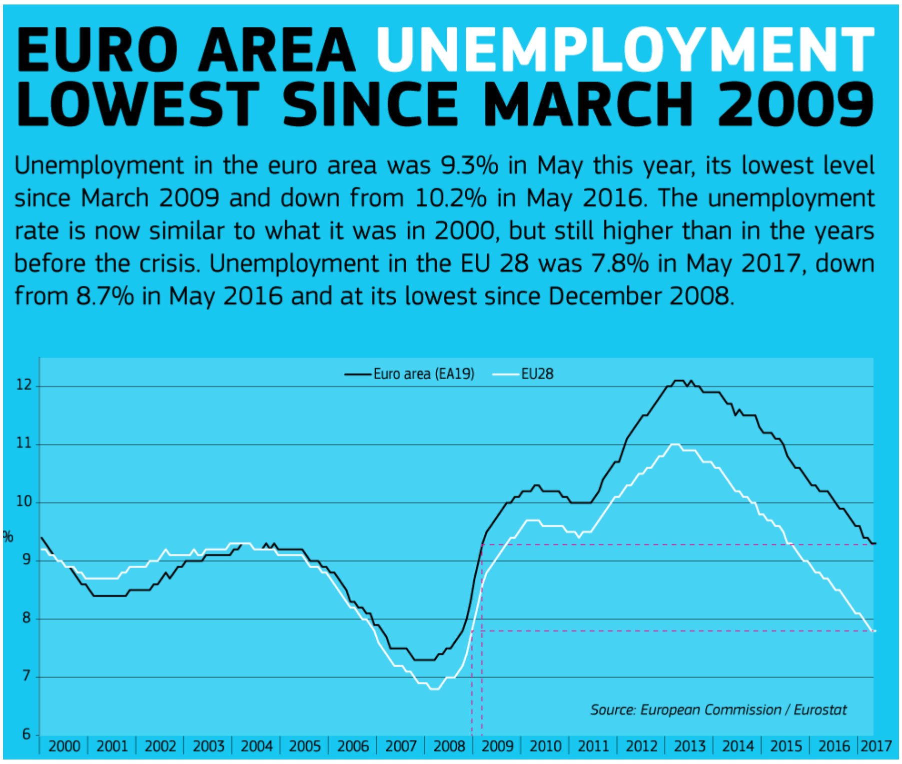
The 2018 **Alert Mechanism Report** is a screening device for economic imbalances, published at the start of each annual cycle of economic policy coordination. It is based on an economic reading of a scoreboard of indicators with indicative thresholds, alongside a set of auxiliary indicators. The report identified 12 Member States where an in-depth review would be warranted. The countries concerned are Bulgaria, Croatia, Cyprus, France, Germany, Ireland, Italy, the Netherlands, Portugal, Slovenia, Spain and Sweden.

Regarding the **2018 Draft Budgetary Plans** (DBP) of euro area Member States, the Commission found that six of the 16 countries (Germany, Lithuania, Latvia, Luxembourg, Finland and the Netherlands) in the preventive arm of the SGP were found to be compliant with the requirements for 2018, while five countries (Estonia, Ireland, Cyprus, Malta, and Slovakia) were found to be broadly compliant with the requirements. For five other countries (Belgium, Italy, Austria, Portugal, and Slovenia) the DBPs pose a risk of non-compliance. Regarding the two countries remaining in the corrective arm of the SGP (i.e. subject to the Excessive Deficit Procedure), France's DBP was found to be at risk of non-compliance with the requirements for 2018 under the SGP, while Spain's DBP was found to be broadly compliant.

DG ECFIN's **Debt Sustainability Report (DSM) 2016** was published in January 2017. It provides an overview of the challenges to public finance sustainability faced by MS in the short, medium and long term. Although public finances in the EU today are more sustainable than they were at the onset of the crisis, significant challenges remain over the medium and long term because of still high debt levels and population ageing.

The joint Commission services (DG ECFIN- Economic Policy Committee (Ageing Working Group)) **2018 Ageing Report: underlying assumptions and projection methodologies** was published in January 2017, in accordance with the mandate of the Ecofin Council. This first report provides a description of underlying population and macroeconomic assumptions and projection methodologies used for projecting age-related expenditure for all Member States. On the basis of these underlying assumptions and methodologies, age-related expenditures covering pensions, health care, long-term care, education and unemployment transfers will be calculated and presented in the final 2018 Ageing Report to the ECOFIN Council in spring 2018.

The preparation of the Commission's MFF and the legislative proposals for new programmes has been carried out in two stages. The first phase entails a spending review and proposals for new spending items; the second phase will take forward the regular better regulation work. ECFIN has contributed to phase I with 7 proposals. They include existing instruments, specifically (1) Macroeconomic Financial Assistance programme (MFA), (2) External Lending Mandate (ELM), and (3) Pericles. In addition, ECFIN has also produced four new proposals for (1) a stabilisation capacity for the euro area; (2) a budget instrument for incentivising structural reforms; (3) a proposal for Invest EU and (4) technical assistance. Following the State of the Union speech, ECFIN's proposals on the stabilisation capacity for the euro area and the budget instrument for incentivising structural reforms (called 'reform delivery tool') shifted to the "euro area budget line" linked to the EMU deepening package adopted on 6th December.



Thematic discussions on growth and jobs were held in the Eurogroup. DG ECFIN prepared notes on "Investment: common principles" for the February 2017 Eurogroup, on "Ease of doing business" for the April 2017 Eurogroup, on "Quality of Public Finances: follow-up on spending reviews" for the June 2017 Eurogroup, on "Economic resilience in EMU" for the September 2017 Eurogroup, on "Financing of labour tax cuts" for the October 2017 Eurogroup, on "Investment in human capital" for the November 2017 Eurogroup, and on "Tax wedge – stocktaking based on Draft Budgetary Plans" for the December 2017 Eurogroup. DG ECFIN also prepared a note on "Implementation of country-specific recommendations related to the business environment" for the March ECOFIN Council.

Regarding the topic of **income inequality**, DG ECFIN has further operationalised the concept of Structural Reforms 2.0. Distributional consequences of selected tax reforms using EUROMOD simulations were studied, and included in the Country Reports of the investigated countries. DG ECFIN also has prepared a note in cooperation with DG EMPL to provide guidance on the assessment of inequality patterns in the Country Reports for the geographical units. DG ECFIN organised two workshops on "Inequality and structural reforms", with emphasis on methodological concerns in the first one (May 2017) and on policy lessons in the second one (June 2017).

As concerns analytical work on the **assessment of structural reforms**, DG ECFIN has prepared its Tax Assessment Framework, i.e. the methodological framework underpinning DG ECFIN's analytical approach in the field of tax policy. Some of the areas addressed in the Tax Assessment Framework have been analysed in-depth in view of thematic Economic Policy Committee (EPC) discussions. Labour taxation of secondary earners and its impact on their labour market participation has been studied and presented in the October 2017 EPC. The impact of labour tax design on income distribution and economic growth has been prepared in view of an EPC discussion early 2018.

On **benchmarking**, a discussion was held in the EPC (March 2017), taking stock of work since January 2016. Benchmarks have by now been endorsed by the Eurogroup regarding the labour tax wedge and sustainability of pension systems.

Analytical work has been conducted on the impact of product market regulation on mark-ups in professional services (a discussion paper was published in May 2017), skill mismatches (presented in the October LIME meeting), the macro-economic effects of competition policy (jointly with DG COMP and JRC; presented in the October LIME meeting), and export competitiveness and trade balance (presented in the April 2017 LIME meeting). A note on the screening of services was discussed in the March LIME meeting.

On the **third pillar of the Investment Plan**, in addition to the investment-related items already mentioned under the thematic discussions heading above, a thematic review on "Business regulation and quality of public administration" was held in the March EPC. DG ECFIN also prepared a number of notes on investment for discussion in the EPC: investment in intangibles assets (January EPC), structural reforms and investment: facilitating resource allocation (May EPC) and investment in digital skills (October EPC). A report was published on "Investment in the EU Member States; An analysis of drivers and barriers". Finally, DG ECFIN prepared boxes on investment challenges and reforms which were included in the Country Reports.

DG ECFIN continued to provide support related to economic aspects of the **Cyprus settlement talks**. However, this work stream was put on hold as the talks were suspended when the 'Conference on Cyprus' in Crans-Montana, Switzerland, concluded without an agreement on 7 July 2017.

In the context of the **Article 50 negotiations with the UK**, which started in 2017, DG ECFIN provided the Article 50 Task Force with analytical support, so as to assess negotiation options with a view to their economic impact on the EU, as well as information about ECFIN-managed financial instruments implying budgetary liabilities for the UK. More generally, DG ECFIN responded to Article 50-related requests by the Task Force and the Secretary General. Work related to EU economic surveillance continued to be applied to the UK.

As part of the work on the establishment of a **European Defence Fund (EDF)**, the Commission established an expert group which is supposed to design and discuss the **EDF Financial Toolbox**. This toolbox is supposed to become an important instrument in encouraging and facilitating collaborative defence procurement and it would be complementary to other policy initiatives currently under discussion (most notably the defence PESCO and the European Defence Industry and Development Programme).

To this end, the expert group will discuss different financial instruments/structures, including the potential for their standardisation. The objective is to provide the tools for translating different forms of collaboration among Member States with regard to defence capabilities into suitable and cost-effective financing models. Discussions with Member States were initiated by a kick-off workshop in November 2017 and the first meeting of the expert group is foreseen for end-January 2018. In the course of the preparatory work for these discussions, the Commission undertook consultative outreach activities to relevant institutions which generated valuable input for the discussions. The expert group is supposed to present its first set of deliverables by mid-2018.

1.1.2 Specific objective 3: promoting investment in the EU

A major priority for DG ECFIN in 2017 continued to be the implementation of the **Investment Plan for Europe**, launched by President Jean-Claude Juncker, in which DG ECFIN plays a pivotal role, in close partnership with the European Investment Bank (EIB) group.

Two and a half years after the launch of the **European Fund for Strategic Investments (EFSI)**, the initiative was successfully implemented and supported innovative and strategic projects that contribute to job creation and growth. As of 31 December 2017, EFSI operations mobilising EUR 256.3 billion were approved across all Member States, which are expected to benefit about 549,500 SMEs.

On 1 January 2018, the Regulation to extend and enhance the European Fund for Strategic Investments (EFSI 2.0)[9], entered into force, extending the EFSI's lifetime to end-2020 and raising its investment target to EUR 500 billion. It also aims, *inter alia*, at increasing the transparency of the investment decisions and providing more technical support at a local level.

The **European Investment Advisory Hub (EIAH)** received 641 requests as of end December 2017 from 28 Member States of which 500 were project-related and more than half of them came from the private sector. None of the requests received was rejected by the EIAH and all of them were treated by the EIAH team. However, only around 50% of the requests were for technical assistance (alongside a simultaneous request for funding support). To develop its local network, the EIAH has signed 22 memoranda of understanding as of end December 2017 with different National Promotional Banks and Institutions (NPBIs) across the EU. The EIAH has also signed an agreement in 2017 with the European Bank for Reconstruction and Development (EBRD) in order for the EBRD to implement its Small Business Support Programme in Romania, Bulgaria and Greece on behalf of the EIAH. A Call for Proposals for the delivery of decentralised services in priority areas by interested NPBIs has been launched in December 2017. This Call aims at enabling NPBIs to deliver investment advisory services on behalf of the EIAH, establishing or developing organisational capacity and transferring knowledge for developing a local advisory capacity in the Member States requesting his support.

The **European Investment Project Portal (EIPP)** was successfully launched in June 2016 as the EU's online match-making Portal, connecting EU-based project promoters with worldwide investors. It offers almost 240 investment opportunities (as of end-December 2017) in all Member States. During 2017, efforts were made to promote and boost the visibility of the Portal among its stakeholders (public and private project promoters, investors and partners) as well as to continue the development of the IT interface to facilitate project submission and matchmaking. To enable the publication of more SME projects on the Portal, the minimum threshold for the project size was reduced in spring 2017 from EUR 5 million to EUR 1 million. The objective for 2018 is to continue the communication efforts and IT developments to increase the supply of investment opportunities by further enhancing the visibility of EIPP among its stakeholders and by creating a unique project matchmaking experience through a user-friendly Portal.

The successful implementation of the **SME Window of EFSI** continued in 2017. By the end of the year, operations under the SME Window reached EUR 89.6 billion of expected mobilised investment. This corresponds to overshooting by 9% the target that was originally only to be achieved in mid-2018. At the end of 2017, the second amendment of the EFSI Agreement was signed with the EIB. It provides a further boost to guarantee instruments for SMEs under EFSI and should generate EUR 30-40 billion of additional financing to EU SMEs.

