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European Commission

2019

Annual Activity Report

Directorate General for Economic and Financial Affairs

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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 by ensuring that the Treaty obligations set out in Title VIII (Economic and Monetary Policy) of the Treaty on the Functioning of the European Union (TFEU) are met. It also contributes to the External Action of the Union (part five of the TFEU) and has an important economic service function for key EU policy initiatives.

Member States (MS) are required to regard their economic policies as a matter of common concern, coordinate them in the Council and avoid excessive government deficits. DG ECFIN facilitates these requirements. The economic crisis starting in 2008 led to much strengthening of existing requirements and adoption of new rules to tackle the accumulation of macroeconomic imbalances, implicating DG ECFIN heavily. Subsequent efforts to reinforce economic policy coordination implicating DG ECFIN focus on the Europe 2020 Strategy and the European Semester of economic policy coordination.

DG ECFIN works to preserve financial stability in the EU by enabling financial assistance to both euro and non-euro area MS and MS if needed. For countries that have received such assistance, DG ECFIN undertakes post-programme surveillance.

DG ECFIN also contributes to the Commission's aim to be a key player promoting the global economy’s economic health by conducting economic surveillance of EU enlargement countries, providing macro-financial assistance to third countries, analysing global economic developments and being active in the IMF/G7/G20 fora. We work closely with the EIB Group, the EBRD, the World Bank Group and other multilateral development banks.

Some DG ECFIN activities are backed by budget expenditures, achieved either through direct management and grants and purchases or through indirect management with entrusted entities and financial instruments. The financial management of assets is either directly performed by DG ECFIN or entrusted to another body with DG ECFIN supervision. Hence, DG ECFIN enjoys a mix of direct assurance and third party assurance in its accountability chain. This arrangement has proved smooth and reliable. We also design and implement, in close cooperation with the EIB Group and the EBRD, EU investment programmes including under the "Investment Plan for Europe", the proposed successor programme, InvestEU and the "External Investment Plan".

Finally, DG ECFIN interacts with three ECOFIN Council formation committees. The Secretariat for these three committees, their sub-committees and their Presidents as well as the Eurogroup and its President, is based in DG ECFIN.

DG ECFIN has many stakeholders. Internally: other Commission Directorates-General (DGs) via its leading role in the definition and promotion of the EU’s economic objectives and management of financial operations. Externally: EU MS authorities, national parliaments, social partners and other business, academic and civil society organisations. The IMF, G7, G20 and international development banks, together with key non-EU national authorities have also become increasingly important stakeholders.

DG ECFIN in 2019 consisted of an average 600 statutory members of staff working in 10 directorates, 3 devoted to country specific analysis, 6 to horizontal issues (e.g., financial operations, international relations, growth drivers, fiscal policy,…) and the ECOFIN committee Secretariat. Most staff work in Brussels, but 3 work in the USA and China and, until the end of the year, about 110 worked in Luxembourg. However, the end of 2019 saw 55 Luxembourg colleagues working on financial operations transferred to DG BUDG, leaving DG ECFIN with 539 statutory staff 9 directorates. Marco Buti, long-standing Director General of DG ECFIN left in November to be replaced by Maarten Verwey.

EXECUTIVE SUMMARY

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

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

In 2019, DG ECFIN's regular forecasts expected the European economy to continue expanding in 2020 and 2021 after 7 consecutive years of growth. However, whilst writing this document, the global and European economies entered a period of turmoil and unprecedented uncertainty due to Coronavirus, addressed with containment measures having largescale economic effects. It is too soon to expand on the possible consequences of these measures on the EU's economy and DG ECFIN's work.[2]

On 27 February 2019, the Commission adopted the **European Semester winter package** setting out policy priorities at the European level. In this year's package, the Commission launched a discussion on investment challenges and priorities in the Member States and set out first ideas as to how EU funds can help in the forthcoming programming period 2021-2027. This new focus is reflected throughout the country reports.

In June, the Commission adopted the **European Semester spring package** with **country-specific recommendations** to all EU Member States for the next 12 to 18 months. The recommendations underline well-targeted investment strategies and responsible fiscal policies in modernising the European economy. Separately, a Commission recommendation prepared by ECFIN led the Council to abrogate the Excessive Deficit Procedure (EDP) for Spain, the last from the crisis period.

The Commission adopted the **autumn fiscal package** in November, comprising a Communication on the overall assessment of the 2020 Draft Budgetary Plans (DBPs) and Opinions on the DBPs of all euro area countries. No Member State shows particularly serious non-compliance with the SGP but 8 Member States do risk non-compliance.

In December, the 1st package of the von der Leyen Commission on the European Semester was presented. In it, the **Annual Sustainable Growth Strategy** (ASGS) delivers on the vision set out in President von der Leyen's Political Guidelines, encompassing 4 symbiotic dimensions to address long-term challenges: i) environmental sustainability; ii) productivity gains; iii) fairness; and iv) macroeconomic stability.

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

[2] This AAR was written in the course of January 2020. Comments by central services following submission at the end of February have been taken into account. The final AAR was submitted on 31st March 2020. DG ECFIN has decided not to refer to/take into account information about the COVID-19 pandemic that became available from mid-March 2020 due to both the huge uncertainty surrounding the course of the economy and as the AAR's function is to report on the previous year, even if some narrative refers to the future.

By end 2019, the **Investment Plan for Europe** triggered €458 billion in cumulative investment across all 28 Member States, 92% of the €500 billion end-2020 target. By mid-December, European Fund for Strategic Investments (EFSI) operations were approved across all Member States and should support over 1 million SMEs. Under the **SME Window** (SMEW), EFSI continued supporting investments in the areas of risky SME financing, innovative SMEs and small mid-caps, micro and social enterprises as well as SMEs operating in cultural and creative sectors. The **European Investment Advisory Hub (EIAH, the Hub)** has signed 28 Memoranda of Understanding with national promotional banks and institutions from 22 Member States to develop the ability of such institutions to support investment pipelines and enhance the local provision of assistance. The **European Investment Project Portal (EIPP, the Portal)** currently offers over 950 investment opportunities. To complement the online platform's free service, the EIPP continued to (co)organise matchmaking events in 2019.

Following the **InvestEU** proposal, a dedicated team followed the legislative process, contributing to a partial agreement in May 2019. Preparatory work is proceeding to ensure the InvestEU Fund and Advisory Hub are operational from 1 January 2021.

Finally, DG ECFIN continued to provide financial expertise to DGs managing **financial instruments for SMEs, innovation and employment**.

DG ECFIN was busy in 2019 ensuring efficient and effective EU representation during the Japanese G20 Presidency as well as the G7. DG ECFIN successfully hosted in Brussels the first ever G20 meeting hosted by the Commission, the G20 Working Group on Strong, Sustainable, Balanced and Inclusive Growth (FWG) in May. DG ECFIN also prepared and represented the Commission at the International Monetary Fund (IMF) / World Bank (WB) spring and annual meetings. Together with DG DEVCO and DG NEAR, DG ECFIN helped ensure the insertion of a paragraph into the G20 Finance Ministers' Fukuoka meeting communiqué stressing continued G20 commitment to the Compact with Africa.

Regarding **macro-financial assistance** (MFA) to neighbouring countries, two operations were successfully concluded with Jordan and Tunisia and the Commission adopted a proposal for a new, follow-up operation with **Jordan (MFA-III)**. In the eastern neighbourhood, DG ECFIN made progress implementing the MFA operation in **Moldova.**

Macroeconomic dialogues took place with neighbourhood countries and non-EU G20 economies. In May, the Economic and Financial Dialogue of the EU with the Western Balkans and Turkey adopted Joint Conclusions with specific policy guidance to enlargement countries on macroeconomic stability, fiscal sustainability and long-term growth and competitiveness.

Also in May, the Commission adopted **country reports** for 6 enlargement countries each with an economic chapter prepared by DG ECFIN assessing progress in 2 dimensions: (1) existence of a functioning market economy and (2) capacity to cope with competitive pressure and market forces in the EU. ECFIN produced an analytical report accompanying the Commission Opinion on Bosnia and Herzegovina's application for EU membership.

Since January, discussions among the euro area Member States on implementing political agreements adopted in 2018 have taken place in the Eurogroup and other fora; the focus was on the **Budgetary Instrument for Convergence and Competitiveness**, the reform of the **European Stability Mechanism** and the future of the **Banking Union**.

Ahead of the Euro Summit on 21 June 2019, the Commission adopted a Communication "Deepening Europe's Economic and Monetary Union: Taking stock four years after the Five Presidents' Report". In it, the Commission called on the European Parliament, the European Council, the Council, the European Central Bank and all other stakeholders to continue firmly on the path to complete the Economic and Monetary Union.

Three **Enhanced Surveillance** reports on **Greece** were adopted over 2019. General elections in July led to a new government formed by New Democracy, committed to completing the agreed reforms and pursuing a growth-friendly policy agenda.

Regular **Post-Programme Surveillance missions** took place in **Portugal**, **Ireland**, **Spain** and **Cyprus** over the course of 2019.

Finally, DG ECFIN's 2019 **publications** can be found here.

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 – CeSaR[3]			
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	May 2019: 40% of CSRs issued in the 2018 European Semester round and 69% of 2011-2018 CSRs have been implemented with at least some progress.

Implementation of the various recommendations agreed with Member States since 2011 continues, if unevenly. Most progress has been achieved in financial services, followed by labour relations and employment protection. Least progress has been made on broadening the tax base, competition in services, and health and long-term care.