DG ECFIN continued to provide financial expertise to DGs managing **financial instruments** for SMEs, innovation and employment. In 2017, DG ECFIN negotiated, alongside the policy DGs concerned, the amendments to the EFSI agreement and the delegation agreements with the EIF for the COSME,

[9] http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32017R2396

InnovFin, EaSI and CCS financial instruments which were necessary to ensure continued roll-out by adding EFSI guarantee capacity to these instruments. DG ECFIN also participated in the strategic governance decision-taking for these instruments in the respective Steering Committees.

DG ECFIN ensured proper liaison with the **European Investment Bank** (EIB). It prepared the EIB Board of Directors meetings as well as the annual meeting of the Board of Governors. In that respect, DG ECFIN i) fostered enhanced co-ordination between the Commission and the EIB, while promoting both consistency among IFIs and development institutions as well as EU policy objectives, and ii) coordinated the EU position in the governance structure of the EIB, notably by supporting the Commission representatives in its governing bodies.

Furthermore, DG ECFIN coordinated the replies of the Commission to the Article 19 consultation procedure on requests for EIB financing from its own resources and ensured a timely delivery of the Commission's opinion, which involved all the Directorates General (21 DGs and EEAS) concerned by EIB activities. DG ECFIN is "chef de file" of the consultation and is in charge of preparing the Commission's opinion.

On this file, DG ECFIN has in 2017 launched a review of the Article 19 consultation procedure with the EIB in close cooperation with DGs concerned with a view to increase the efficiency and the added-value of this consultation for the Commission and the EIB.

DG ECFIN continued to be responsible for exercising the rights and obligations of the Commission under the Treaty in respect to the **EBRD** by supporting the EU representative at the EBRD Board, preparation of legislation and reports relating to EBRD capital increase or modifications of Articles of Agreement, contribution to the procedures dealing with nominations of EU representatives in the governing bodies of the EBRD.

1.1.3 Specific objective 4: promoting prosperity beyond the EU

On **23 May**, the Economic and Financial Dialogue of the EU with the Western Balkans and Turkey adopted Joint Conclusions with specific policy guidance for enlargement countries on reforms needed to foster macroeconomic stability, ensure fiscal sustainability and support long-term growth and competitiveness. The dialogue was held on the basis of enlargement countries' Economic Reform Programmes (ERP) which were submitted to the Commission end-January and subsequently assessed by Commission services. The programmes and the Commission staff assessments were discussed with Member States, enlargement countries and the ECB at experts' level in multilateral meetings held in Brussels on 2, 3, 10 and 16 May.

Macroeconomic dialogues were instrumental to support economic policies and reforms in partner countries, notably in the G20 and in the EU neighbourhood, with a view to promoting sustainable growth. These exchanges provided valuable information feeding into our regular analyses of global economic developments and policy challenges. The analyses consisted *inter alia* in the preparation of macroeconomic forecasts for the global economy and key partner countries (US, China, Japan, Russia, EFTA) and the assessment of the implementation of the G20 growth strategies of our partner countries as part of the G20 peer review process. DG ECFIN also prepared the EU-EFTA ministerial meeting on 7 November with a dedicated focus on inclusive growth. These analyses allowed to identify possible spill-overs on the EU and the euro area and risks, and also to inform the policy debate at EU and G20 level.

The China-EU High Level Economic and Financial Dialogue held in Brussels on 17 February, confirmed that while China faces a number of pressing structural issues, short term performance remains stable, and China appears committed to maintaining a gradualist approach to reform. The Chinese side emphasized the uncertain global economic and political outlook, and underlined the need to cooperate closely in the G20 context. The dialogues with Japan and Korea in June revealed an improved near term economic situation in both countries amid critical longer term challenges related to public debt sustainability in Japan and very large household debt levels in Korea coupled with ageing populations and slowing potential growth. The more benign external environment was an important driver for growth in the region, including for Australia, as indicated at the Australia-EU dialogue in December.

The Macroeconomic dialogues with Mexico and Canada, in spring and autumn respectively, focused on the economic outlook for these countries and the EU in the light of the current challenges to open markets and free trade, stemming from policy developments in the US. In addition, discussions confirmed Canada's commitments towards preserving the multilateral approach during its G7 Presidency in 2017 and allowed to identify policy priorities and areas for cooperation. The exchanges with Argentina and Brazil, in spring and autumn respectively, confirmed the more positive economic outlook, which follows a particularly deep recession in Brazil. While investment has been key to the recovery in Argentina, it has remained particularly subdued in Brazil. Both delegates reaffirmed their commitment towards profound economic reform, while acknowledging that existing political difficulties are denting confidence and growth prospects. Domestic factors linked to the high and persistent political uncertainty were also the main reason put forward at the dialogue with South Africa to explain the steady economic and fiscal deterioration in recent years, contrasting with the global growth upswing.

Following the adoption of the Joint Comprehensive Plan of Action (JCPOA) with Iran in October 2015 and the lifting of nuclear-related sanctions, the EU has engaged with Iran to accompany its re-integration into the global economy. The first Iran-EU Macroeconomic Dialogue held in July in Tehran, revealed a very mixed picture of an economy with large potential, encouraging reform intentions, but also substantial obstacles linked to a state-dominated, opaque political economy. Tensions among the Gulf Cooperation Council (GCC) members implied more restricted dialogue between the GCC Secretariat and DG ECFIN which provided, nonetheless, insightful information regarding the region's economic prospects and progress towards non-oil economic diversification.

In the Neighbourhood countries 9 economic dialogues were organised in 2017 (see annex 12 for more details). The main outcome of the Economic Dialogue with Jordan in December 2017 was the need for Jordan to accelerate economic and structural reforms to ensure macro-economic stability, contain the increase of unemployment, mitigate the effects of the refugee crisis and protect social cohesion under a persistently weak growth environment with lower investments and exports. For Algeria, the Economic Dialogue showcased a new direction in the country's managing of the imbalances brought into relief by the hydrocarbon price shock. ECFIN transmitted serious doubts about the new course of action which includes monetary financing and fiscal expansion. At this point, the government is not credibly committed to relinquishing its dominant role in the economy and appears to be betting on a future increase in hydrocarbon prices in order to overcome the current difficulties. With the notable exception of subsidies reduction, there have been few advances with respect to reforms announced in mid-2016 under the New Economic Growth Model.

Within the framework of DG ECFIN's activities on the Southern Neighbourhood, a workshop on the economic relations between Israel and Palestine took place on 17 October 2017. The seven workshop sessions addressed some facets of the intricate economic relations between Israel and Palestine, spanning from the general legal framework under which such relations take place to specific areas of possible improvements, such as natural resources management and the financial sector.

The **Macro-Financial Assistance (MFA)** instrument has gained in importance in recent years and its role in the Partnership Framework with third countries under the European Agenda on Migration was set out in June 2016. Exceptional financial support in the form of **MFA** can help individual neighbouring countries that experience serious balance of payments tensions, provided that they meet the political pre-conditions for MFA (respect for democratic mechanisms, rule of law and human rights), as well as the existence of a disbursing IMF programme. Aside from addressing the beneficiary country's macroeconomic stabilisation needs, MFA also encourages economic adjustments and key structural reforms.

In 2017, DG ECFIN completed the disbursements under MFA Georgia and under MFA I Tunisia and released the second instalment under MFA III Ukraine as well as the first instalments under the new MFA II Tunisia and MFA II Jordan, following the signing of a Memorandum of Understanding with each of the two countries for these new operations. In 2017 the Commission also presented two proposals for new MFA operations: Moldova (January 2017) and Georgia (September 2017). DG ECFIN prepared the proposals and followed the legislative process on behalf of the Commission. MFA for Moldova was adopted by the co-legislators in September 2017 and followed by the signing of a Memorandum of Understanding, whereas the legislative process is still ongoing for Georgia.

In addition, in the light of the persistent macroeconomic and financial instability in the neighbourhood, DG ECFIN is prepared to intervene with additional MFA, based on requests received to date (Ukraine) and possibly other forthcoming requests (Jordan expected and possibly Tunisia).

DG ECFIN continued to follow up the impact and effectiveness of MFA funds. In this respect, **ex-post evaluations** of the MFA I Jordan and MFA I-II Ukraine programmes were completed in 2017. These focused on assessing ex-post the contribution of MFA to structural reform and the macroeconomic performance of the recipient country, including a social impact assessment, thereby complementing the MFA implementation reports prepared by DG ECFIN. The related SWD will be published in 2018.

In 2017, DG ECFIN ensured the effective **participation of the Commission in G7, G20** finance track, and IMF meetings; contributed to the participation in G20 Sherpa meetings, and the participation of the President in the G20 Hamburg summit. DG ECFIN provided contributions to the discussion on global economic developments and policy priorities in multilateral economic fora, notably the G7, G20, and the IMF. DG ECFIN was also leading the coordination of EU MS' positions through the preparation of common positions in written form, the EU G20 Terms of Reference (ToR) for G20 Deputy and Ministerial meetings and EU/euro area common language on horizontal IMF issues for discussion at the IMF Board. DG ECFIN was also producing a number of analytical reports to underpin our position in the G20 and the IMF including on global capital flows, and global macroeconomic imbalances. DG ECFIN was also ensuring the participation of the EU in G20 working groups, in particular the working group on the framework for growth, the G20 working group on infrastructure investment, and the working group on the International Financial Architecture.

DG ECFIN's overall aim is to strengthen the EU's position at the G7, G20, and IMF and to contribute to the stability of the international monetary system. In 2017 a main priority in the G20 was to keep the rules-based multilateral system intact, despite the new US administration challenging some key achievements. DG ECFIN presented an EU growth strategy to the G20. DG ECFIN also made a substantial contribution to the G20 framework for growth process, drawing on the experiences with the coordination of EU economic policies under the European Semester. We also made a dedicated contribution on the promotion of greater inclusiveness to better share the benefits of globalisation. A substantial contribution by ECFIN to the G20 work was on the G20 Compact with Africa, an initiative to promote conditions for private investment in Africa. It was also important that work on financial regulatory reform and international tax transparency continued. Good further progress was made on these objectives. With regards to the IMF, there were several policy proposals of direct relevance for the euro area, a proposal by the IMF to improve coordination with regional financing arrangements such as the European Stability Mechanism, the EU balance of payments facility, and the EU macro-financial assistance facility; a proposal by the Fund to establish a new policy requesting policy conditionality by the euro area; and a new policy by the Fund defining the perimeter of official claims in the IMF lending policy. All those proposals, if they would have been adopted unchanged by the Fund, would have had undesirable consequences for the euro area. DG ECFIN managed to ensure through direct contacts with the Fund and through coordination of our member states that the institutional framework and policy arrangements of the euro area will be taken into account in those new policies.

Cooperation with other international institutions has gained in prominence with the economic crisis as the need to find common approaches was felt. This has been demonstrated through the Commission's proposal to expand the EIB's External Lending Mandate to support investment in countries outside the EU supporting the 2030 Agenda for Sustainable Development. DG ECFIN's role in contributing to the EU's relations with the rest of the world has also been enhanced as the political situation in the EU's neighbourhood has risen up the policy agenda.

In support of the 2030 Agenda for Sustainable Development, DG ECFIN supported the development of the new **External Investment Plan** (EIP) with expertise in the design of financial instruments, with a view to help addressing the root causes of migration, facilitating access to financing, primarily in Africa and the European neighbourhood, while maximising additionality. Furthermore, DG ECFIN continued to manage the EIB's External Lending Mandate including changes related to its expansion in size and scope.

The EIB Resilience initiative under the ELM formed an integral part of the EIP, alongside the European Fund for Sustainable Development (EFSD) and the EFSD Guarantee. In order to ensure coordination, the EIB has a full seat on the Strategic Board of the new EFSD (Pillar 1 of the EIP). DG ECFIN helped to ensure alignment of EIB financial operations with EU legislation and policies.

1.2 General objective 5: a deeper and fairer EMU

1.2.1 Specific objective 5: improving the efficient functioning of the Economic and Monetary Union

In order to launch and shape an open and substantive debate on the functioning of the Economic and Monetary Union (EMU), the European Commission put forward in 2017 its ideas in the White Paper on the Future of Europe (March), the reflection paper on the deepening of EMU (May) and a package of initiatives to deepen the EMU (December). DG ECFIN was contributing to these initiatives.

The **White Paper on the Future of Europe** was the European Commission's contribution to the Rome summit, where European leaders celebrated the 60th anniversary of the Rome Treaties and reflected on Europe's common future. The White Paper mapped out the drivers of change in the next decade and presented a range of scenarios for how Europe could evolve by 2025.

Following the Five Presidents' Report from June 2015, and the White Paper, the Commission published a **reflection paper on the deepening of the Economic and Monetary Union** which set out possible ways forward for deepening and completing the Economic and Monetary Union up until 2025. In that paper it outlined concrete steps that could be taken by the time of the European Parliament elections in 2019, as well as a series of options for the following years. The three key areas identified were (i) completing a genuine Financial Union, (ii) achieving a more integrated Economic and Fiscal Union, and (iii) anchoring democratic accountability and strengthening euro area institutions.

In his State of the Union Address in September, Commission President Juncker called for moving from reflection to action. On 6 December, the Commission adopted to that end a **package of initiatives on EMU deepening**. The package included:

- the transformation of the European Stability Mechanism into a European Monetary Fund anchored in the Union;
- the integration of the substance of the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union into EU law, taking into account the appropriate flexibility built into the Stability and Growth Pact and identified by the Commission since January 2015;
- Strengthening the Structural Reform Support Programme, by doubling the funding available for technical support activities, and targeted changes to the Common Provisions Regulation governing the European Structural and Investment Funds (ESIF) in order to extend the possibilities to use part of their performance reserve in support of agreed reforms.

The package also contained communications on:

- further steps towards completing the Economic and Monetary Union (chapeau communication);
- the European Minister of Economy and Finance;
- new budgetary instruments for a stable euro area within the Union framework, providing for a) support to Member States for structural reforms through a reform delivery tool and technical support at the request of Member States; b) a dedicated convergence facility for Member States on their way to joining the euro; c) a backstop for the Banking Union, through the EMF/ESM, to be agreed by mid-2018 and made operational by 2019; and d) a stabilisation function in order to protect investments in the event of large asymmetric shocks.

To present the priorities and guidelines for the following year, in November the European Commission presented the **recommendation for the euro area** (EAR). The recommendation supports euro area Member States in designing and implementing sound economic policies, which in turn strengthen the euro area economy, with positive spillovers for all EU Member States. The recommendation was drafted on the basis of the Commission's analysis of the macroeconomic context and the diagnosis following the reading of the indicators. The recommendation covers fiscal, structural and financial policies conducted by the euro area governments.

The recommendation was presented early in the European Semester, before country-specific discussions in the first half of 2018, so that common challenges are addressed coherently by all euro area Member States. The recommendation should be taken into account by the Member States in the formulation of their 2018 National Reform Programmes (NRPs) and actions. The recommendation for the euro area is then taken into account by the Commission in the formulation of individual country-specific recommendations in the second stage of the Semester.

The recommendation should aim at improving economic resilience of EMU through appropriate reforms at the national level. The Commission proposed a framework discussing economic resilience which can be used to guide thematic discussions at the Eurogroup. This framework identifies policies that deal with vulnerability of countries to shocks, that help to absorb part of the shock especially if temporary, and which facilitate the reallocation process. All these policies can significantly affect the ability of an economy to recover quickly and grow.

Post-programme surveillance (PPS) relating to the 2011–14 Economic Adjustment Programme for Portugal; the 2010–13 Economic Adjustment Programme for Ireland; the 2013–16 Economic Adjustment Programme for Cyprus; the Financial Assistance Programme for Spain; and the 2009-11 Balance of payments financial assistance programme for Romania

Staff from the European Commission, in liaison with staff from the ECB, visited **Portugal** from 26 June to 6 July 2017 and from 28 November to 6 December 2017 to conduct the sixth and seventh PPS missions. These visits also served as specific monitoring in the framework of the EU Macroeconomic Imbalances Procedure (MIP). The short-term economic and financial situation of Portugal has improved and important progress has been made in addressing near-term risks. Overall, Portugal's economic rebalancing building on the basis of reforms implemented during and after the macroeconomic adjustment programme has made good progress. Going forward, the challenge is to further strengthen the reform momentum. In this regard, ambitious growth-enhancing reforms and sustained fiscal structural consolidation are essential to improve the economy's resilience to shocks and the medium-term growth prospects.

Staff from the European Commission, in liaison with staff from the ECB, visited Dublin from 16 to 19 May 2017 and from 28 November to 1 December 2017 to conduct, respectively, the seventh and eighth post-programme surveillance review for **Ireland**. The eighth review visit also served as specific monitoring in the framework of the MIP in the European Semester. The strong momentum in the Irish economy is expected to continue in the short term, but risks remain tilted to the downside. Public finances have further improved on the back of robust output growth, yet risks of volatility in some forms of tax revenue remain. Banks continue to improve their resilience amid heightened uncertainty. While notable progress in the reduction of non-performing loans (NPLs) has been made and focus is shifting towards new lending, continued efforts to deal with legacy issues remain necessary. Persistent supply shortages coupled with increasing demand continue to drive strong increases in residential property prices and rents. Risks for Ireland's capacity to service the European Financial Stability Mechanism (EFSM) and European Financial Stability Facility (EFSF) debt remain low.

Staff from the European Commission, in liaison with staff from the ECB, visited **Cyprus** from 27 to 31 March and 25 to 29 September 2017 to conduct the second and third PPS missions. These visits were coordinated with visits by staff from the IMF and the ESM. The September PPS mission also served as specific monitoring in the framework of the EU MIP. The economic recovery in Cyprus has gathered further strength, contributing to significant improvements on the fiscal front. However, stock imbalances remain high and weigh on growth prospects. These excessive imbalances include high public, private and external debt, but also high non-performing loans and high unemployment. The missions stressed that maintaining robust growth and safeguarding fiscal sustainability require a renewed commitment by all stakeholders to accelerate the structural reform momentum.

Staff from the European Commission, in liaison with staff from the ECB, carried out the eighth PPS visit to **Spain** on 16-18 October 2017. The ESM participated in the meetings on aspects relating to its own Early Warning System. The mission, and ensuing report, focused on macroeconomic and financial sector developments, complementing the surveillance by the Commission under the MIP, the Stability and Growth Pact and, more broadly, the European Semester of economic policy coordination. Amid continued strong economic growth, Spanish banks have further adjusted their business models and cost structures, in turn supporting growth by providing new loans to the economy. In addition, banks have continued to be profitable, but, as for their European peers, sustaining sufficient profitability over the medium term remains a key challenge for many institutions. Advancing the divestment of SAREB's portfolio in a profitable manner represents a challenge for the asset management company. More broadly, strong and balanced growth, coupled with dynamic job creation, supports the correction of macroeconomic imbalances, but challenges remain. The mission stressed that ensuring a balanced, durable and inclusive growth path over the long term remains a challenge. Overall, repayment risks for the ESM loan appear very low. On 26 October 2017, the Board of Directors of the ESM approved the sixth voluntary early repayment for Spain. The next PPS mission will take place in spring 2018.

Staff from the European Commission visited **Romania** from 16 to 17 March and from 8 to 10 November 2017 to conduct the second and third PPS missions. ECB staff participated as observers. Both missions concluded that the overall debt level and government financing performance suggest that risks related to the repayment of the debt to the EU remain very low. Economic growth has been strong and is expected to remain robust, and the banking sector remains well-capitalized and asset quality has further improved. However, the fiscal policy is strongly pro-cyclical, contrary to the obligations stemming from Romania's national fiscal framework. The National Bank of Romania (NBR) has started to reverse its accommodative monetary policy stance. The November mission is expected to have been the last PPS mission to Romania related to the current outstanding loan since by April 2018 Romania will have paid 77% of the loan (the outstanding amount will be equivalent to 0.6% of GDP).

DG ECFIN ensures the economic and budgetary surveillance of **Greece** by conducting economic analysis and designing the policy conditionality in the programme.

Greece has been receiving financial support from euro area MS and the IMF to cope with its financial difficulties and economic challenges since May 2010. In August 2015 a **stability support programme** was launched under the European Stability Mechanism (ESM) framework. The ESM programme includes measures to sustain the Greek government's efforts to address economic imbalances, tackle social challenges, ensure financial stability and pave the way for sustainable economic growth and job creation.

The second review of the ESM programme involved four review missions, two of which took place in the first half of 2017 (March and April). The Compliance Report prepared by the European Commission, in liaison with the ECB and in consultation with the ESM, was published on 16 June 2017. The supplemental Memorandum of Understanding was signed by the European Commission and the Hellenic authorities on 7 July 2017 which led to the authorisation by the ESM governing bodies to the release of the third tranche under the ESM programme. The third review has started in October 2017. It involved two review missions in October and November respectively. Staff-level agreement was reached on 2 December 2017.

Extensive and high level contacts with other international institutions (IMF, ECB, EIB, WB, OECD), Member States (Greece, but also others within the euro area), and various actors, observers, and investors who closely follow Greek developments, are a key aspect of ECFIN's work.

Protecting the euro against counterfeiting and managing the euro cash policy legislation

In line with art. 13(4) of Regulation (EU) No 331/2014, a Mid-term Evaluation of the Pericles 2020 programme was undertaken, and the final report prepared by the contractor was endorsed on 30/06/2017. In its Communication COM(2017) 741 to the European Parliament and to the Council, the Commission concurred with the assessment of the Evaluation and decided to support its recommendation on the continuation of the Programme as a stand-alone programme beyond 2020.

Pursuant to Article 26 of Regulation (EU) No 1214/2011 on the professional cross-border transport of euro cash by road between euro-area Member States, a COM report on the implementation of the Regulation was adopted on 11.1.2017. Furthermore, Commission Decision (EU) 2017/1507 amending Decision 2005/37/EC establishing the European Technical and Scientific Centre (ETSC) and providing for coordination of technical actions to protect euro coins against counterfeiting was adopted on 28.8.2017.

2. ORGANISATIONAL MANAGEMENT AND INTERNAL CONTROL

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

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

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

2.1 Financial management and internal control

Assurance is an objective examination of evidence for the purpose of providing an assessment of the effectiveness of risk management, control and governance processes.

This examination is carried out by management, who monitors the functioning of the internal control systems on a continuous basis, and by internal and external auditors. Its results are explicitly documented and reported to the Director-General. The reports produced are:

- the reports by AOSDs;

- 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 limited conclusion of the internal auditor on the state of control, and the observations and recommendations reported by the Internal Audit Service (IAS);

- the observations and recommendations from the European Court of Auditors (ECA), as well as observations and recommendations from the Council and the European Parliament.

- Periodic reports to management on resource issues

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

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

2.1.1 Control results

This section reports and assesses the elements identified by management that support the assurance on the achievement of the internal control objectives[10]. The DG's assurance building and materiality criteria are outlined in the AAR Annex 4. Annex 5 outlines the main risks together with the control processes aimed to mitigate them and the indicators used to measure the performance of the control systems.

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

Overview table

In EUR million	Expense – Table 2 in Annex 3	Revenue – Table 7 in Annex 3	Financial assets & cash – Table 4 in Annex 3 (AI3 AI4 AII1 AII6)	Financial income (-) and costs (+) – Table 5 in Annex 3 (II121 II28 II29)	Guarantees received (+) or given (-) – Table 5bis in Annex 3 (OB1 OB2)
Guarantee Fund for external actions (ICT 4)	240.5 (provisioning)		2,422.8	-29.9 +51.8	-19,972.0
European Fund for Strategic Investments (EFSI (ICT 5))	2,489.6 (provisioning and fees)	39.2	3,520.6	-128,8 +10,9	-10,127.5
Financial instruments and Pre-accession Technical Assistance (ICT 3)	26.2	35.6 (CIP MAP MFF SMEFF)	799.9	-23.0 +12.7	-
Assets under treasury management (ICT 1)		0.2 (IT fees)	3,907.5 (BUFI, ECSC, EFSM, ATOM, BOP, MFA	-35.5 +16.2 (BUFI, ECSC)	-
Outstanding loans (incl. ECSC loans) (ICT 1)		1.7 (BOP MFA EURATOM EFSM)	54,847.7 (EFSM, ATOM, BOP, MFA, ECSC)	-1,396.8 +1,399.2 (EFSM, ATOM, BOP, MFA, ECSC)	+249.8
Equity Investments (EBRD, Marguerite Fund)			239.1	-	-
EIF capital and dividends	44.4	6.8	581.2	-21.0	-
Macro-financial assistance (MFA (ICT 6))	10.4		-	-	-
Grants, purchases and administrative expenses	30.5		-	-	-
Total	**2841.6**	**83.5**	**66,318.8**	**-1,614.0** **+1,490.8**	**-30,099.5** **+ 249.8**

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

10 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).

Residual Error Rate: below 2%

Cost-Effectiveness: ratios do not increase versus last year

Anti-Fraud Strategy: no qualification to the Declaration of the Assurance;

Safeguarding of assets: adequate return with no or minimal breaches to assets guidelines;

Reliability of Reporting: no material error and no reservations.