Member States have made at least 'some progress' in 4 out of 10 recommendations addressed to them in July 2018, which is worse than previous years. Significant aggregate reform progress has stalled since February 2019, but the picture differs by Member States and policy area. Implementation is strongest in financial services and weakest in broadening the tax base and strengthening services competition.

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** 2020 - EFSI 2.0 Regulation (Preamble 7)	**Latest known results as per Annual Activity Report**
No baseline as it is the start of the activity	Mobilise a total investment of €500 billion by end 2020 as per the EFSI 2.0 Regulation (Preamble 7).	Volume of investment expected to be mobilised by end 2019: €458.4 billion or 92% of the end-2020 target of €500 billion.

By end December 2019, the volume of investment mobilised by the approved **EFSI**

[3] http://intragate.ec.europa.eu/scopax/csr/

operations stood at 92% of the target of mobilising €500 billion of total investment, i.e. €458.4 billion across both investment windows mentioned below. EFSI is fully on track to reach the €500 billion objective in terms of approved operations by end-2020.

In the **Infrastructure and Innovation Window**, the European Investment Bank (EIB) approved 602 projects of around €271.7 billion in investment value, with EFSI-guaranteed EIB financing expected to amount to €60.4 billion. In the **SME Window**, 667 operations have been approved by the European Investment Fund for a total investment value of €186.7 billion. About 1.1 million SMEs and mid-caps in all Member States are expected to benefit.

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[4] laid out the principal steps necessary to complete EMU in 2 stages by 2025. First: • 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 Second, convergence would be made more binding using a set of agreed benchmarks.	1st Stage completed by 2017; stage 2 to be completed by 2020 The 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.	In June 2019, the Commission contributed to the debate with a communication "Deepening Europe's Economic and Monetary Union: Taking stock four years after the Five Presidents' Report". The Euro Summits of June and December 2019 took note of the progress with the reform of the Economic and Monetary Union, and tasked the Eurogroup with new objectives.

The single currency is one of Europe's most significant and tangible achievements, but there is a broad consensus that the current setup of EMU remains incomplete.

In 2019, the Eurogroup continued to work on aspects of the reform of the Economic and Monetary Union. First, it agreed on the governance of the Budgetary Instrument for Convergence and Competitiveness (BICC) for the euro area. Second, it broadly agreed on the reform of the European Stability Mechanism (ESM). Third, progress was made sketching a roadmap to start political discussions on the European Deposit Insurance Scheme. In December 2019, the Euro Summit asked the Eurogroup to continue working on the ESM package of reforms and on the BICC. DG ECFIN work supports this progress.

[4] 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, 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.

To ensure the achievement of policy and management objectives, the Commission has adopted a set of internal control principles, based on international good practice. The financial regulation requires that the organisational structure and the internal control systems used to implement the budget be set up in accordance with these principles. DG ECFIN has assessed its internal control system during the reporting year and has concluded that it is effective and the components and principles are present and functioning 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 for supervising entities to which it has entrusted budget implementation tasks, as well as the observations and recommendations issued by the internal auditor and the European Court of Auditors. These elements have been assessed to determine their impact on management's assurance about the achievement of the control objectives. Please refer to Section 2.1 for further details.

In conclusion, management has reasonable assurance that, overall, suitable controls are in place and working as intended; risks are being appropriately monitored and mitigated; 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 Gentiloni, responsible for Economy.

1. KEY RESULTS AND PROGRESS TOWARDS THE ACHIEVEMENT OF THE COMMISSION'S GENERAL OBJECTIVES AND DG'S SPECIFIC OBJECTIVES

DG ECFIN contributed to 2 general Commission objectives using 5 specific objectives to target concrete action areas for the DG. The specific objectives are, however, shared with Member States, so our influence over the result indicators can be rather limited.

DG ECFIN's mission is to raise the economic welfare of citizens in the European Union (EU) and beyond by fostering competitive, employment-rich economies. The DG therefore tries to help develop smart, sustainable, inclusive economic growth policies to 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. Working towards a deeper, fairer Economic and Monetary Union (EMU) and completing the EMU architecture are central to this mission.

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

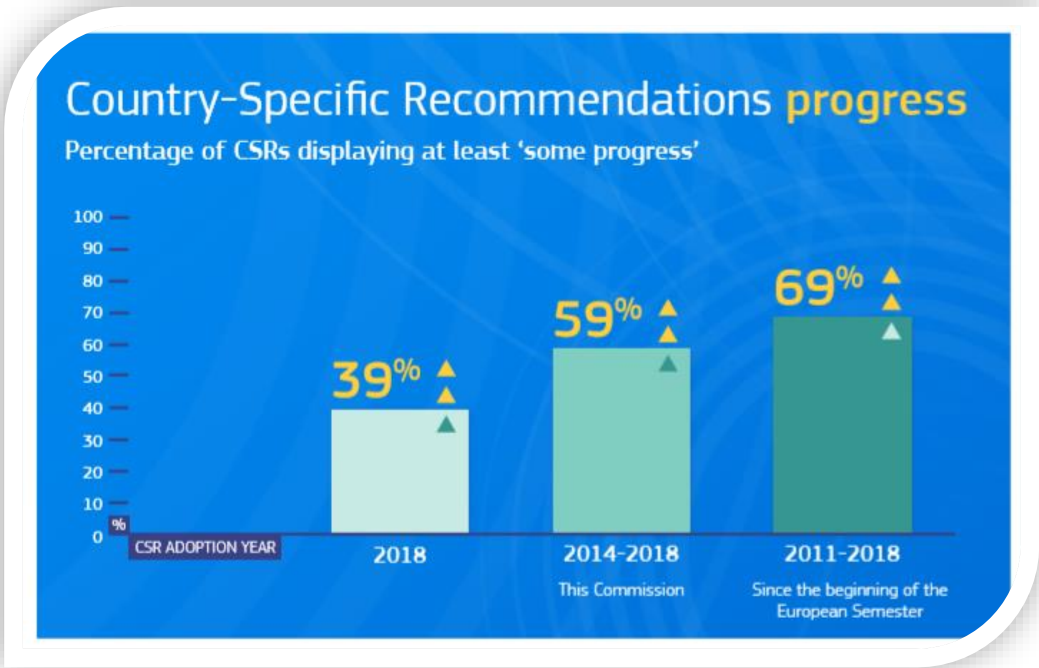
1.1.1 Specific objectives 1 & 2: promoting growth and employment-enhancing policies in the euro area and the EU and promoting macro-economic and fiscal stability in the euro area and the EU

DG ECFIN published its **winter economic forecast** in February 2019. A high level of uncertainty surrounded the economic outlook with the projections subject to downside risks. Trade tensions were found to have alleviated somewhat but nonetheless remain a concern. There were signs that China's economy was slowing more than anticipated. Global financial markets and many emerging markets seemed volatile.

Also in February, the **European Semester winter package** set out the national dimension of the European Semester in **28 country reports** providing detailed analyses of country-specific economic and social challenges as well as assessments of Member States' progress implementing their country-specific recommendations. The reports found that Member States have achieved at least some progress implementing over 2/3 of the recommendations issued since the introduction of the European Semester in 2011.

As a novelty of this year's package, the Commission launched a discussion on investment challenges and priorities in the Member States offering some ideas as to how EU funds, especially EU Cohesion Policy funds, can help increase investment in the forthcoming programming period 2021-2027. Each country report shares this new focus as well as a new country-specific annex on the possible use of future EU Cohesion Policy funds.

In early 2019, DG ECFIN worked[5] on **in-depth reviews** of 13 Member States to analyse whether they were experiencing macroeconomic imbalances. In February 2019, the Commission concluded that imbalances or excessive imbalances existed in all of 13, but the gravity of the imbalances has diminished in some cases.



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The Commission also analysed and published **Opinions on updated Draft Budgetary Plans** (DBPs). Slovenia's updated DBP was considered to pose a risk of non-compliance with the Stability and Growth Pact (SGP), so Slovenia was invited to take measures in its 2019 budget to mitigate the risk. Latvia's DBP was found broadly compliant with the provisions of the SGP. Luxembourg's DBP was considered fully compliant with the SGP.

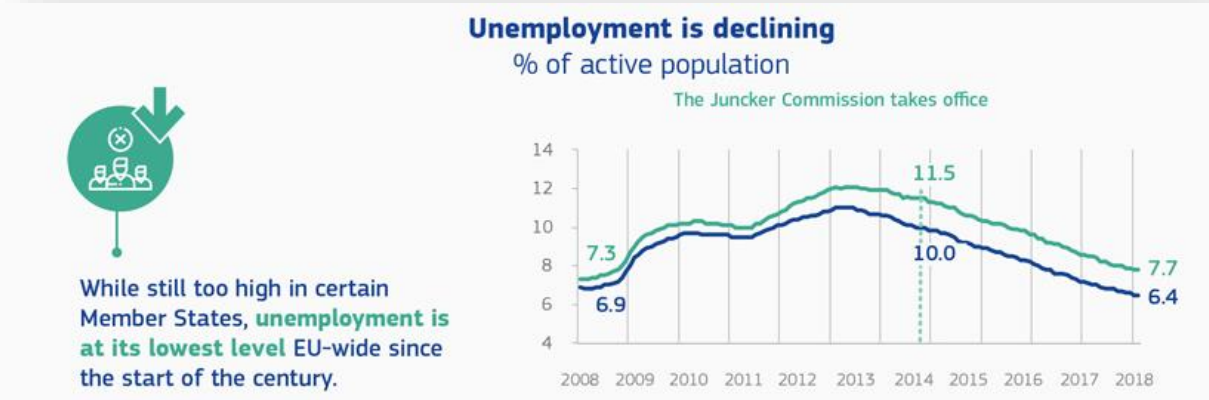
Finally, the Commission published a **progress report[6]** on the establishment of **National Productivity Boards**. Productivity and competitiveness developments in the EU and the euro area were analysed and an overview provided of productivity boards established at the end of 2018. By end 2019, 15 Boards exist in euro area Member States and all remaining euro area Member States have confirmed their intention to follow suit. The Commission has launched a network for the productivity boards to facilitate exchanges of views, practices and experiences.