At DG ECFIN, financial operations relate to one of three categories: payments under direct budget management; payments under indirect budget management; and off-budget management. Because each of these categories has its own specificities, inherent risks, and assigned staff, our integrated control system use these categories as building blocks.

More specifically, direct management covers expenditures on grants, procurements and administrative expenses, as well as the provisioning of guarantee funds. Indirect management will include the provisioning of trust accounts and also more broadly the spending programmes entrusted to other entities. Off budget management will include assets managed directly by DG ECFIN as well as assets under DG ECFIN's supervision and comprises treasury and borrowing and lending obligations. Assets are to be understood in a broad sense including contingent assets (and liabilities); as well as financial income (and costs) linked to the assets.

Conclusion table

In EUR Million	Expenditures under direct management	Expenditures under indirect management	Financial assets and cash (managed and supervised)	Revenue
Grants (Business Consumer Surveys (BCS), Pericles, European Investment Advisory Hub (EIAH)), purchase and administrative expenses	30.5			
MFA	10.4			
Guarantee Fund for External actions	240.5		2,422.8	
EFSI Guarantee Fund	2,489.6		3,520.6	39.2
Financial Instruments and Pre-Accession Technical Assistance		26.2	799.9	35.6
EIF capital and dividends	44.4		581.2	6.8
Equity investments (EBRD, Marguerite Fund)			239.1	
Off-budget management (loans and assets under financial management)			58,755.2	1.9
Total	**2,815.4**	**26.2**	**66,318.8**	**83.5**
Internal Control Objectives-Indicators	Residual Error Rate/Cost effectiveness/Anti-Fraud Strategy	Residual Error Rate/Cost effectiveness/Anti-Fraud Strategy	Safeguarding of assets/Reliability of Reporting[11]	Residual Error Rate/Cost effectiveness/Anti-Fraud Strategy
Internal Control Objectives – conclusions	Positive	Positive	Positive	Positive
Negative opinion from auditors	No	No	No	No
Reservation	No	No	No	No

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

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

The details of the assurance of the achievement of internal control objectives related to these three internal control systems are to be found in Annex 10.

Coverage of the Internal Control Objectives and their related main indicators

- ***Control effectiveness as regards legality and regularity***

DG ECFIN has set up internal control processes to ensure the adequate management of the risks relating to the legality and regularity of the underlying transactions taking into account, where necessary, the multiannual character of programmes entrusted to other entities as well as the nature of the payments concerned.

Based on control results and all other relevant information available, the Authorising Officer by Delegation (AOD) can conclude that for each segment of expenditure with a given risk profile and subject to the same or a similar control system, no reservation is to be disclosed.

According to our materiality criteria (annex 4), the target error rate is 0% for operations with low inherent risks (MFA, expenses of an administrative nature, provisioning of funds) and 2% for action grants with the reimbursed cost mechanism and entrusted entities. The achieved error rates are measured through exceptions and non-compliance events (ex-ante controls) for direct management (complemented where necessary with the results of ex-post controls) and third-party assurance for indirect management.

Based on the controls results and on the inherent risks of the various transactions, the error rates for each key segment (or sub-segment) are as follows:

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

For BCS, PERICLES and EIAH grants: 0%-2% - The range shows the minimum and maximum values of the estimated error rate. However, the actual amount, which was recovered based on actual checks undertaken and some use of pre-financing payments is well below the maximum value of the estimated error interval;

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

Guarantee Fund for External Actions: 0% - This percentage refers to the replenishment of the fund.

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

Entrusted entities for financial instruments: 0%-2% - These percentages refer to payments at the level of the final beneficiaries. The range shows the minimum and maximum values of the estimated error rate. However, the actual amount which was recovered, based on actual checks undertaken, is well below the maximum value of the estimated error interval.

The calculated weighted overall Average Error Rate for DG ECFIN is 0%-0.06%.

Analysis of the registry of overrides and non-compliance events in 2017 revealed three transactions that caused non-compliance events in 2017. One transaction concerned development of an IT system and a second concerned administrative expenses; in both cases, they were caused by making a legal commitment before a budgetary commitment had been made.[12] As a corrective action the AOSD and OIA will make sure to double check the process steps in the future. The third non-compliance event

[12] Infringement: Art. 86.1 FR: any measure which may give rise to expenditure shall have a budgetary commitment before the legal commitment.

concerned a MFA grant agreement that was signed before a financing decision had been adopted by the College and consequently without the necessary budgetary commitment in place[13] and without submission to the Finance Unit. However, this event can be seen as a procedural mistake as the signature did not and could not as such give raise to any disbursement, actual payments of MFA grants presupposing not only the ratification of the grant agreement by the beneficiary country, but also the fulfilment of a range of political and structural conditions directly linked to the payments. As for mitigating measures limiting the risk of repeating this mistake in the future, the MFA Vademecum will be supplemented through a precise check-list clarifying these procedures in details. Furthermore, the Resources Directorate is holding bilateral meetings with DG ECFIN's operational directorates to raise awareness, *inter alia*, about these kinds of non-compliance.

The internal control strategy at DG ECFIN foresees the implementation of further controls during subsequent years aimed at detecting and correcting errors only if such a procedure is cost-effective. Because the error rate has been consistently low and therefore financial corrections resulting from large scale audit missions would also be low, management has decided not to invest significantly in ex post controls. This is why an adequate, reliable and prudent approach is to consider that there is no adjusted corrective capacity for 2017 payments.

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

It is true that the proportion of negotiated procedures as a total of all procurement procedures in DG ECFIN in 2017 was very high at 70%, and 41 percentage points higher than in 2016 (see Annex 3, Table 11 and Table 12). One reason for this is that, with regard to studies and evaluations, DG ECFIN opted for the use of framework contracts in 2017, whereas in previous years these would have been open procedures.

Meanwhile, the 4-year contracts with a major Credit Rating Agency (Fitch) and with a provider (Financial Times) with a strong focus on EU economy and euro area economic data/analysis came to an end in 2017 and required renewal for another 4 years.

In addition, accomplishing DG ECFIN's mission in accordance with the Strategic Management Plan 2016-2020 has required the increased demand and use of key data providers Bloomberg and Thomson Reuters. This was reflected in the amount of the contract (5 000 000 EUR), to be spread over 4 years.

Finally, a new 4 year Framework Contract for 1M€ was agreed in 2017 for the continued development and maintenance of the Forecasting Data Management System. This combined with the other 4-year framework contract renewals has led to the abnormally high volume of negotiated procedures in DG ECFIN this year; it is a one-off result.

<u>Conclusion:</u>

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

For DG ECFIN, the <u>estimated overall amount at risk *at payment*</u>[14] for the 2017 expenditure is 1,64 M€. This is the AOD's best, conservative estimation of the amount of *relevant expenditure*[15] during the year (2828,6 M€) not in conformity with the applicable contractual and regulatory provisions at the time the payment is made.

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[13] Infringements: Article 84.2 FR: the commitment of any expenditure shall be preceded by a financing decision adopted by the institution. Art. 86.1 FR: any measure which may give rise to expenditure shall have a budgetary commitment before the legal commitment. Breach of Financial Circuit.

[14] In order to calculate the weighted average error rate (AER) for the total *relevant expenditure* in the reporting year, the *detected*, estimated or other equivalent error rates have been used.

[15] "*relevant expenditure*" during the year = payments made, minus new pre-financing paid out [plus retentions made by the Cohesion family DGs], plus previously paid pre-financing which was cleared in the reporting year [minus retentions released or (partially) withheld by the Cohesion family DGs)].

This expenditure will be subsequently subject to ex-post controls and a proportion of the underlying error will be detected and corrected in successive years. The conservatively estimated future corrections[16] for the 2017 expenditure are 0 M€. This is the amount of errors that the DG conservatively estimates to identify and correct from controls that it will implement in successive years.

The difference between those two amounts leads to the estimated overall amount at risk *at closure*[17] of 1,64 M€. More detail can be found in table X below.

[16] Even though to some extent based on 7 years' historic average of recoveries and financial corrections (ARC), which is the best available indication of the corrective capacity of the ex-post control systems implemented by the DG over the past years, the AOD has adjusted this historic average. Any coding errors, ex-ante elements, one-off events, (partially) cancelled or waived Recovery Orders, and other factors from the past years that would no longer be relevant for current programmes (e.g. higher ex-post corrections of previously higher errors in earlier generations of grant programmes) have been adjusted in order to come to the best but conservative estimate of the expected corrective capacity average to be applied to the reporting year's relevant expenditure for the current programmes in order to get the related estimated future corrections.

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

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

Table X - Estimated overall amount at risk at closure

DG ECFIN	"payments made" (FY; m€)	*minus* new[a] prefinancing [*plus* retentions made[b]] (in FY; m€)	*plus* cleared[c] prefinancing [*minus* retentions (partially) released[b] and deductions of expenditure made by MS] (in FY; m€)	**= "relevant expenditure"[d] (for the FY; m€)**	Average Error Rate (*weighted* **AER**; %)	estimated overall amount at risk *at payment* (FY; €)	Average Recoveries and Corrections (*adjusted* **ARC**; %)	estimated future corrections [and deductions] (for FY; €)	**estimated overall amount at risk *at closure*[e] (€)**
(1)	*(2)*	*(3)*	*(4)*	*(5)*	*(6)*	*(7)*	*(8)*	*(9)*	*(10)*
Per internal control system	as per AAR annex 3, table 2	as per ABAC DWH BO report on prefinancing [f]	as per ABAC DWH BO report on prefinancing [f]	= (2) – (3) + (4)	Detected error rates, or equivalent[g] estimates	= (5) x (6)	*based* on 7Y-avg historic ARC (as per ABAC DWH BO report on corrective capacity)[f]: (0.05%), but *adjusted*[h] to be the *best but conservative* estimate for the current MFF	= (5) x (8)	= (7) – (9)
MFA	10,4	0,0	0,0	10,4	0%	0	0%	0	0
BCS PERICLES EIAH grants	21,8*	14,8**	2,4***	9,4	0%-2%	0,19	0%	0	0,19
Procurement and other administrative expenses	8,1	0,2	0,2	8,1	0.5%	0,04	0%	0	0,04
Guarantee Fund for external actions	240,5	0,0	0,0	240,5	0%	0	0%	0	0
EFSI Guarantee Fund	2489,6	0,0	0,0	2489,6	0%	0	0%	0	0
Entrusted entities for financial instruments (including EIF capital increase)	70,6	0,0	0,0	70,6	0%-2%	1,41	0%	0	1,41
Overall, total	2841 mEUR	15 mEUR	2,6 mEUR	2828,6 mEUR	0%-0,06%	1,64 mEUR	0%	= 0 mEUR; and 0% of (5)	1,64 mEUR

** BCS (5,0) PERICLES (0,7) EIAH (16,1)*

*** BCS (2,2) PERICLES (0,5) EIAH (12,1)*

**** BCS (2,1) PERICLES (0,3) EIAH (0)*

[a] New PF actually paid by out the DG itself during the FY (i.e. excluding any PF received as transfer from another DG)

[b] In Cohesion, the (10%) retention made, which is later released or (partially) withheld by the Commission

[c] PF actually having been cleared during the FY (i.e. their 'delta' in FY 'actuals', not their 'cut-off' based estimated 'consumption')

[d] For the purpose of equivalence with the ECA's scope of the EC funds with potential exposure to L&R errors (*see the ECA's AR methodological Annex 1.1 point 10*), also our concept of "relevant expenditure" includes the payments made, subtracts the new pre-financing paid out *[& adds the retentions made*], and adds the previous pre-financing actually cleared *[& subtracts the retentions released and those (partially) withheld; and any deductions of expenditure made by MS in the annual accounts*] during the FY. This is a separate and 'hybrid' concept, intentionally combining elements from the budgetary accounting and from the general ledger accounting.

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

[f] [*if possible*] differentiated for the relevant portfolio segments at a level which is lower than the DG total

[g] In Shared Management, e.g.: "validated/adjusted error rates", "residual error rates at MS-level, as reported by the MS Audit Authorities and applied/adjusted/projected by the DG", etc.
For types of expenditure with indications that the equivalent error rate might be close to 'zero' (*e.g. administrative expenditure, operating subsidies to agencies*), it is recommended to use 0.5% nevertheless as a conservative estimate.