DG ECFIN's published **spring economic forecast** highlighted record EU employment and expected employment growth to continue, if more slowly. This, together with rising wages, muted inflation, favourable financing conditions and supportive fiscal measures in some Member States, was expected to buoy domestic demand. Overall, GDP was forecast to grow by 1.4% in the EU this year and 1.2% in the euro area. While still too high in certain Member States, unemployment in the EU had fallen to the lowest rate recorded (6.4% in March 2019) since the monthly data series started in January 2000.

[5] The work was launched in November 2018

[6] on the implementation of the Council Recommendation of 20 September 2016

The **European Semester spring package** adopted on 5 June saw the Commission issue **country-specific recommendations** or economic policy guidance to all EU Member States for up to the next 18 months and consist of effective reforms accompanied by well-targeted investment strategies and responsible fiscal policies. The recommendations also include follow-up on identified imbalances.



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In the framework of the **SGP,** the Commission recommended abrogation of the Excessive Deficit Procedure (EDP) for Spain; the Council agreed, closing the last crisis-related EDP. In 2011, 24 Member States were in EDP. The Commission also adopted a report on Italy, which concluded that a debt-based EDP was warranted leading the Italian authorities to announce additional fiscal efforts; the Commission considered those efforts material enough not to need to propose an EDP on Italy for lack of compliance with the debt criterion to the Council. Finally, the Commission published, on 26 July, its **overview assessment of the 2019 Stability and Convergence Programmes**, including an assessment of the euro area fiscal stance.

DG ECFIN's published **summer economic forecast** highlighted stronger than expected growth in Q1 2019 in the euro area due to temporary factors such as mild winter conditions, a rebound in car sales and fiscal policy measures boosting household disposable income in several Member States. However, near-term economic prospects looked at risk from external factors including global trade tensions and significant policy uncertainty. November's **autumn economic forecast** also pointed to a much less supportive external environment with high levels of uncertainty, despite it being the European economy's 7th consecutive year of growth. Since then the global and European economies have entered a period of turmoil and unprecedented uncertainty, as the spread of Coronavirus was addressed with containment measures with largescale economic effects. Due to the timing of the writing of the document, it is not possible to expand on the possible consequences of these measures on the EU's economy and on DG ECFIN's work.

After the autumn 2019 Economic Forecast and consultations with Member States, the Commission adopted **Opinions on the DBPs of all euro area countries**. It found that no DBP for 2020 showed particularly serious non-compliance with the requirements of the SGP. The DBPs of Germany, Ireland, Greece, Cyprus, Lithuania, Luxembourg, Malta, the Netherlands and Austria were found to be compliant with the SGP and the DBPs of Estonia and Latvia were found to be broadly compliant. Implementation of the DBP might result in some deviation from the country's medium-term budgetary objective for Latvia and from the adjustment path towards this objective in the case of Estonia. However, the DBPs of Belgium, Spain, France, Italy, Portugal, Slovenia, Slovakia and Finland pose a risk of non-compliance, potentially resulting in a significant deviation from their adjustment paths to their respective medium-term budgetary objectives. In Belgium, Spain, France and Italy, non-compliance with the debt reduction benchmark is projected.

Between 2019 and 2020, the number of Member States at or above their medium-term budgetary objectives is forecast to increase from 6 to 9 and the euro area aggregate structural deficit to increase by 0.2% of potential GDP in 2020 (to -1.1%) i.e., the fiscal stance is broadly neutral. However, fiscal policies are insufficiently differentiated across the euro area. Member States with fiscal space are implementing expansionary fiscal policies and should remain ready to do so, but lack of consolidation by countries with sustainability problems is a concern.

The Commission also took a number of steps under the **SGP** for Hungary and Romania, making 2 recommendations under the **Significant Deviation Procedure**[7]. For Hungary, the Commission established that no effective action was taken in response to the Council Recommendation of June 2019 and for Romania, the Commission established that no effective action was taken by Romania in response to the Council Recommendation of June 2019. The Commission therefore proposed that the Council adopt a decision on non-effective action for each and a revised recommendation to each to take measures to correct their significant deviations in 2020.

The von der Leyen Commission launched a new European Semester cycle, the first of its mandate, on 17 December. It is an ambitious, rebooted growth strategy to promote competitive sustainability by building an economy that works for people and the planet. The Annual Sustainable Growth Strategy (ASGS) delivered on the vision set out in the President's Political Guidelines, setting out the EU’s economic and employment policy strategy, placing sustainability and social inclusion at its heart, in line with the priorities of the European Green Deal, the Commission's new growth strategy. Europe aims to remain home to the world's most advanced welfare systems, become the first carbon-neutral continent and be a vibrant hub for innovation and competitive entrepreneurship. It will also give Europe the tools to strive for more social fairness and prosperity as well as helping the EU and Member States achieve the United Nations Sustainable Development Goals.

The European Semester enhances environmental sustainability with specific guidance to Member States on urgent structural reforms and investment needs that lead to a sustainable economic model. The guidance also helps spur productivity gains by promoting investment and structural reforms fostering research and innovation, improving access to finance, enhancing the functioning of product and services markets, and removing business environment bottlenecks. Policies guaranteeing fair working conditions for all and easing peoples’ adaptation to changing circumstances safeguards fairness. Macroeconomic stability comes by respecting the fiscal rules, whilst using the flexibility built into them, addressing imbalances and completing Europe's Economic and Monetary Union (EMU).

The **Recommendation on the economic policy of the euro area** in December called on euro area Member States to differentiate their fiscal policies but coordinate them further in the framework of the Eurogroup in case of a worsening outlook, and make more progress deepening the EMU, especially by completing Banking Union and Capital Markets Union, which would also help strengthen the international role of the euro. Combined, these actions would help address common challenges for the euro area.

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[7] A tool designed to send a warning in case of a significant deviation from the requirements of the preventive arm of the Pact.

The **Alert Mechanism Report**, a screening device for macroeconomic imbalances, recommended that 13 Member States should undergo "in-depth review" in 2020 to analyse possible macroeconomic imbalances. Member States must address their macroeconomic imbalances to tackle long-term challenges and avoid potential shocks. ECFIN also provided input to **thematic discussions**[8] **on growth and jobs in the Eurogroup**.

At the time of writing, the unprecedented uncertainty surrounding Coronavirus and its economic impact obliges adjustments to policy priorities for the new reality, at least in the short-term.

1.1.2 Specific objective 3: promoting investment in the EU

By end 2019, the Investment Plan for Europe triggered €458.4 billion in cumulative investment across all 28 Member States, 92% of the €500 billion end-2020 target. Of this, €271.7 billion correspond to mobilised investments under the Infrastructure and Innovation Window, €186.7 billion related to operations under the SME Window. As for progress removing barriers to investments, i.e. the third pillar of the Investment Plan, this was assessed as part of the European Semester surveillance, and the ECOFIN Council discussed implementation of country-specific recommendations focusing on investment in March. In October, the EIB prepared a report to the European Commission on investment barriers as per the revised EFSI Agreement.

The **European Fund for Strategic Investments (EFSI)** successfully supported innovative and strategic projects contributing to investment, job creation and growth. By 11 December 2019, EFSI successfully helped mobilise €458.4 billion of private and public investment, more than meeting its initial €315 billion objective. All Member States have had EFSI operations approved and more than 1 096 400 SMEs should be supported.

Under the **SME Window** (SMEW), EFSI continued supporting investments in risky SME financing, innovative SMEs and small mid-caps, micro and social enterprises as well as SMEs operating in cultural and creative sectors. By end 2019, the SMEW had helped mobilise €186.7 billion of additional investments. After preparatory work in 2019, the 5th amendment of the EFSI Agreement should be signed with the EIB in early 2020[9].

In 2019, the **European Investment Advisory Hub (the EIAH, the Hub)** signed 3 more Memoranda of Understanding (MoUs) with national promotional banks and institutions (NPBIs) to develop those institutions' ability to support investment pipelines and provide local assistance. A 2017 call for proposals targeting NPBs to develop local technical assistance received 4 more applications in 2019. Four additional funding agreements were signed in 2019 and several more applications have expressed interest in developing their advisory capacity. Moreover, 147 EIAH assignments have reached the EIB appraisal system (financing part of the EIB services) for an estimated project investment cost of €32.1bn (of which €11.9bn for EFSI Projects).

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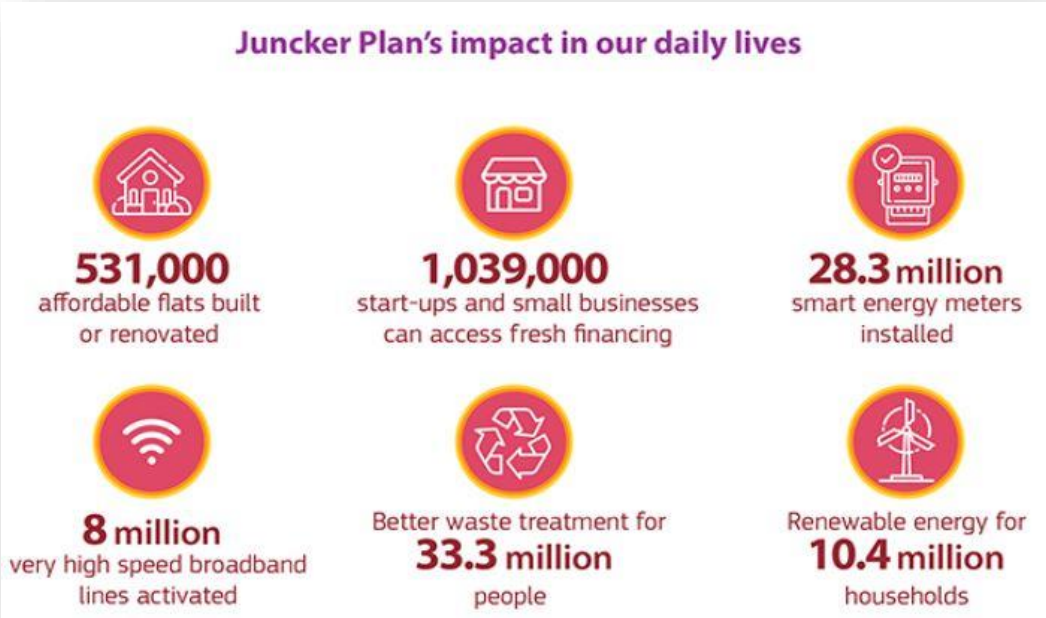
8 Covering housing markets, inequality, spending reviews (and their role in promoting public investment), competitiveness developments and investment in innovation.

9 With this, the instrument will commit all remaining resources and provide a boost to 2 flagship EU guarantee instruments for SMEs (InnovFIN SMEG and COSME LGF enhancement). It will also increase allocations to a dedicated equity facility and a facility supporting tailored credit financing by debt funds as well as introduce a new debt product for skills and education and an equity product for scale-ups (**ESCALAR**).



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The **European Investment Project Portal (EIPP, the Portal)** currently offers over 950 investment opportunities. To complement the free service offered by the online platform, the EIPP continued to (co)organise matchmaking events in 2019. The 1st InvestEU Matchmaking event took place in Brussels in March with over 250 participants and 350 matchmaking meetings taking place. The EIPP co-organised the EBAN Annual Congress in Helsinki and the 1st European Angel Investment Summit in Brussels.

Following the **InvestEU** proposal, a dedicated team followed the legislative process and contributed to a partial agreement last May. In parallel, preparatory work was ongoing to ensure the InvestEU Fund and Advisory Hub are operational from 1 January 2021. In the 1st half of the year, DG ECFIN organised 2 seminars with potential Implementing partners to provide assistance on the pillar assessment process and launch InvestEU work streams such as consultation of the draft investment guidelines, sustainability proofing, risk methodology framework and preparation of financial products and advisory initiatives.

Since 2009, the **ELENA** Facility has incentivised the implementation of energy efficiency and renewable energy investments by public and private entities, going beyond existing practice with organisational and financial innovation. The total number of ELENA support projects approved reached 113 (19 approved in 2019) for a total ELENA grant budget allocated to projects of €198 million; €6.8 billion of investment is expected to be generated by these. The Facility was promoted in 2019 to stakeholders all over Europe, including at major events organised by the European Commission such as the EUSEW (European Sustainable Energy Week), the Covenant of Mayors Investment Forum and a special 10-years promotional event organised jointly by EIB and the Commission.

The **Marguerite Fund**, a Pan-European equity fund launched during the financial crisis to stimulate long-term infrastructure investment in Europe, has over 85% of its investments in the core sectors (transport, energy and renewable energies) and over 65% of commitments invested in greenfield projects. By end December 2019, the Fund portfolio comprised 9 projects in 8 Member States. Marguerite II, its successor, continues the work with a €200 million commitment from the EIB (€100 million guaranteed by the EFSI) and €100 million each from 5 National Promotional Banks.

In 2019, DG ECFIN continued to provide financial expertise to DGs managing **financial instruments for SMEs, innovation and employment** and led the process shaping Investment Guidelines under InvestEU; this will shape successor financial products for currently implemented COSME, InnovFin, EaSI and CCS financial instruments. ECFIN was also active in the strategic governance decision-taking for EU financial instruments and launched a Commission internal reflection on the future of the EIF.

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

1.1.3 Specific objective 4: promoting prosperity beyond the EU

The Commission ensured efficient, effective EU representation during the Japanese G20 Presidency starting with the **G20** Finance Deputies' meeting in January followed by the G20 Finance Deputies' and Ministerial meetings in April, June and October plus the G20 Summit and a Joint session of G20 Finance and Health ministers in June. During the G20 Saudi Arabia Presidency, it provided EU representation at the 1st G20 Finance Deputies' meeting in December. In May, DG ECFIN successfully hosted in Brussels the G20 Working Group on Strong, Sustainable, Balanced and Inclusive Growth, the first G20 meeting hosted by the Commission. As follow up, 3 Working Group Notes were prepared for Finance Ministers, Central Bank Governors and the G20 Summit on: the (i) global economic outlook, risks and policy space, (ii) macroeconomic imbalances and (iii) macroeconomic implications of population ageing.

DG ECFIN, with DG DEVCO and DG NEAR, prepared the G20 Compact with Africa Advisory Group (AAG) meeting and the Compact with Africa ministerial session in the margins of the International Monetary Fund / World Bank spring meetings. It coordinated with AAG co-chairs and other G20 members to insert a paragraph into the G20 Finance Ministers' communiqué at their Fukuoka meeting stressing continued G20 commitment to the Compact with Africa and the necessary next steps in the initiative.

DG ECFIN prepared the **G7** Finance Deputies' Retreat (February), the G7 Deputies' meeting (May), the G7 Finance Ministerial meetings which took place in the margins of the IMF spring and annual meetings in April and October, and the G7 Finance Ministers meeting in Chantilly in July. In view of the G7 Sherpa meetings (April and June), DG ECFIN provided substantial inputs on the topic of inequality and inclusiveness. For the end-August G7 Summit, DG ECFIN worked with other DGs to provide contributions on the global economic outlook, tax issues and inequality.

DG ECFIN prepared the IMF spring and annual meetings and ensured effective EU representation. The most important issue discussed in 2019 was IMF resources. EU Member States agreed to extend their bilateral loans to the IMF for another year following EU coordination initiated by DG ECFIN. DG ECFIN also prepared notes on various IMF policy topics[10].

Two operations of **macro-financial assistance** (MFA) successfully concluded with Jordan and Tunisia and good progress was made with other operations. DG ECFIN disbursed the second and last instalment of the **MFA-II to Jordan** in June 2019. However, at the request of the Jordanian authorities, the Commission adopted a proposal for a new, follow-up operation with **Jordan (MFA-III)**. The co-legislators adopted the decision in January 2020.

[10] such as IMF quota developments, IMF New Arrangements to Borrow, IMF Conditionality and IMF Surveillance

Meanwhile, DG ECFIN concluded the MFA programme in **Tunisia (MFA-II)** by disbursing 2 instalments in 2019. In the eastern neighbourhood, DG ECFIN disbursed the 1st instalment of the MFA operation in **Moldova** in October.

Macroeconomic dialogues took place throughout 2019 in both Neighbourhood countries[11], enlargement countries[12] and non-EU G20 economies[13]. The macroeconomic dialogue with Australia was organised in conjunction with a fact finding mission to Singapore to analyse recent economic trends in the region, including weaker growth in China and identifying potential global economic risks. A macroeconomic dialogue took place with Iceland in June. In 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 to foster macroeconomic stability, ensure fiscal sustainability and support long-term growth and competitiveness. The dialogue was based on enlargement countries' Economic Reform Programmes (ERP) submitted to the Commission end-January and Commission staff working documents assessing the ERPs adopted in April.

Also in May the Commission adopted **country reports for six enlargement countries:** Albania, Kosovo*[14], Montenegro, North Macedonia, Serbia and Turkey as well as the analytical report accompanying the Commission Opinion on Bosnia and Herzegovina's application for membership of the European Union. DG ECFIN prepared the economic chapters of the reports, assessing each country's progress on the two Copenhagen criteria: (1) existence of a functioning market economy (FME) and (2) capacity to cope with competitive pressure and market forces within the EU. Only Turkey is well advanced with the 1st criterion. No country complies with the competitiveness criterion.

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

Since January 2019, discussions among euro area Member States on the implementation of political agreements to deepen EMU have taken place in the Eurogroup and other fora, notably on the **Budgetary Instrument for Convergence and Competitiveness**, reform of the **European Stability Mechanism** and the future of the **Banking Union**. The Commission provided technical expertise and its efforts ensured that emerging political compromises are consistent with the EU's legal framework[15] and do not prejudge future possible changes to it.