[h] Even though to some extent based on the 7 years historic average of recoveries and financial corrections (ARC), which is the best available indication of the corrective capacity of the ex-post control systems implemented by the DG over the past years, the AOD has adjusted this historic average. Any coding errors, ex-ante elements, one-off events, (partially) cancelled or waived Recovery Orders, and other factors from the past years that would no longer be relevant for current programmes (e.g. higher ex-post corrections of previously higher errors in earlier generations of grant programmes) have been adjusted in order to come to the best but conservative estimate of the expected corrective capacity average to be applied to the reporting year's relevant expenditure for the current programmes in order to get the related estimated future corrections.
DG ECFIN has considers that future corrections (and therefore adjusted ARC value) should be zero because DG ECFIN has a very limited range of ex-post controls each year. This is also fully supported by the ARC tables where recovered amounts are minimal (credit notes and non-eligible expenses are processed when processing the payment and their impact is therefore already shown at the level of the paid amount). While one could argue that zero would only be accurate if no recovery order would ever be issued against these expenses, zero is the best estimate. Thus zero is the best and most conservative estimate.

Cost-effectiveness and efficiency

- ***Cost-effectiveness of controls***

The overall cost-effectiveness of controls in 2017 on grants, procurement and expenses of an administrative nature as measured by the proportion of overall cost of control over related expenses leads us to consider that the controls are sufficiently efficient and cost-effective. In 2017, the average cost ratio has decreased to around 6% compared to 8% in 2016. In addition, the full spectrum of amounts paid includes also funds remitted to guarantee funds and trust accounts. This results in an average cost-effectiveness ratio for the whole ECFIN budget of 0.2% (stable compared to 2016).

The overall cost-effectiveness of controls in 2017 on Financial Instruments managed via international financial institutions, as measured by the proportion of overall cost of control over the total of the spending programmes, leads us to consider that our controls are sufficiently efficient and cost-effective. The cost ratio improved from EUR 623 per EUR 1 million in 2016 to EUR 523 per EUR 1 million in 2017.

COSTS-BASED EFFECTIVENESS INDICATORS FOR EXPENDITURES – DIRECT MANAGEMENT(including provisioning of funds) and INDIRECT MANAGEMENT (provisioning of entrusted entities)				
Nº	**Type of expenditure or management mode or ICS**	**Indicator (all stages combined)**	**Cost-Effectiveness Ratio**	**Description**
	Internal Control System	**Overall cost of control[18]**	**Overall cost of control /Expenses (%)**	**Total cost of controls of process / total expenditure executed during the year (payments made)**
1	MFA grants	Full cost with 7% overhead	2.2%	EUR 0.23 million (/EUR 10.4 million
2	BCS PERICLES and EIAH grants	Full cost with 7% overhead	5.5%	EUR 1.2 million/EUR 21.8 million[19]
3	Other direct management expenditures	Full cost with 7% overhead	11.1%	EUR 0.9 million/EUR 8.1 million[20]
4	Provisioning of funds	Full cost with 7% overhead	0.1%	EUR 3.695 million/EUR 2,730.1 million
5	Provisioning of entrusted entities	Full cost with 7% overhead	0.95%	EUR 0.668 million/EUR 70.6 million

[18] 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

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

[20] 13 FTE's (FIA/OIA/VA)

COSTS-BASED EFFECTIVENESS INDICATORS for spending programmes managed by entrusted entities – INDIRECT MANAGEMENT				
Nº	**Type of expenditure or management mode or ICS**	**Stage**	**Annual Cost-Effectiveness Indicators**	**Description**
1	Financial instruments	overall indicator	overall supervision costs/total budget of managed programmes 0.05% or EUR 523 per EUR 1M	staff FTE * standard staff cost + other outsourced supervision costs (possibly outsourced audits and monitoring missions by EC) + management or administrative fees paid / total budget of managed programmes EUR 667,524/EUR 1,275,084,491

The various controls (details in Annex 10) ensure a reasonable assurance of the legality and regularity of the implementation of the financial instruments under the 2007-2013 Competitiveness and Innovation Framework Programme (GIF & SMEG 07) in accordance with the principle of sound financial management and avoiding to the extent possible legal, financial and accountancy errors and mitigating reputational risk.

The quantification of the controls (e.g. number and/or amount of errors detected ex-ante, costs claimed, financial corrections and recoveries made on the basis of ex-post controls) are detailed in Annex 10.

Cost-based effectiveness indicators on the basis of assets in question

Type of expenditure or management mode or ICS	Annual indicator	Amount (of expenditure/ revenue/ assets/ liabilities/ other) concerned	Cost of ex ante controls incurred in 2017 (in €)	Indicator (Cost/ Amount)	Description	ICT
MFA grants	Full cost with 7% overhead 2.2% (EUR 0.23 million/EUR 10,4 million)	€ 10.400.000	€ 230.000	2,2%	1.5 FTE's (FIA/VA/OIA and quality control)	ICT 6
BCS	Full cost with 7% overhead: 12,2% (0.6M€/4.9M€)	€5.000.000	€ 600.000	12%	4 FTE's (FIA/VA/OIA and deliverables quality control)	N/A
Pericles	Full cost with 7% overhead: 55% (EUR 0.291 million/EUR 0.525 million)	€ 700.000	€ 291.000	41,6%	1.9 FTE's (FIA/VA/OIA and quality control)	N/A
Grants under the European Investment Advisory Hub	Full cost with 7% overhead[1]/total budget of managed programme: 1,9%: EUR 309.842/EUR 16,1 million	€ 16.100.000	€ 309.842	1,9%	OIA/FIA/VA: 26 man-months	ICT 2
Other administrative expenses	Full cost with 7% overhead: 11% (0,9M€/8,1M€)	€ 8.100.000	€ 900.000	11,1%	6 FTE's (FIA/OIA/VA and quality control)	N/A
Indirect entrusted management – Financial Instruments managed via IFIs (period 2007-2013)	overall internal and supervision costs (including 7% overhead[1])/total budget of managed programmes: 0,05% or EUR 523 per EUR 1M	€ 1.275.084.491	€ 667.524	0,05%	Staff FTE * standard staff cost + monitoring missions by EC + management or administrative fees paid / total budget of managed programmes (excluding any remuneration paid): EUR 667.524 /EUR 1.275.084.491	ICT 3
Indirect entrusted management – Financial Instruments managed via IFIs (period 2007-2013)	remuneration fees paid to the external bodies/total budget of managed programmes: N/A	as above	€ -	N/A	all types of remuneration fees paid (to external financial auditors, external evaluators carrying out evaluations of the programmes, …) during the year/total budget of managed programmes: N/A	ICT 3
Guarantee fund for European Fund for Strategic Investments	overall internal and supervision costs (including 7% overhead)/ total assets managed: 0,03% or EUR 300 per EUR 1M	€ 3,520,634,141	€ 1.057.813	0,03%	Staff FTE * standard staff cost/total assets managed: EUR 1.057.813/EUR 3,520,634,141	ICT 5
Guarantee fund for European Fund for Strategic Investments	remuneration fees paid to external bodies/ total assets managed: 0,0004% or EUR 4 per EUR 1M	as above	€ 15.000	0,0%	All types of remuneration fees (outsourced audits fees, accounting support fees, etc.) paid to external bodies during the year/total assets managed: EUR 15.000/EUR 3,520,634,141	ICT 5

Type of expenditure or management mode or ICS	Annual indicator	Amount (of expenditure/ revenue/ assets/ liabilities/ other) concerned	Cost of ex ante controls incurred in 2017 (in €)	Indicator (Cost/ Amount)	Description	ICT
Guarantee Fund for external actions	overall internal and supervision costs (including 7% overhead)/total assets of the fund: 0,01% or EUR 98 per EUR 1M	€ 2,422,825,031	€ 239.716	0,01%	staff FTE * standard staff cost + other outsourced supervision costs (outsourced audits and monitoring missions by EC) + management or administrative fees paid /total assets managed under supervision: EUR 239.716/EUR 2,422,825,031	ICT 4
Guarantee Fund for external actions	Remuneration fees paid to the entrusted entity/total assets of the fund: 0,09% or EUR 983 per EUR 1M	as above	€ 2,382,783	0,09%	all types of remuneration fees paid to entrusted entities during the year / total assets managed under supervision: EUR 2,382,783/EUR 2,422,825,031	ICT 4
Treasury and Asset Management, and Borrowing and Lending operations	overall internal and supervision costs (including 7% overhead)/ total assets managed and total Borrowing and Lending operations: 0,006% or EUR 66,3 per EUR 1M	€ 58,755,236,126	€ 3,895,635	0,01%	Staff FTE * standard staff cost/total assets managed and total Borrowing and Lending operations: EUR 3,895,635 /EUR 58,755,236,126	ICT 1
Treasury and Asset Management, and Borrowing and Lending operations	remuneration fees paid to external bodies/ total assets managed and total Borrowing and Lending operations: 0,0002% or EUR 1,7 per EUR 1M	as above	€ 101,143	0,0%	All types of remuneration fees (outsourced audits fees, accounting support fees, etc.) paid to external bodies during the year/total assets managed and total Borrowing and Lending operations: EUR 101,143/EUR 58,755,236,126	ICT 1
Total (ex ante)		**€ 66.014.079.789**	**€ 9.222.952**	**0,01%**		
Ex post control costs	**Annual indicator**		**Cost of ex post controls incurred in 2017 (in €)**		**Description**	
Ex post control function	Full costs of ex post control overall with 7% overhead.		€ 108.382		The DG had 1 FTE of ex-post control for 8,5 months in 2017.	
Total (ex post)			**€ 108.382**			
Ex ante +ex post control		**Amount (of expenditure/ revenue/ assets/ liabilities/ other) concerned**	**Cost of ex ante + ex post controls incurred in 2017 (in €)**	**Indicator (Cost/ Amount)**	**Description**	
Total (ex ante + ex post)		**€ 66.014.079.789**	**€ 9.331.334**	**0,01%**	**Total amount (of expenditure/ revenue/ assets/ liabilities/ other) concerned divided by the sum of the costs of ex ante and ex post controls in 2017.**	

- ***Control efficiency***

With respect to control efficiency, three main indicators are used: time to pay; time to inform; and time to grant. As reported in Annex 3, table 6, the average time-to-pay with suspension in 2017 was 16,3 days (17 days in 2016[21]). The periods specified in article 92.1 of the Financial Regulation were complied with and 2,0% of the transactions were in excess of the time-limits. This is well below the average of 4% for the family DGs and the 3% average for the Commission.

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 38 days for specific grant agreements (SGA). 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 at Commission level was 13 days for SGA. 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***

Based on an assessment of the most relevant key indicators and control results, DG ECFIN has assessed the cost-effectiveness and the efficiency of the control system and reached a positive conclusion. DG ECFIN's management considers that the level of effectiveness, efficiency and cost-effectiveness of the controls operated is adequate and cost-effectiveness will be monitored over time.

Fraud prevention and detection

DG ECFIN updated its anti-fraud strategy in October 2017, for a three year period (until 2020) based on OLAF's updated "Methodology and guidance for DG's anti-fraud strategies"; in addition, drafts were reviewed by OLAF. The implementation of the strategy is ensured by a concrete action plan beginning in 2018. In the plan, DG ECFIN concentrates its efforts on promoting awareness amongst its staff of fraud, ethics and integrity as well as cooperation with external partners. The table immediately below gives the current status of the updated strategy.

Directorate L, the directorate in DG ECFIN that manages the most complex activities involving financial instruments and considerable sums of money, has well-established and clear procedures which continue to be very firmly and actively controlled and continue to be added to; rigorous ex ante and ex post controls as well as ongoing activities under the existing anti-fraud strategy mean that DG ECFIN has a low estimated residual fraud risk. We conclude that current anti-fraud controls and actions are adequate.

Indeed, DG ECFIN's control efforts associated with the use of financial instruments have been used by OLAF to help elaborate its updated risk assessment of financial instruments as it elaborates a new Commission anti-fraud strategy (CAFS II).

[21] In 2016, while technically 40 transactions were in excess of the legal time-limits, the real number was 18 because 22 transactions to fund the EFSI Guarantee Fund could not be booked with no payment class (the justification was not available in Abac). This could not be corrected for the past, but similar payments in instalments at the end of the year were adequately processed thanks to the implementation by DG Budget of DG ECFIN's change request.