In June, the Eurogroup agreed the main features of the Budgetary Instrument for Convergence

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[11] Algeria (January), Armenia (March), Tunisia (March), Georgia (May), Palestine (August), Belarus (September), Egypt (September) and Ukraine (September)

[12] in the 2nd half of the year with Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia, Serbia and Turkey

[13] Australia (February), India (March), Argentina (May), Mexico (July), Brazil (September), the Gulf Cooperation Council (November), South Africa (November), Japan (November) and Korea (December)

[14] *This designation is without prejudice to positions on status, and in line with UNSCR 1244/1999 and the ICJ Opinion on the Kosovo declaration of independence.

[15] Notably in the areas of bank prudential and resolution legislation, the future integration of the European Stability Mechanism into EU law, and the rules governing economic policy coordination, fiscal and macroeconomic surveillance and financial stability

and Competitiveness for the euro area; in particular, the Commission is responsible for the implementation of the instrument, the Eurogroup and the Euro Summit give the strategic guidance on key reforms and investment priorities for the convergence and competitiveness of the euro area. The Eurogroup continues to work on the main pending issues[16]. In July, the Commission adopted a governance proposal for the euro area based on Article 136 TFEU.

Ahead of the 21 June 2019 Euro Summit, the Commission adopted the Communication "Deepening Europe's Economic and Monetary Union: Taking stock four years after the Five Presidents' Report". It finds that marked progress has been made to strengthen the single currency area and make Europe's Economic and Monetary Union more robust. Many gaps exposed by the post-2007 crisis have been addressed. Still, important steps remain. The single currency and coordination of economic policy-making are a means to an end: more jobs, growth, investment, social fairness and macroeconomic stability for euro area members and the EU.

In July 2019, **Croatia** expressed interest in the ERMII exchange rate mechanism as a 1st step **towards euro adoption**. Helped by the Commission and the ECB, it had designed a package of prior commitments to address its economy's main weaknesses and prepare for ERMII mechanism participation and then euro adoption. The package covers banking supervision ('close cooperation' with the ECB and strengthened macroprudential framework), anti-money laundering, macroeconomic and budgetary statistics, public sector governance and financial and administrative burdens on businesses. The package was endorsed by ERMII parties in July; the Commission and the ECB must assess its effective implementation.

After a 1st **Enhanced Surveillance** Report on **Greece** in November 2018, 3 more were adopted in 2019. Based on April's positive enhanced surveillance update, the Eurogroup agreed to release the 1st tranche of policy-contingent debt measures worth around €950 million, an important positive signal. Following general elections in July, a new government was formed by New Democracy, which stressed its commitment to completing the agreed reforms and pursuing a growth-friendly policy agenda. The 4th Enhanced Surveillance Report in November concluded that Greece has taken the necessary actions to achieve its specific reform commitments for mid-2019, paving the way for the Eurogroup to agree the release of the 2nd tranche of policy-contingent debt measures worth close to €770 million. The report also stressed the further actions needed to complete and, if necessary, accelerate reforms. Regular post-programme surveillance missions took place in Portugal, Ireland, Spain and Cyprus in 2019.

[16] such as the allocation key, co-financing, governance and financing

2. ORGANISATIONAL MANAGEMENT AND INTERNAL CONTROL

This section explains *how* the DG delivered the achievements described in the previous section. It is divided into two subsections.

Subsection 1 reports the control results and other relevant information that supports management's assurance on the achievement of the financial management and internal control objectives[17]. It includes any additional information necessary to establish that the available evidence is reliable, complete and comprehensive. It covers all activities, programmes and management modes relevant to the DG.

Subsection 2 deals with other components of organisational management: human resources, better regulation, 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 monitor the functioning of the internal control systems on a continuous basis, and by internal and external auditors. The results are explicitly documented and reported to the Director-General. These are:

- the reports by AOSDs;
- the reports on control results from entrusted entities in indirect management as well as the result of the Commission supervisory controls on the activities of these bodies;
- the contribution by the Director(s) in charge of Risk Management and Internal Control Coordinator, including the results of internal control monitoring at the DG level;
- the reports on recorded exceptions, non-compliance events and any cases of 'confirmation of instructions' (Art 92.3 FR);
- the reports of the ex-post supervision or audit;
- the limited conclusion of the Internal Auditor on the state of internal control, and the observations and recommendations reported by the Internal Audit Service (IAS);
- the observations and recommendations of the European Court of Auditors (ECA);
- periodic reports to management on resource issues.

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

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

[17] Art 36.2 FR: a) effectiveness, efficiency and economy of operations; b) reliability of reporting; c) safeguarding of assets and information; d) prevention, detection, correction and follow-up of fraud and irregularities; and e) adequate management of risks relating to the legality and regularity of underlying transactions

2.1.1 Control results

This section is for reporting and assessing the elements identified by management which support the assurance on the achievement of the internal control objectives[18]. The DG's assurance building and materiality criteria are outlined in AAR Annex 4. Annex 5 outlines the main risks together with the control processes to mitigate them and the indicators used to measure the performance of the relevant control systems.

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

In € 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)	Guarantees received (+) or given (-) – Table 5bis in Annex 3 (OB1 OB2)
Guarantee Fund for external actions (RCS 6)	103.2 (provisioning)		2,588.0	-42.7 +39.6	-20,014.1
European Fund for Strategic Investments (EFSI (RCS 7))	1,166.2 (provisioning and fees)	133.7	6,821.4	-353.7 +19.2	-17,633.8
Financial instruments and Pre-accession Technical Assistance (RCS 3)	33.1	80.1 (CIP MAP ETF TTP)	750.1	-29.1 +5.7	-
Grants Entrusted Entities - Indirect Management (ELENA) (RCS 4)	31.6	1.2			-
Assets under treasury management (RCS 1)		0.0	3,624.2 (BUFI, ECSC, EFSM, ATOM, BOP, MFA	-20.9 +19.7 (BUFI, ECSC)	-
Outstanding loans (incl. ECSC loans) (RCS 1)		0.5 (BOP MFA EURATOM EFSM)	52,564.8 (EFSM, ATOM, BOP, MFA, ECSC)	-1,175.2 +1,175.7 (EFSM, ATOM, BOP, MFA, ECSC)	+213.6
Equity Investments (EBRD, Marguerite Fund (RCS 5))	2.6	4.6	242.0	-	-
EIF capital and dividends	0.0	3.1	591.3	-	-
Macro-financial assistance (MFA (RCS 8))	10.3		-	-	-
Enforced budgetary surveillance	26.8	0.0			
Grants (Business Consumer Surveys (BCS), Pericles, European Investment Advisory Hub (EIAH) (RCS 2)), procurement and administrative expenses	34.4	-0.2	-	-	-
Total	**1408.2**	**223.0**	**67,181.8**	**-1,621.6** **+1,259.9**	**-37,647.9** **+ 213.6**

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

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

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 3 categories: direct budget management payments, indirect budget management payments and off-budget management. Each has its own specificities, so our control system uses 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 includes the provisioning of trust accounts and spending programmes entrusted to other entities. Off budget management includes assets directly managed by DG ECFIN and assets under DG ECFIN's supervision: 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.

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

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.

No cases are to be reported concerning:

- "confirmation of instructions" (FR art 92.3)
- financing not linked to costs (FR art. 125.3)
- flat rates > 7% for indirect costs (FR art. 181.6)
- derogation from the principle of non-retroactivity (new FR ART 193.2)
- Financial Framework Partnerships >4 years (new FR art 130.4) signed in 2019

Conclusion table

In € 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)), procurement and administrative expenses	34.4			-0.2
MFA	10.3			
Guarantee Fund for External actions	103.2		2,588	
EFSI Guarantee Fund (provisioning and fees)	1,166.2		6,821.4	133.7
Financial Instruments and Pre-Accession Technical Assistance		33.1	750.1	80.1
Grants Entrusted Entities - Indirect Management (ELENA)		31.6		1.2
EIF capital and dividends	0.0		591.3	3.1
Enforced budgetary surveillance	26.8			0.0
Equity investments (EBRD, Marguerite Fund)	2.6		242.0	4.6
Off-budget management (loans and assets under financial management)			56,189.0	0.5
Total	**1,343.5**	**64.7**	**67,181.8**	**223.0**
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[19]	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

1. *Effectiveness = the control results and benefits*

- ***Legality and regularity of the transactions***

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

Error rates

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, enforced budgetary surveillance) and 2% for action grants with the reimbursed cost mechanism and entrusted entities. Error rates achieved are measured by exceptions and non-compliance events (ex-ante controls) for direct management (complemented, if

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

necessary, by ex-post controls) and third-party assurance for indirect management.

Ex-post controls are performed on a limited range of transactions identified using an annual risk-analysis. Errors found are unrepresentative of overall expenditure as we control only the "riskiest" transactions, and so cannot be extrapolated over total overall expenditure. In 2019, using this risk-analysis approach, ex-post controls were conducted on 4 transactions in the grant-scheme Business and Consumer Surveys going back a number of years; 2 showed an error in the cost calculation relating to payments made between 2016-2018. One error related to financial year 2016, the other 2017. Recoveries worth a total €101,465.16 were initiated (approximately €50,000 for each financial year). The related commitments were made in 2016 and 2017, while respective final payments were made in 2017 and 2018. Evidently, these errors were not systematic nor considered significantly large to warrant changing our positive overall conclusion about our recovery and correction capacity compared to previous years. In addition, 1 PERICLES transaction was also subject to ex-post control and no error found. Note that the amounts subject to ex-post control are the expenditure i.e., the grant amount; as the BCS and Pericles projects are relatively small, all expenditure is included in the control.