Anti-fraud performance table (implementation of ECFIN Action Plan 2017-2020)			
Operational objective	**Promote fraud awareness (Prevention and detection)**	**Deadline**	**Indicator**
Action 1	Include anti-fraud content on DG ECFIN intranet (contact points, guidelines, red flags etc.)	End of 2017	Done
Action 2	Proactively encourage DG ECFIN staff to follow training on anti-fraud	End of 2017	Agreement reach with OLAF to provide a tailor-made course for ECFIN's Summer School 2018
Operational objective	**Ethics and integrity (Prevention)**		
Action 1	Remind staff of the importance of ethics and integrity on an annual basis	2017-2020 (annually)	Done in 2017
Action 2	Organise general information sessions on ethics for management and staff	2017-2020 (annually)	All staff meeting on 27/04/2017 included a session on "Ethics in practice" with speakers from IDOC
Action 3	Review of sensitive functions in DG ECFIN	End of 2017	Delayed until March 2018 to broaden the scope of the review (now completed)
Operational objective	**Design and implement effective and efficient controls in direct management (Prevention and detection)**		
Action 1	Review and report on organisation and controls to prevent and detect possible fraud from financial initiating agents	End of 2017	Done through a survey conducted for the above-mentioned sensitive functions review.
Action 2	Review and report on organisation and controls to prevent and detect possible fraud delivering the certified correct; in recommending acceptance or rejection of deliverables; in recommending selection or rejection in calls for tenders or proposals	End of 2017	Partly done
Operational objective	**Cooperation with partners (Prevention and detection)**		
Action 1	Continue to include anti-fraud clauses (including OLAF's right to investigate) in future agreements with partners. Review contractual anti-fraud clauses in cooperation with OLAF	2017-2020	Continuous
Action 2	Exchange, evaluation and implementation of best practices with partners on assessment of fraud risks and measures to counter risks	2017-2020	Continuous

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

Treasury activities and borrowing and lending operations (off budget management):

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. The control system relies on comprehensive rules and detailed manuals of procedures with respect to the investment policy. 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 on the assets managed by DG ECFIN.

To finance the lending activities decided by the Council or by Council and Parliament, 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 the best available rates due to the top credit status (AAA-rated by Fitch, Moody's and DBRS, AA by S&P, all with stable outlook) of the EU/Euratom and then on-lend them to eligible borrowers in the context of lending under the EFSM, BoP, MFA and to Euratom projects. Borrowing and lending is conducted as a back to back operation, which ensures that the EU budget does not take any interest rate or foreign exchange risk. 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 peer institutions (EIB, EFSM, and ESM), as confirmed by the ECA in 2016.

COST-BASED EFFICIENCY INDICATORS – OFF BUDGET MANAGEMENT			
Type of expenditure or management mode or ICS	**Stage**	**Indicators (annual indicators)**	**Description**
Treasury and assets management & Borrowing and lending operations	All	Overall costs (selection, protection, assurance, financial management)/ total of assets and outstanding loans and borrowings 0,006% or EUR 66,3 per EUR 1M	staff FTE * standard staff cost/total assets managed and total Borrowing and Lending operations EUR 3,895,635 /EUR 58,755,236,126
Guarantee Fund for external actions	overall indicator	Overall internal and supervision costs (including 7% overhead)/total assets of the fund 0,01% or EUR 98 per EUR 1M	staff FTE * standard staff cost + other outsourced supervision costs (outsourced audits and monitoring missions by EC) + management or administrative fees paid /total assets managed under supervision EUR 239,716/EUR 2,422,825,031
Guarantee Fund for external actions	overall indicator	Remuneration fees paid to the entrusted entity/total assets of the fund 0,09% or EUR 983 per EUR 1M	all types of remuneration fees paid to entrusted entities during the year / total assets managed under supervision EUR 2,382,783/ EUR 2,422,825,031

It should be noted that treasury activities and borrowing and lending operations do not cover all financial assets and cash but only the outstanding loans and the managed assets within the scope of consolidation. The reason for the difference is that while some items show as financial assets in accordance with the accounting rules there are no assets as such to manage (for instance the equity investments or the capital increase of EIF).

The positive recorded results of the implemented control procedures such as the limited number of incidents, no material audit findings, no control failure, no exception with financial impact, etc. demonstrate the compliance with the safeguarding of assets principle, as well as compliance with the target error rate of close to 0%. Moreover the various measures described under ICT 1 (see Annex 5) and the positive results of these measures lead us to conclude positively on the achievements of the control objectives as regards "Safeguarding of Assets and Information" and "Reliability (true and fair view) of Reporting".

The positive control cost-effectiveness of the non-expenditure items is shown in the table above on *Cost-based efficiency indicators* with the cost indicator for assets managed slightly down from EUR 67,6 per EUR 1 million in 2016 to EUR 66,3 per EUR 1 million in 2017. The cost-effectiveness of controls on the assets managed by the EIB is also positive with the remuneration fees kept within the contractual boundaries and the cost indicator which has decreased from EUR 229 per EUR 1 million in 2016 to EUR 98 per EUR 1 million in 2017. Contingent assets and liabilities (of off-budget management) 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 combined with further monitoring by the Commission Accounting Officer.

2.1.2 Audit observations and recommendations

This section reports and assesses the observations, opinions and conclusions reported by auditors in their reports as well as the limited conclusion of the Internal Auditor on the state of control, which could have a material impact on the achievement of the internal control objectives, and therefore on assurance, together with any management measures taken in response to the audit recommendations.

DG ECFIN is audited by both internal and external independent auditors: the IAS and the ECA[22].

IAS Audits

Based on all work undertaken by the IAS in the period 2015-2017, the IAS has concluded that those DG ECFIN internal control systems which have been audited are effective[23].

In 2017 the IAS closed 7 audit recommendations leaving 1 open. The 7 audit recommendations closed were:

- Two *Important* recommendations on Risk management and planning processes in the new economic governance context;
- One *Important* recommendation on Document management;
- One *Important* recommendation on HRM Strategy;
- One *Important* recommendation on Governance and roles compliance & effectiveness in the area of IT Security;
- One *Important* recommendation on Assessment and monitoring of the IT security measures in the area of IT Security;

[22] The internal audit reports to be considered are the final IAS reports for 2017 (issued in the period 01/02/2017 – 31/01/2018).

[23] See Ares(2018)836280

- And 1 *Important* recommendation on the justification for negotiated procedures without prior publication of a contract notice from the IAS audit on Financial management, procurement and grant process in DG ECFIN.

Concerning the 1 so far not yet implemented recommendation on financial management, there is good progress being made.

Furthermore the IAS performed 2 new audits:

- One audit on governance and operational organisation of the Investment Plan for Europe. The audit was terminated after the preliminary survey stage.

- One audit on evaluation in DG ECFIN that was also finalised in 2017.

The latter audit resulted in 3 Important recommendations for which the action plan was submitted on 20 March 2018[24].

Conclusion regarding IAS audits: No material impact on the internal control objectives exists, and the current state-of-play does not impair the Declaration of Assurance.

ECA Audits

Concerning audit recommendations from the ECA[25], DG ECFIN succeeded in closing two Very Important ones during 2017, one on the recovery of unused cash balances in financial instruments and the other on making ex ante assessments for financial instruments more demanding. By the end of the year, DG ECFIN had no overdue Very Important or Critical ECA recommendations.

Meanwhile, in 2017 ECA released 3 Special Reports with new recommendations for which DG ECFIN is the lead. One Very Important recommendation on speeding up the MFA approval process was given to DG ECFIN in the Special Report No 03 2017 on "EU Assistance to Tunisia". 11 recommendations were handed to DG ECFIN in the Special Report No 17 2017 on "The Commission's intervention in the Greek financial crisis" of which 4 were considered Very Important. 5 Important recommendations for DG ECFIN to implement[26] were set down in Special Report No 20 2017 on "EU-funded loan guarantee instruments positive results but better targeting of beneficiaries and coordination with national schemes needed"[27].

Of those new recommendations to be followed up, 2 were rejected by DG ECFIN and another 4 have already been completed.

DG ECFIN was also closely associated to other recommendations given in the course of the year, in particular on EU assistance to Moldova and to Ukraine, on the implementation of the EU budget through financial instruments; measures taken by the Member States in the context of the European semester; financing of transport and tourism projects; and EU-funded loan guarantee instruments.

The table below gives an overview of the ECA recommendations to DG ECFIN in 2017, showing the original assessments of the auditors and the corresponding planned or implemented management measures to mitigate the risks and implement the

[24] Ares(2018)1535062

[25] The scope of this consideration of ECA audits is on recommendations for which DG ECFIN is Chef de File.

[26] Of which DG ECFIN rejected 2.

[27] Special Report 20/2017 also resulted in 4 other Important recommendations for which DG ECFIN is only an associated DG.

recommendations where available.

Ongoing performance audits by ECA in 2017 which have already started to lead to recommendations in 2018 were the Special report on EFSI, Special Report No 3/2018 on the Macroeconomic Imbalance Procedure (MIP) and the Special report on the SGP preventive arm (European Semester).

Conclusion regarding ECA audits: As a result of the assessment of the risks underlying the auditors' observations together with the management measures taken in response, as well as the availability of the ECA's preliminary findings in its on-going ECA audits, at the time of drafting this 2017 Annual Activity Report we believe that the recommendations that have been issued for DG ECFIN to implement do not impair the Declaration of Assurance and are being implemented as part of DG ECFIN's on-going and continuous efforts to improve further in line with audit recommendations.

Overview Table on ECA Recommendations to DG ECFIN in 2017

Rec. ID	Original document title	Recommendation	Priority	Status	Latest validated response
2017/AUD /0029	SPECIAL REPORT No 03 2017 EU Assistance to Tunisia	Recommendation 3 – Make proposals to speed up the MFA approval process The Commission should explore with its co-legislators the available options to accelerate the approval procedures of subsequent MFA programmes, particularly for emergency funding.	Very Important	Partially implemented	Response published in the report: Recommendation 3 - Make proposals to speed up the MFA approval process The Commission accepts the recommendation. The Commission notes that, even though significant progress has been achieved regarding the speed of the adoption by the Parliament and the Council of MFA decisions, there is still room for improvement. More speedy adoptions could be achieved for instance if the number of meetings of the Committee on International Trade of the European Parliament (INTA) before an INTA vote could be reduced, if the Parliament approval would systematically take place at the plenary (including mini-plenaries) immediately following the INTA vote, if mini-plenaries could be used for the signatures by the Presidents of the Parliament and the Council and if the Council would also make use of the written procedure for adoptions if necessary. The Commission also notes that, following previous recommendations by the Court of Auditors and a Resolution on MFA of the Parliament in 2003, it had proposed in 2011 a Framework Regulation for MFA aimed, *inter alia*, at expediting decision-making by replacing the legislative decisions by implementing acts. However, as the co-legislators decided to retain legislative acts and the ordinary legislative procedure, the Commission withdrew this proposal in 2013. [Update to published response: In case the Commission should submit another proposal for MFA to Tunisia in the coming years, the Commission will again explore ways with the Parliament and the Council to further accelerate the approval procedures for the legislative decision.]
2017/AUD /0154	SPECIAL REPORT No 17 2017 The Commission's intervention in the Greek financial crisis	Recommendation 1 The Commission should improve the general procedures for designing support programmes, in particular by outlining the scope of the analytical work needed to justify the content of the conditions and where possible by indicating the tools which could be drawn upon in relevant situations. In the case of future programmes, such guidance should make it easier for the Commission to organise its work in a situation of extreme urgency at the programme inception stage. Target date: end-2018	Important	Accepted	Response published in the report: Recommendation 1 The Commission accepts the recommendation. It will specify a framework for establishing conditionality and give more clarity on the types of analytical tools to be used.
2017/AUD /0156	SPECIAL REPORT No 17 2017 The Commission's intervention in the Greek financial crisis	Recommendation 3 Where relevant to address the underlying economic imbalance, the Commission should ensure that the programmes are embedded in an overall growth strategy for the country, which is either already in place or has been devised with the Member State in the course	Very Important	Partially implemented	Response published in the report: Recommendation 3 The Commission accepts the recommendation. The Commission notes that the current ESM Treaty provides for more focused programmes, e.g. targeted at imbalances in specific sectors, in which case a comprehensive growth strategy may

Rec. ID	Original document title	Recommendation	Priority	Status	Latest validated response
		of the programmes. If the strategy cannot be established at the programme inception stage, it should follow on as soon as possible and be reflected in any subsequent programme review. Target date: immediately, if applicable			not be warranted.
2017/AUD /0157	SPECIAL REPORT No 17 2017 The Commission's intervention in the Greek financial crisis	Recommendation 4 The Commission should have clear procedures and, where appropriate, KPIs to ensure that programme monitoring is both systematic and accurately documented. The monitoring of implementation, in particular for structural reforms, should focus more on effectiveness, go beyond the adoption of primary laws and also focus on the adoption of relevant secondary legislation and other implementing acts. The Commission should improve its arrangements for monitoring the implementation and roll-out of reforms so as to identify better administrative or other impediments to the effective implementation of the reforms. The Commission needs to ensure that it has the necessary resources to undertake such assessments. Target date: end-2018	Important	Accepted	Response published in the report: Recommendation 4 The Commission accepts the recommendation.
2017/AUD /0159	SPECIAL REPORT No 17 2017 The Commission's intervention in the Greek financial crisis	Recommendation 6 The Commission should seek to reach an agreement with programme partners' clarifying their roles and cooperation methods which should be transparent and sufficiently detailed. Target date: end-2018	Important	Accepted	Response published in the report: Recommendation 6 The Commission accepts the recommendation and recalls that it cannot commit other institutions to accept working modalities that, by definition, need to be jointly agreed both in principle and in substance.
2017/AUD /0160	SPECIAL REPORT No 17 2017 The Commission's intervention in the Greek financial crisis	Recommendation 7 The Commission should better justify the assumptions for and modifications to the economic calculations underlying the programme's design, including through appropriate publications. Such processes should be subject to appropriate quality control. This should apply in particular to programme reviews, which are carried out under less urgent circumstances than at the programme inception stage.	Important	Accepted	Response published in the report: Recommendation 7 The Commission accepts the recommendation. The Commission already applies quality control measures including through cooperation with other institutions. The Commission will review the existing quality controls and improve the related documentation.