Based on the controls results and 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 recovered was based on actual checks undertaken and some use of pre-financing payments and is well below the maximum value of the estimated error interval;

For procurement and 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. Analysis of those 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 refers to the replenishment of the fund and to payment of the fees to the EIF.

Enforced budgetary surveillance: 0% - The percentage refers to the payment to the European Stability Mechanism of fines already recovered and cashed.

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.

Entrusted entities for grants under indirect management: 0%-2% - These percentages refer to payments at the level of the final beneficiaries. These entrusted entities are financial institutes/bank that strive for risk/loss below 1% to maintain access to financial market at the most favourable conditions. The range therefore shows the minimum and maximum values of the estimated error rate. However, the actual amount 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%.

Overrides and non-compliance events

Analysis of the registry of overrides and non-compliance events in 2019 revealed four non-compliance events in 2019 and one exception. All are related to the budget for procurement and administrative expenses. The non-compliances were due to late budgetary commitment for expenses linked to event organisation, publication of an article and the signature of a small service contract. The exception relates to contract management: the duration of a specific contract under a framework contract with re-opening of competition was extended to include similar services in an additional period.

As mitigating measures to limit the risk of repeating similar mistakes in the future, the Resources Directorate holds bilateral meetings with DG ECFIN's operational directorates to raise awareness, *inter alia*, about just these kinds of non-compliance. In addition, unit R.2 continues to support operational units in the management of their contracts.

Negotiated procedures

In 2019, the proportion of negotiated procedures as a total of all procurement procedures over 60.000€ in DG ECFIN was 33,3% (1 out of a total of 3 procedures), 50 percentage points less than in 2018 (see Annex 3, Table 11 and Table 12).

The value of ECFIN's one negotiated procedure was 127.500€, representing 6.83% of the total value of the awarded contracts over 60.000€ in 2019 (1.867.500€). This negotiated procedure led to the signature of multi-annual contract with an annual value of 42.500€.

The number of new procedures initiated and new contracts signed per year by DG ECFIN is very limited, due mainly to the fact that whenever possible, procurement needs are satisfied using existing framework contracts (FWC) signed by ECFIN as lead DG or the FWCs of other DGs. As in previous years, the use of existing FWC in 2019 reduced the need for new procurement under competition procedures.

For specific needs, DG ECFIN can address its procurement requests to highly specialised markets where competition is limited or even completely absent.

Benefits of controls

DG ECFIN has limited ex-post capacity but 2 recovery orders were issued in 2019 following ex-post control worth €101,465.16. Ex-ante controls meanwhile caught 29 irregularities worth €160,611.42. Twelve of those irregularities concerned non-eligible cost claims worth €20,344.55 and 17 covered credit notes worth €140,266.87. None of these irregularities pertained to any of the Relevant Control Systems (RCS). The total of recoveries and corrections sum to less than 0.02% of the DG's expenditure under direct and indirect management combined.

The unquantifiable benefits of DG ECFIN's controls by RCS are:

RCS 1: Treasury and Asset Management, and Borrowing and Lending operations / Non-expenditure items

The benefits expected from the controls are mostly to identify findings in the checks on compliance with rules and procedures, the absence of material errors and the average annual total value of significant errors prevented and detected within treasury activities and borrowing and lending activities. The very low number of incidents resulted in a transaction error rate of 0,19% (non-expenditure transactions). The controls in place consisting of reporting, compliance reviews, internal and external controls and audits did not identify possible or confirmed fraud cases, corruption or illegal activity.

RCS 2: Grants under the European Investment Advisory Hub / Grants direct management

The purpose of these controls is to avoid overlaps with other existing advisory initiatives and assess the value of costs claimed by the beneficiary. The error rate is estimated to be 0% as the payment requests were duly supported by appropriate documentation. The reporting, compliance reviews, internal and external controls and audits did not identify possible or confirmed fraud cases, corruption or illegal activity.

RCS 3: Financial Instruments managed via international financial institutions (period 2007-2013) / indirect entrusted management

No material limit breaches were identified in the information reported by EIB/EIF. Third party audit certificates were issued in accordance with contractual arrangements in place. In 2019, the EIF provided a Statement of Assurance for the year 2018 for GIF and SMEG. There has been no exception reporting so far (as the 2019 Declaration of Assurance (DAS) letter is not yet received at the time of drafting of this Annual Activity Report).

There were no operations outside official procedures, no erroneous operations, no return to Trust Account linked to errors and no errors/discrepancies following the checks on the balance of the Trust Account.

Monitoring and supervision work revealed only one material control issue, some procedural errors made by the EIF (discussed in Annex 10). The EIF accepted responsibility for the substantial related FX losses, and fully covered the incurred losses.

For SMEG, no significant issues were identified during the several monitoring visits carried out and no issue is pending. The 2019 monitoring visit to the EIF (for SMEG 07) did not result in any finding. The GIF monitoring framework has been closed as from 2019, so no visit to GIF intermediaries was planned in 2019.

There were no known fraud cases in 2019.

RCS 4: Grants under the European Local ENergy Assistance (ELENA) / Grants indirect entrusted management

No material limit breaches were identified in the information reported by EIB. There has been no exception reporting so far (the audited financial statements and Management Declaration of Assurance, prepared by the external independent auditor are not yet received at the time of drafting of this Annual Activity Report).

There was no exception reporting. There were no operations outside official procedures, no erroneous operation, and no return to trust account linked to errors. The evaluation and desk monitoring activity performed internally in 2019 on operations and accounting practices found nothing to report. Finally, there were no known fraud cases in 2019.

RCS 5: Marguerite Fund / direct management

Regular quarterly reporting in 2019 confirmed that the fund performs as expected. No material breach of the investment guidelines was observed and payments from the budget to the Fund for already signed commitments actions were done in line with the legal base.

The external auditor confirmed the accuracy and fair view of the financial statements of the Fund for 2018. The audited financial statements of the Marguerite Fund for the year 2019 will be submitted to the Commission in Q2 2020. In 2019, DG ECFIN did not identify any events, issues or problems that could have a material impact on assurance.

RCS 6: Guarantee Fund for external actions / indirect management

The control system for the entrusted entity relies primarily on third party assurance (controls exercised over the outflows from and inflows to the Fund) and the audit certificates issued in accordance with contractual arrangements in place. From the monitoring and supervision work including reviews of the periodic reporting throughout the year by the EIB, not to mention regular contacts/representation or desk reviews of relevant management reports or audit reports, DG ECFIN faced no material control issue.

Benefits of the controls are that the financial management and financial regulation procedures were respected: no material breach of the investment guidelines happened, no erroneous financial operations were registered, and budget payments to the Guarantee Fund for external actions conformed to the regulation.

The reporting, compliance reviews, internal and external controls and audits identified no possible or confirmed fraud cases.

RCS 7: Management of the European Fund for Strategic Investments (EFSI) Guarantee Fund / direct management

Benefits of the control system were that in 2019 all portfolio transactions were conducted within the framework set by the Asset Management Guidelines and in compliance with the internal rules and procedures without breaching any of the portfolio limits. Moreover, the adopted investment strategy, based on portfolio optimisation methodology, was implemented throughout the year.

Assurance given by the EFSI Guarantee Fund external auditors comprises further assurance on the proper safeguarding of assets and information, as related checks form part of the audit of the annual accounts.

Finally, the reporting, compliance reviews, internal and external controls and audits did not identify possible or confirmed fraud cases.

RCS 8: Macro-Financial Assistance

The control systems in place, such as the ex-ante operational assessments or the ex-post assessments, ensured an effective error rate for MFA payments of 0%. There are no known cases of fraud, corruption or illegal activity. In addition, MFA operations have a clear intervention logic, allowing the Commission to evaluate their impact. The controls enable the confirmation of assurance and attainment of policy objectives and priorities.

Conclusion

DG ECFIN's internal control strategy foresees further controls aimed at detecting and correcting errors only if cost-effective. The error rate has been consistently low, so financial corrections from large-scale audit missions would be low; hence, management has decided not to invest significantly in ex-post controls. It is adequate, reliable and prudent to consider that there is no adjusted corrective capacity for 2019 payments.

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

In the context of protecting the EU budget, the DGs' estimated overall risk at payment, estimated future corrections and risk at closure are consolidated at Commission level.