Rec. ID	Original document title	Recommendation	Priority	Status	Latest validated response
		Target date: end-2018			
2017/AUD /0163	SPECIAL REPORT No 17 2017 The Commission's intervention in the Greek financial crisis	Recommendation 10 The programmes should be subject to ex-post evaluation at least after they have expired. In the case of successive programmes the combined duration of which is substantially longer than the standard period of three years, an interim evaluation should be carried out and the results used to assess their design and monitoring arrangements. Target date: end-2018	Very Important	Accepted	Response published in the report: Recommendation 10 The Commission accepts the recommendation. It has already carried out ex-post evaluations for other Euro area countries which had stability support programmes.
2017/AUD /0164	SPECIAL REPORT No 17 2017 The Commission's intervention in the Greek financial crisis	Recommendation 11 The Commission should analyse the appropriate support and surveillance framework for the period after the programme ends. This should be done sufficiently in advance of the end of the programme and should take into account the financing needs of the country. Target date: immediate	Important	Partially implemented	Response published in the report: Recommendation 11 The Commission accepts the recommendation.
2017/AUD /0155	SPECIAL REPORT No 17 2017 The Commission's intervention in the Greek financial crisis	Recommendation 2 The Commission should prioritise conditions more effectively and specify the measures that are needed urgently in order to address the imbalances that are crucial for achieving the programmes' objectives. Target date: immediately, if applicable	Very Important	Done	Response published in the report: Recommendation 2 The Commission accepts the recommendation. [Update to published response: Policy actions were duly prioritised, notably through the joint programme with the IMF. The Commission, *inter alia*, used the IMF's well known system of 'prior actions' and 'structural benchmarks', which are critical reforms needed to close a review and release a disbursement. These were gradually refined with some additional prior actions in the area of structural reforms, and through the use of milestones. The ESM stability support programme currently underway also introduced the concept of 'key deliverables'.]
2017/AUD /0158	SPECIAL REPORT No 17 2017 The Commission's intervention in the Greek financial crisis	Recommendation 5 The Commission should address data gaps more comprehensively from the outset of the programmes. It should also clearly specify all the data it needs to monitor the programmes and their results. Target date: immediately, if applicable	Important	Done	Response published in the report: Recommendation 5 The Commission accepts the recommendation. Most steps in this respect have already been taken as part of the ESM programme. [Update to published response: The Commission will address data gaps more comprehensively from the outset of the programmes going forward and clearly specify all the data the Commission needs to monitor the programmes and their results in the future.]
2017/AUD /0161	SPECIAL REPORT No 17 2017 The	Recommendation 8 In order to mitigate potential weaknesses, the	Very Important	Done	Response published in the report: Recommendation 8

Rec. ID	Original document title	Recommendation	Priority	Status	Latest validated response
	Commission's intervention in the Greek financial crisis	Commission should be more systematic when assessing the member states' administrative capacity to implement reforms. Technical assistance needs and possible support from the Commission's Structural Reform Support department should be assessed in a programme's early stages in cooperation with the MS's authorities. The choice, level of detail and timing of conditions should be geared to the results of the analysis. Target date: immediate, if applicable			The Commission accepts the recommendation. [Update to published response: Under the ESM stability support programme, particular attention is being paid to the implementation of reforms to increase the quality and efficiency of the public sector in the delivery of essential public goods and services (4th pillar). Technical support has been closely aligned with the provisions of the ESM stability programme, whereby support to a number of reforms under the programme has been explicitly included in the Memorandum of Understanding of August 2015 and the subsequent Supplemental MoUs. Within three months after the ESM programme was established, the Commission agreed with the Greek authorities a "Plan for technical cooperation in support of structural reforms" that was also published on the Commission's website. The Structural Reform Support Service provides and coordinates support to the Greek authorities in almost all reform areas under the ESM programme.]
2017/AUD /0162	SPECIAL REPORT No 17 2017 The Commission's intervention in the Greek financial crisis	Recommendation 9 The Commission should enhance its analytical work on design of the reforms. It should, in particular, address the appropriateness and timing of measures, given the specific situation in the Member State. Target date: immediate, if applicable	Important	Done	Response published in the report: Recommendation 9 The Commission accepts the recommendation. It will enhance its analytical work on the design of programme reforms by specifying a framework for establishing conditionality, which will give more clarity on the types of analytical tools to be used.
2017/AUD /0144	SPECIAL REPORT No 20 2017 EU-funded loan guarantee instruments positive results but better targeting of beneficiaries and coordination with national schemes needed	Recommendation 1 – Assessing market needs and obtaining data on management costs The Commission should: (b)Obtain and analyse relevant data on the management costs of guarantee schemes, such as actual costs incurred by the EIF or costs incurred by nationally run schemes, as an input to strengthen its base for negotiation with the EIF and to ensure an appropriate level of the fees. Target implementation date: before negotiating with the EIF new mandates under the forthcoming multiannual financial framework.	Important	Accepted	Response published in the report: Recommendation 1 – Assessing market needs and obtaining data on management costs b) Accepted: The Commission already makes reasonable efforts to obtain information on management costs, based on legally obtainable information and intends to step up its effort in this regard. However, it may be difficult to get such data from national schemes and the data may not be directly comparable and relevant. Moreover, in addition to the cost element, the appropriate level of fees will be determined taking into account the incentive element of remuneration that is required according to the Financial Regulation.
2017/AUD /0147	SPECIAL REPORT No 20 2017 EU-funded loan guarantee instruments positive results but better targeting of beneficiaries and coordination with national	Recommendation 2 - Targeting businesses that need a guarantee The Commission should: (c) Annually monitor the financial intermediaries' share of businesses having access to commercial loans without EU support and take corrective action whenever this share is too high. This monitoring should be done on the basis of available information by financial	Important	Rejected	Response published in the report: Recommendation 2 - Targeting businesses that need a guarantee c) Rejected: A requirement of annual monitoring of a large number of SME transactions by verifying and assessing data held by financial intermediaries would introduce undue administrative burden for financial intermediaries and SMEs and would also not be cost-effective. However, the Commission will continue to require regular ex-post reporting (more frequent than annually) and will require monitoring of all financial intermediaries to ensure that contractual eligibility

Rec. ID	Original document title	Recommendation	Priority	Status	Latest validated response
	schemes needed	intermediaries, thus not imposing any additional administrative burden on businesses. Target implementation date: when implementing possible successor instruments under the forthcoming multiannual financial framework.			requirements are complied with when providing financing. It is through the contractual eligibility requirements that the Commission ensures that financing is only made available to target recipients, in line with the legal basis.
2017/AUD /0151	SPECIAL REPORT No 20 2017 EU-funded loan guarantee instruments positive results but better targeting of beneficiaries and coordination with national schemes needed	Recommendation 4 –Improving the evaluation system The Commission should: (b)Develop a methodology for analysing the effect of guarantees on the loan supply, competition between banks and business innovation activity and for analysing the split of implicit subsidy between supplier and beneficiary. Target implementation date: by the end of 2019.	Important	Accepted	Response published in the report: Recommendation 4 – Improving the evaluation system b) Partially accepted: The Commission acknowledges that it may be useful to have such methodology developed and will explore whether a sufficiently sound methodology could be developed and reliable data obtained. However, the initial analysis of the Commission pointed to concerns whether such a methodology would be able to deliver an analysis of the split of implicit subsidy between supplier and beneficiary.
2017/AUD /0152	SPECIAL REPORT No 20 2017 EU-funded loan guarantee instruments positive results but better targeting of beneficiaries and coordination with national schemes needed	Recommendation 4 –Improving the evaluation system The Commission should: (c) In addition to separate final evaluations for each of the two centrally managed guarantee instruments, present one combined evaluation assessing their relative performance and, as far as possible, providing a comparison with similar EU debt instruments used in the past or concurrently. Target implementation date: when the next final evaluations are due.	Important	Rejected	Response published in the report: Recommendation 4 – Improving the evaluation system c) Rejected: It would be difficult to have financial instruments implemented by two different programmes meaningfully evaluated together, since their underlying programmes pursue different objectives. The evaluation framework for both programmes already exists and is embedded in the basic acts of the two programmes. Outside of the existing evaluation framework, the Commission will further assess existing and past guarantee instruments, with regard to their impact.
2017/AUD /0153	SPECIAL REPORT No 20 2017 EU-funded loan guarantee instruments positive results but better targeting of beneficiaries and coordination with national schemes needed	Recommendation 4 –Improving the evaluation system The Commission should: (d)Devise a system allowing researchers to obtain access to data on the beneficiaries of the guarantees. Target implementation date: by the end of 2018.	Important	Accepted	Response published in the report: Recommendation 4 – Improving the evaluation system d) Partially accepted: Provision of data could be envisaged subject to applicable legislation and agreement of entrusted entities and financial intermediaries. The Commission will explore, together with the entrusted entities, the extent and modalities under which data can be made available for research purposes.

Rec. ID	Original document title	Recommendation	Priority	Status	Latest validated response
					The Commission will explore the modalities for making data available by the end of 2019.

2.1.3 Assessment of the effectiveness of the internal control systems

The Commission has adopted an Internal Control Framework based on international good practice, aimed to ensure the achievement of policy and operational objectives. In addition, as regards financial management, compliance with the internal control framework 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.

During 2017 DG ECFIN worked on the implementation of the new Internal Control Principles, which are fully applicable as of 01/01/2018. For the Management Plan, 34 internal control monitoring indicators with baseline values and targets were defined and endorsed by the DG's senior and top management, 2 indicators for each control principle. They should not be seen as fixed; going forward, they could evolve as experience with their use accumulates. In the next Annual Activity Report the assessment of the effectiveness and functioning of internal will be based on these indicators. Finally, in line with instructions, DG ECFIN appointed its Director of Resources responsible for Risk Management and Internal Control in the DG.

This reflects DG ECFIN's regular assessment of the effectiveness of its key internal control systems in accordance with applicable Commission guidance. The assessment relies on a number of monitoring measures and sources of information including workshops dedicated to ICS15 (and New Internal Control Framework principle 16) with Heads of Units; reported instances of exceptions and non-compliance events and internal control weaknesses, the internal Annual Financial Management Report based on the Annual reports from individual Authorising Officers by sub-delegation (AOSDs) to describe the main facts and developments in the budgetary and financial sphere; a review of the DG's financial circuits; relevant audit findings; the continuous review of sensitive functions; the risk assessment process, including the mid-term review of the risk register, results of work by the management steering Committees or Boards (such as Treasury Management, Internal Control (ICMG), Human Resources (HRMB), Advisory Committee on the Use of Resources (ACUR)) and results of the ex-post control work. Finally, the IAS opinion on the state of internal control and information from audits carried out by the European Court of Auditors have been taken into account as well. This analysis has enabled the Internal Control Coordinator to report the state of internal control and his recommendations to the Director General.

The bottom-up Risk Management exercise found no critical risk in the DG. In total 76 ECFIN-specific risks were identified, of which 64% were linked to internal risks, the remaining 36% to external ones. Of the internal risks, as was the case in the previous review, most related either to planning processes and systems or HR constraints. Only 7 risks identified out of the 76 total reported were considered high (score of more than 14 and less than 20). Of the high ECFIN-specific risks identified, half concerned HR constraints of some form. Mitigating controls are in place and will be reviewed by senior managers. The results of this exercise were shared with the DG's senior and top management as well as with the Cabinet.

Furthermore 7 so called focus-group meetings were performed with staff in Brussels and Luxembourg to identify bottom-up deficiencies and opportunities for improvement as well as additional meeting with middle- and top-management with the same purpose.

A register is maintained to keep track of exceptions. The functioning of the internal control systems has been monitored throughout the year by analysing the underlying causes behind these exceptions and weaknesses and corrective and alternative mitigating controls have been implemented when necessary. Concerning the overall state of the internal control system, generally the DG complies with the three assessment criteria for effectiveness; i.e. (a) staff having the required knowledge and skills, (b) systems and procedures designed and implemented to manage the key risks effectively, and (c) no instances of ineffective controls that have exposed the DG to its key risks.