Table X - Estimated overall risk at closure

DG ECFIN	"payments made" (FY; m€)	*minus* new prefinancing [*plus* retentions made*] (in FY; m€)	*plus* cleared prefinancing [*minus* retentions released* and deductions of expenditure made by MS] (in FY; m€)	**= "relevant expenditure" (for the FY; m€)**	Average Error Rate (*weighted* **AER**; %)	estimated overall amount at risk *at payment* (FY; m€)	Average Recoveries and Corrections (***adjusted* ARC**; %)	estimated future corrections [and deductions] (for FY; m€)	**estimated overall amount at risk *at closure* (m€)**
(1)	*(2)*	*(3)*	*(4)*	*(5)*	*(6)*	*(7)*	*(8)*	*(9)*	*(10)*
Programme, Budget Line(s), or other relevant level	as per AAR annex 3, table 2	as per ABAC DWH BO report on prefinancing	as per ABAC DWH BO report on prefinancing	= (2) −/+ (3) +/- (4)	Detected error rates, or equivalent estimates	= (5) x (6)	*H-ARC* (as per ABAC DWH BO report on corrective capacity), but *adjusted*	= (5) x (8)	= (7) − (9)
MFA	10.3	0,0	0,0	10.30	0%	0	0%	0	0
BCS PERICLES EIAH Grants	25.3*	21.8**	2.6***	6.1	0%-2%	0 - 0.12	0%	0	0 - 0.12
Procurement and other administrative expenses	9.1	0.4	0.6	9.3	0.5%	0.05	0%	0	0.05
Guarantee funds for external actions	103.2	0.0	0.0	103.2	0%	0	0%	0	0
EFSI Guarantee Fund	1166.2	0.0	0.0	1166.2	0%	0	0%	0	0
Entrusted entities for financial instruments	35.7	0.00	0.0	35.7	0%-2%	0 - 0.71	0%	0	0 - 0.71

Entrusted entities for grants	31.6	34.7****		-3.10	0%-2%	0 - -0.06			0 - -0.06
Enforced budgetary surveillance	26.8	0.0	0.0	26.8	0%	0	0%	0	0
Overall, total	1408.2 mEUR	56.9 mEUR	3.2 mEUR	1354.5 mEUR	0% - 0.06%	= 0 - 0.82 mEUR; and a 0% - 0.06% of (5)	0%	= 0 mEUR; and 0% of (5)	= 0 - 0.82 mEUR; and 0% - 0.06% of (5)

* BCS (5.0) PERICLES (1.1) EIAH (19.2)

** BCS (2.0) PERICLES (0.6) EIAH (19.2)

*** BCS (2.1) PERICLES (0.5) EIAH (0.0)

**** *Including one payment of 3.1 made in 2018 and regularised as PF in 2019*

<u>Notes to the table</u>

(1) Differentiated for the relevant portfolio segments at a level which is lower than the DG total

**(2) Payments made or equivalent, e.g. expenditure registered in the Commission's accounting system, accepted expenditure or cleared pre-financing. In any case, this means after the preventive (ex-ante) control measures have already been implemented earlier in the cycle.
In all cases of Co-Delegations (Internal Rules Article 3), "payments made" are covered by the Delegated DGs. For Cross-Subdelegations (Internal Rules Article 12), they remain with the Delegating DGs.**

**(3) New pre-financing actually paid by out the department itself during the financial year (i.e. excluding any pre-financing received as a transfer from another department). "Pre-financing" is covered as in the context of note 2.5.1 to the Commission annual accounts (i.e. excluding "Other advances to Member States" (note 2.5.2) which is covered on a purely payment-made basis).
"Pre-financing paid/cleared" are always covered by the Delegated DGs, even for Cross-Subdelegations.**

(4) Pre-financing actually cleared during the financial year (i.e. their 'delta' in the Financial Year 'actuals', not their 'cut-off' based estimated 'consumption').

(5) For the purpose of equivalence with the ECA's scope of the EC funds with potential exposure to legality & regularity errors (*see the ECA's Annual Report methodological Annex 1.1*), 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 any deductions of expenditure made by MS*] during the FY. This is a separate and 'hybrid' concept, intentionally combining elements from the budgetary accounting and from the general ledger accounting.

(6) In order to calculate the weighted Average Error Rate (AER) for the total relevant expenditure in the reporting year, the detected error rates have been used – or an equivalent.
For administrative expenditure, DG ECFIN has followed the commission's recommendation nevertheless to use 0.5% as a conservative estimate.

(8) 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 *from 0.02% to* 0.00%.
Ex-ante elements, one-off events, (partially) cancelled or waived Recovery Orders and other factors from the past years no longer relevant for current programmes *have been adjusted* in order to come to the best and most conservative estimate of the ex-post future corrections to be applied to the reporting year's relevant expenditure for the current programmes.

(9) DG ECFIN considers that future corrections (and therefore adjusted ARC value) should be zero as DG ECFIN has a very limited range of ex-post controls each year. This is 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 were ever issued against these expenses, zero is the best estimate. Zero is thus the best and most conservative estimate.

(10) 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.

The estimated overall risk *at payment*[20] for 2019 expenditure is 0 to 0.82 M€. This is the AOD's best, conservative estimation of the amount of *relevant expenditure*[21] during the year (1354,50 M€) not in conformity with the contractual and regulatory provisions applicable at the time the payment was made[22].

This expenditure will subsequently be subject to ex-post controls and a proportion of the underlying errors will be detected and corrected in successive years. The conservatively estimated future corrections (see footnote 8 of table X for explanations) for 2019 expenditure are 0 M€. This is the amount of errors that the DG conservatively estimates will be identified and corrected by controls planned to be carried out in succeeding years.

The difference between those two amounts leads to the estimated overall risk *at closure* for the 2019 expenditure of 0 to 0.82 M€.

DG ECFIN's risk at payment and risk at closure therefore remained stable over 2019, notwithstanding the recovery orders initiated following ex-post controls as those recovery orders were less than 0.02% of the DG's expenditure under direct and indirect management combined. Further management action is not considered necessary.

- ***Fraud prevention, detection and correction***

DG ECFIN has developed and implemented its own anti-fraud strategy since January 2014 based on the methodology provided by OLAF. It is updated every 3 years and was last updated in October 2017.

The strategy has a concrete action plan whose one-off actions are now all implemented. Annual actions are still followed up (e.g., an all-ECFIN staff workshop on ethics and integrity in June, a DG ECFIN management club on ethics and fraud in September).

In 2019, DG ECFIN reviewed its list of sensitive functions to deter fraud. AOD and AOSD functions are considered sensitive functions in DG ECFIN if the associated mandates include sensitive budget lines. The review ensures that DG ECFIN has no jobholder of a sensitive function performing the function for more than 5 years without a derogation by the director-general or more than 7 years even if a derogation has been granted.

In the annual middle-management assessment of the state of the DG's internal control, DG ECFIN's middle managers assessed the DG's fraud risk as low. In addition, OLAF addressed no financial recommendations to ECFIN.

Benefits of controls

DG ECFIN's rigorous ex-ante and ex-post controls and ongoing activities under the existing anti-fraud strategy give the DG a low estimated residual fraud risk, hence our current anti-fraud controls and actions are adequate. The benefits of these controls are unquantifiable as we had no known fraud cases in 2019.

- ***Other control objectives: safeguarding of assets and information, reliability of reporting***

[20] In order to calculate the weighted average error rate (AER), the detected or equivalent error rates have been used; *see note 6 to the table*

[21] "*relevant expenditure*" during the year; *see note 5 to the table*

[22] "*payments made*" or equivalent; see note 2 to the table

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

The general aim is to generate the highest return available whilst maintaining a high degree of stability and security over the long-term, having ensured there is sufficient liquidity to meet the obligations payable out of these funds. The system relies on comprehensive rules and detailed manuals of procedures. The investment and decision making processes are also overseen by dedicated governance structures: the Treasury Management Board (TMB), the Investment Committee, the Risk Committee and the Compliance Committee, which all exercise different supervisory duties over DG ECFIN's investment policy; in addition, there is adequate segregation of duties between front-office and back-office. Finally, the risk management team is independent of the processing of transactions whilst external audit firms perform financial audits of the financial statements of the assets managed by DG ECFIN annually.

To finance lending activities decided by the Council or by Council and Parliament, the Commission can borrow funds from capital markets on behalf of both the European Union and Euratom using 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 back-to-back, ensuring that the EU budget takes no interest rate or foreign exchange risk. Funds for borrowing and lending are obtained at the best available rates, in line with peer institutions'[23] rates.

Treasury activities and borrowing and lending operations do not cover all financial assets and cash, only outstanding loans and 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 capital increase of EIF).

The objective of the controls for the Treasury activities and borrowing and lending operations is to ensure that the Commission's revenue entitlements are protected and its asset ownership and liabilities and management reporting and information security all established according to the appropriate legal framework. The benefits expected from these controls are mostly to identify findings in the checks on compliance with rules and procedures and the average annual total value of significant errors detected or avoided and thus prevented in terms of borrowing and lending operations. The controls also permit the detection of incorrect registration of items and number of bank reconciliation mismatches. The benefits of controls in off-budget management are unquantifiable other than through the lack of incidents and the full compliance with existing internal rules and procedures. Off-budget activities do not follow the budgetary ex-ante validation circuit, enhancing the importance of the existing internal control environment.

The positive record of results flowing from 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 RCS 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".

Contingent assets and liabilities (of off-budget management) are guarantees received or

[23] EIB, EFSM, and ESM

given in the framework of various financial instruments. These operations are essentially accounting bookings to reflect their maximum exposure to defaulting risks; hence, the control objectives of the true and fair view and of the legality and regularity with a material threshold are complied with. These achievements result from the accounting control systems in place plus further monitoring by the Commission Accounting Officer.

2. *Efficiency = the Time-to-… indicators and other efficiency indicators*

Three main indicators are used to monitor control efficiency: time to pay; time to inform; time to grant. As reported in Annex 3, table 6, the average time-to-pay with suspension in 2019 was 16.6 days (17.7 days in 2018). The periods specified in article 116.1 of the Financial Regulation were complied with and 2.2% of transactions were in excess of the time limits. This is lower than the 5.0% Commission's average and represent 0% of the overall value of payments executed. The reasons for the late payments were very specific and have been analysed and clarified internally, leaving no structural weaknesses in the system. Measures taken should improve the future situation.