DG ECFIN has assessed the internal control system in 2017 and concluded that the internal control standards are implemented and functioning as intended.

2.1.4 Conclusions as regards assurance

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

The declaration of assurance from the Director General is based on this chapter 2. This declaration covers the full scope of the budget (direct and indirect management) and off-budget operations delegated to him as reflected in Annex 3 to the AAR.

All five control objectives were met for all three major control systems at DG ECFIN (direct; indirect and off-budget managements) as shown in section 2.1 and with full details provided under Annex 5 and Annex 10.

The available audit results and observations did not highlight critical or very high risks that would qualify the Declaration of Assurance, as shown in section 2.1.2.

Similarly, management assessments of the implementation of internal control principles and standard did not identify deficiencies with a negative impact on the declaration as shown in section 2.1.3.

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

Overall Conclusion

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

2.1.5 Declaration of Assurance

DECLARATION OF ASSURANCE

I, the undersigned,

Director-General of 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[28].

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

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

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

Brussels, 28 March 2018

Marco Buti

"signed"

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

2.2 Other organisational management dimensions

2.2.1 Human resource management

Ensuring alignment between resources and priorities

To ensure that HR priorities and staff allocation are in line with and fully underpin DG ECFIN's evolving policy priorities, and thus equip the DG to deliver on its mission, emphasis was placed on regularly reviewing and assessing the staff allocation and organisational structure, with a forward-looking perspective, with a view to seeking optimal alignment with ECFIN's political and operational priorities. DG ECFIN continued to organise quarterly meetings of ECFIN's HR Board. In 2017, this task was supported by benchmarking exercises (including, for example, unit size, AST/SC allocation and AST research and statistical assistants).

In 2017, DG ECFIN continued to offer ECFIN-specific training for staff and managers to support the further development of skills for working in teams. This programme, which was launched in 2016 to underpin the Teams for Themes initiative was designed to promote a more collaborative and project-oriented way of working across units and Directorates, and with other Commission services.

While awaiting the roll-out of the Commission's new corporate tool called ATLAS (Activity & Task Logging for the Allocation of Staff) which is designed to replace the annual screening exercise, DG ECFIN continued to use its in-house workload management tool which mixes information on time management in sysper with information provided by all units in ECFIN about the share of unit resources dedicated to activities identified in DG ECFIN's Strategic Plan 2016-2020 and its Management Plans. This also allows DG ECFIN to identify where workload is highest in the DG as well as quantify how the DG is allocating its resources to meet its general and specific objectives. This information has fed into resourcing discussions and led to the closure of an IAS recommendation with regard to staff allocation.

Matching talent with business needs

With a view to more systematically developing staff talents in accordance with business needs, the Learning and Development Advisory Group established in 2016 (comprising representatives from across the DG) continued to advise on learning needs and training solutions essentially in the areas of economic, finance and statistics. ECFIN's Learning and Development Framework for 2017 was successfully implemented with the support of this input (189 learning activities in total) and learning needs and priorities for 2018 were identified and developed with a view to the adoption of the Learning and Development Framework for 2018.

In addition, ECFIN continued to address specific development needs and competence gaps, with targeted training initiatives:

For colleagues aspiring to a first pre-management position, a one-day follow-up module to ECFIN's Career Development Programme for AD women was developed and held in September 2017. DG ECFIN has recently reached its target of 30% for the proportion of female colleagues in DHoU and HoS posts (with two current vacancies – January 2017).

For colleagues aspiring to a middle management posts and currently in DHoU and HoS positions, individual coaching was offered.

For middle managers, support continued to be provided through individual and team coaching, as well as team events, particularly for newly appointed Heads of Unit.

A number of networking activities designed to support talent at different levels of the organisation were also organised in 2017, including regular meetings of ECFIN's Middle Management Club, informal gatherings of colleagues in pre-management positions, the launch of a network of statistical and research assistants and a specific event for all ECFIN's administrative and secretarial assistants.

Finally, four new half-day modules on personal and career development were designed and delivered for the first time in ECFIN in 2017.

Staff Engagement

In 2017, ECFIN continued to follow-up on the results of the 2016 Staff Survey results. This included the launch of ECFIN team time, a wide participatory process designed to look at how ECFIN works as an organisation and what staff feel is needed to make it an even better place to work. The team time process, including sessions with middle and senior management, focus groups and unit conversations, will feed in to an all-staff Reflection Day in early 2018.

Other specific initiatives in 2017, included:

ECFIN's annual initiative to mark International Women's Day, which provided colleagues with the opportunity to meet senior managers in an informal setting and to exchange on the following topics: Achieving an optimal work-life balance; Identifying the right career path for me; Changing the work culture in ECFIN; and Mentoring and networking..

A continued offer of a broad variety of sports and wellbeing activities in line with the Commission's fit@work initiative and coordinated social events for ECFIN staff, coordinated with the support of HR.AMC1. New in 2017, was the ECFIN choir, which will be introduced as a permanent well-being activity in 2018.

Objective 1: The DG deploys effectively its resources in support of the delivery of the Commission's priorities and core business, has a competent and engaged workforce, which is driven by an effective and gender-balanced management and which can deploy its full potential within supportive and healthy working conditions		
Main outputs in 2017:		
Description	Indicator	Target
Offer development opportunities for Deputy Heads of Unit and Heads of sector	Women as a percentage of DHoU/HoS workforce: 30.7% on 31/12/2017 Specific training, workshops and individual coaching offered to Deputy Heads of Unit and Heads of Sector	> 30% women as a percentage of DHoU/HoS workforce in order to extend the pool of women who are suitably qualified for middle management positions
Add to ECFIN's programme of well-being initiatives for staff and managers as well as further address work organisation and work-private life balance in DG ECFIN whilst respecting the need for business continuity	Consultation on work organisation and work-private life balance as well as sessions on stress management and emotional resilience Reviewed policies on flexible working increasing flexibility and staff accountability as well as guidelines for staff and managers on flexible working	Increased staff well-being (45% for the next staff survey results)
Identify, develop and promote non-management career paths in the DG and launch a reflection at middle and senior management level on talent management and succession planning	Meetings with specific target groups to discuss career opportunities and possible actions as well as an extended and widely advertised L&D offer. Meetings and discussion with senior management followed by a list of possible actions to support talent management in ECFIN.	Increase the staff engagement index to at least 68% in the next staff survey. Career development of non-management AD staff and AST staff to foster increased retention and engagement of non-management staff. Further development of talent management and succession planning in DG ECFIN including appropriate actions tailored to ECFIN needs

2.2.2 Better regulation (only for DGs managing regulatory acquis)

DG ECFIN is committed to ensuring EU policy objectives are achieved effectively and efficiently. The principles of Better Regulation are applied across all areas of the DG.

The ECFIN multi-annual evaluation plan is prepared in line with the DG's strategic objectives and priorities to ensure activities are regularly evaluated. In 2017 76% of the primary Directives and Regulations managed by ECFIN had been subject to an evaluation in the last five years.

2.2.3 Information management aspects

ECFIN will continue to seek improvements in the area of document and information management. With regard to the latter, ECFIN is represented in the Information Management Team that helps prepare the Information Management Steering Board composed of Directors-General.

In the area of document management, ECFIN improved its overall performance compared to previous years. In particular, the number of unfiled documents and empty files were reduced. The use of the country master files gradually increased. The number of unused files rose over the past year and needs to be tackled by the units concerned. ECFIN continued to promote the use of the Ares e-Signatory which increased from 44% in 2016 to 62% in 2017.

The number of files shared with other DGs will need to be reviewed, taking into consideration the corporate objective to overcome silo mentalities. Within ECFIN, 86,9% of the files are accessible to all its staff.

2.2.4 External communication activities

External communication activities proactively and strategically supported the policy work of DG ECFIN and the Commission throughout the year. Using communication as a strategic tool and closely linked to the annual policy-making cycle, external communication supported key messages shared by the Commission and DG ECFIN, in particular as they related to the achievements of the political priorities of the Juncker Commission. The main focus was on priority 1: jobs, growth and investment, and on priority 5: a deeper and fairer economic and monetary union (EMU).

Support for communication on priority 1 included, in close cooperation with DG COMM, the regular creation of infographics and up-to-date web presentations for milestones such as the economic forecasts, the Juncker investment plan for Europe, the extension of EFSI, the revamped EIPP portal, euro area statistics, and European semester steps and packages. The latter included social media and infographic support for the Country reports, SGP decisions, CSRs, the draft budgetary plans, as well as key publications throughout the year. Support for communication on priority 5 included contributing to and providing communication material and social media visuals highlighting key narrative aspects of the euro area dimension of economic policy-making. Milestones were the Commission's 1 March White Paper on the future of Europe, the 31 May Reflection Paper on deepening EMU, and the 6 December EMU package.

DG ECFIN also contributed to communicate on the benefits of the euro and the importance of completing EMU on the occasion of the 60th anniversary of the Treaty of Rome in March; on the 25th anniversary of the Maastricht Treaty; marking the 15th anniversary of the introduction of euro notes and coins. For the latter, the communication unit produced a general public video in all EU languages and asked a wide range of peers and stakeholders to promote the clip. The 2017 Brussels Economic Forum of 1 June, "The EU economy at a crossroads: Pathways to enhanced cohesion, integration and prosperity" provided a high-level podium to discuss EU economic policy priorities and topical issues around inequality, the EU at 27, and migration. DG ECFIN engaged with a wide spectrum of stakeholders and journalists leading to an extensive coverage in print and online media. A strong social media outreach including innovative social media takeovers by peer institutions before the event, combined with actively involving social media before and during the debates, and more than 3 500 tweets ensured that the event was marked by high engagement and a trending topic in Belgium, the UK and Poland.

DG ECFIN's stakeholder and journalist seminar programme reached out to new contacts among key stakeholders and multipliers and was continuously adapted based on findings by an external continuous monitoring taking place from January to June 2017. Topics and speakers were chosen to support topical developments as to priorities 1 and 5 and, in line with the new communication strategy, not only to inform but also to listen and encourage exchange of ideas to shape a better-informed policy debate.

DG ECFIN's communication unit also assisted the network of European Semester officials (ESOs) financially and logistically in close cooperation with the expert units, providing speakers and specific information material, as well as a weekly information package.

In 2017, DG ECFIN finalised the integration of its website to the new corporate web presence, arranging with DG COMM to archive major sections of our former website, such as ECFIN publications, the SGP closed procedures, selected events, to secure continued availability and access. The communication unit also managed the new enhanced governance framework for our publication programme to underpin DG ECFIN's reputation as an authoritative and credible source of economic policy proposals based on high-quality research and analysis. This was achieved by regularly reviewing the set of planned titles, providing editorial and subediting service for drafts of key manuscripts, preparing SWOT (strengths, weaknesses, opportunities, threats) analyses for monthly Editorial Board meetings, and efficiently disseminating and promoting 74 publications with specific notification emails and tweets. Likewise, inviting external speakers to information events was instrumental in fostering ECFIN's academic outreach and readiness for debate. A bi-weekly e-newsletter promoted DG ECFIN publications and summarised the most relevant news on key economic policy developments.

Moreover, DG ECFIN continued reaching out to the interested non-expert citizens with a new set of animated videos in its series "European Economy explained". These episodes render complex EU economic issues more accessible and understandable, and are promoted with the help of partner DGs and stakeholders. As an example, this helped achieving 8 400 unpaid online views for a very specific target audience of project promoters and investors for EFSI projects. In total, DG ECFIN produced six episodes in all EU languages. In cooperation with some partner DGs, DG ECFIN financed and oversaw the production of a series of 12 journalistic, short "Real Economy" videos by Euronews to bring the complexities of economic matters in the EU closer to a daily audience of TV and online viewers.

External communication also included managing DG ECFIN's inter-institutional relations.

Smooth and proactive relations with the Council, the European Parliament, the European Economic and Social Committee, the Committee of the Regions and other EU institutions have been instrumental to promote and underpin the Commission's policy stance. Last but not least, the communication unit has also been in charge of briefing coordination. DG ECFIN colleagues produce a high amount of briefings for the President, the Vice-Presidents and our Commissioner within the deadlines fixed by the Cabinets. The communication unit contributes to this work by ensuring that speaking notes are harmonised to the appropriate level of technicality to be fit for discussions at the level of ministers and members of the Commission. This ensures seizing every opportunity for advancing our policies externally. The communication unit, in its role as briefing coordinator, was at the frontline to implement the successful rollout in DG ECFIN of BASIS and an ambitious action plan, including arrangements for additional editing work by the unit, support material and training sessions with Cabinet members.