The average time-to-inform (the time-period starting from receipt of proposals and ending with the applicants learning about the outcome of the evaluation of their application) was 20 days for specific grant agreements (SGA). Meanwhile, the average time-to-sign (the time-period starting from the date of informing the successful applicants and ending with the signing of the grant agreement at Commission level) was 14.5 days for SGA. This fully complies with the periods specified in article 194.2 of the Financial Regulation (a maximum of six months for informing all applicants and a maximum of three months for signing grant agreements with applicants).

The DG took no new initiatives to improve control efficiency in 2019 after efforts in 2018.

3. *Economy = the cost of controls*

Considering all Relevant Control Systems (RCS) DG ECFIN's ratio of cost of control is 0,019%. The ratio is calculated as the total sum of costs of control (i.e. ex-ante controls; ex-post controls; FTEs for Budget and Accounting; Coordination incl. Strategic, Programming and Planning, internal control, assurance and quality management; as well as anti-fraud), which was €12.614.266,29 divided by the total amount of funds managed in the relevant control systems, which was €67.110.715.696[24]. This means a cost of €188 to control 1 Million € of funds managed (more detailed figures are to be found in table Y of Annex 10 and the remainder of Annex 10).

RCS 1 - Treasury and Asset Management, and Borrowing and Lending operations / Non-expenditure items

The total cost of control for the Treasury and Asset Management, and Borrowing and Lending operations was €4.974.860 for the €56.189.025.624 funds managed, a ratio of 0,0089%. €4.897.560 were ex-ante related costs, while the remaining €77.300 were ex-post. The ratio is slightly higher than the previous year's value of 0,0082%, but the ratio is considered extremely low.

RCS 2 - Grants under the European Investment Advisory Hub / Grants direct management

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

The total cost of control for the Grants under the European Investment Advisory Hub was €369.830 for the €19.181.940,00 funds managed, a ratio of 1,93%. All the costs were ex-ante control related. The ratio is slightly lower than the previous year's value of 2,23% and considered sufficiently low.

RCS 3 - Financial Instruments managed via international financial institutions (period 2007-2013) / indirect entrusted management

The total cost of control for the Financial Instruments managed via international financial institutions (IFIs) was €575.945 for the €1.178.233.222 funds managed, a ratio of 0,049%. All the costs were ex-ante control related. The ratio is slightly lower than last year's value of 0,057%, possibly due to a split between the costs of the Financial Instruments and those of the European Local ENergy Assistance (ELENA) in 2019. The ratio is considered very low.

RCS 4: Grants under the European Local ENergy Assistance (ELENA) / Grants indirect entrusted management

The total cost of control for the Grants under the European Local ENergy Assistance (ELENA) was €2.840.921 for the €368.091.975 funds managed, a ratio of 0,77%. €2.776.521 were ex-ante related costs, while the remaining €64.400 were ex-post related. Due to the split between the costs of the Financial Instruments and those of the European Local ENergy Assistance (ELENA) in 2019 the ratio of 0,77% cannot be compared to a previous year. Nevertheless, the ratio is considered sufficiently low.

RCS 5 – Marguerite Fund / direct management

The total cost of control for Marguerite Fund was €48.538 in 2019 for the €70 million managed by the European Commission, translating into a cost of control ratio of 0,069%. All costs were ex-ante control related; the ratio is considered very low.

RCS 6 - Guarantee Fund for external actions / indirect management

The total cost of control for the Guarantee Fund for external actions was €1.371.528 for the €2.587.999.935 funds managed which translates to a ratio of 0,053%. €1.330.203 were ex-ante related costs, while the remaining €41.325 were ex-post related. The ratio is considered very low and down from last year's ratio of 0,13%.

RCS 7 - Management of the European Fund for Strategic Investments (EFSI) Guarantee Fund / direct management

The total cost of control for the EFSI Guarantee Fund (EFSIGF) was €1.467.728 for the €6,687,883.000 funds managed, a ratio of 0,022%. €1.424.245 were ex-ante related costs, the remaining €43.483 were ex-post. The ratio is considered very low and down on last year's ratio of 0,024%.

RCS 8 – Macro-Financial Assistance

The total cost of control for MFA was €117.926 for the €10,3M managed, a ratio of 1,14%. All costs were ex-ante control related. The ratio is considered low and down from last year's ratio of 1,77%.

Further details, also on remuneration fees paid, can be found in the table below and in Annex 10.

ECONOMY INDICATORS – COMMISSION LEVEL			
Type of expenditure or management mode or RCS	**Stage**	**Annual Cost-Effectiveness Indicators**	**Description**
Off Budget Management			
Treasury and assets management & Borrowing and lending operations	overall indicator	Overall costs (selection, protection, assurance, financial management)/ total of assets and outstanding loans & borrowings 0,008% or €86 per €1M	staff FTE * standard staff cost/total assets managed and total Borrowing and Lending operations €4.810.835/€56.189.025.624
Guarantee Fund for external actions	overall indicator	Overall internal and supervision costs /total assets of the fund 0,01% or €101 per €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 €262.047/€2.587.999.935
Spending programmes managed by entrusted entities **Indirect Management**			
Financial instruments	overall indicator	overall supervision costs/total budget of managed programmes 0,04% or €432 per €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[25] €510.137/€1.178.233.222 (SMEG 07 + GIF)
Grants managed via international financial institutions (EIB, KfW, EBRD, CEB) **Indirect Management**			
Grants under the European Local ENergy Assistance (ELENA)	overall indicator	overall supervision costs/total budget of managed programmes 0,09% or €928 per €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 €341.800/€368.091.975
Financial instruments **Direct management**			
Financial instruments under the Marguerite Fund	overall indicator	overall supervision costs/ total budget of managed programmes 0,04% or €415 per €1M	staff FTE * standard staff cost / total budget of managed programmes €29.053/€70.000.000
ECONOMY INDICATORS – ENTRUSTED ENTITY LEVEL			
Off Budget Management			
Guarantee Fund for external actions	overall indicator	Remuneration fees paid to the entrusted entity/total assets of the fund 0,03% or €396 per €1M	All types of remuneration fees paid to entrusted entities during the year / total assets managed under supervision €1.027.401/ €2.587.999.935
Grants managed via international financial institutions (EIB, KfW, EBRD, CEB) **Indirect Management**			
Grants under the European Local ENergy Assistance (ELENA)	overall indicator	Remuneration fees paid to the entrusted entities/total assets of the fund 0,6% or €6.363 per €1M	All types of remuneration fees paid to entrusted entities during the year / total assets managed under supervision €2.342.291/€368.091.975

[25] Executed budget since beginning until 31/12/2015.

4. *Conclusion on the cost-effectiveness of controls*

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

The positive control cost-effectiveness of the **non-expenditure items** in 2019 is shown in the table above on *Economy indicators – Commission level* – *Off budget management* with the cost indicator for assets managed slightly up from €80 per €1 million in 2018 to €86 per €1 million in 2019.

We consider that our controls on **Guarantee Fund for external actions** in 2019, as measured by the proportion of overall cost of control over the total assets of the fund, were sufficiently efficient and cost-effective. The cost ratio shown in the table above on *Economy indicators – Commission level* – *Off budget management* is down from €1.235 per €1 million in 2018 to €101 per €1 million in 2019.

We consider that our controls on **Financial Instruments managed via international financial institutions** in 2019, as measured by the proportion of overall cost of control over the total of the spending programmes, were sufficiently efficient and cost-effective. The cost ratio shown in the table above on *Economy indicators – Commission level – Spending programmes managed by entrusted entities* is slightly down from €530 per €1 million in 2018 to €432 per €1 million in 2019.

We consider that our controls on **Grants managed via international financial institutions** in 2019, as measured by the proportion of overall cost of control over the total of the spending programmes, were sufficiently efficient and cost-effective. The cost ratio as shown in the table above on *Economy indicators – Commission level* – *Grants managed via international financial institutions* is considered reasonably low at €928 per €1 million. No comparison with previous years is possible as it was only in 2019 that the change from cross sub-delegation to co-delegation type II happened, meaning that the use of appropriations is now with DG ECFIN.

We consider that our controls on **Marguerite Fund – Financial instruments** in 2019, as measured by the proportion of overall cost of control over the total of the spending programmes, were sufficiently efficient and cost-effective. The cost ratio in the table above on *Economy indicators – Commission level – Financial instruments* is reasonably low at €415 per €1 million. Once again, no comparison with previous years is possible as the change from cross sub-delegation to co-delegation type II happened in 2019.

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 €1.127 per €1 million in 2018 to €396 per €1 million in 2019 (see table above on *Economy indicators – <u>Entrusted Entity level</u> - Off budget management)*.

The cost-effectiveness of controls on **Grants managed via international financial institutions** is positive; remuneration fees have been kept within contractual boundaries and the cost indicator is €6.363 per €1 million (see table on *Economy indicators – <u>Entrusted Entity level</u> - Grants managed via international financial institutions)*. No comparison with previous years is possible, as explained above.

No known fraud cases, a very low error rate and extremely low ratio of cost-effectiveness of control, mean DG ECFIN's control strategy meets the intended control objectives efficiently and at a very reasonable cost.

2.1.2 Audit observations and recommendations

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

DG ECFIN is audited by both internal and external independent auditors: the Internal Audit Service (IAS) and the European Court of Auditors (ECA). ECFIN generally implements audit recommendations on time. In 2019, DG ECFIN closed 17 audit recommendations: 15 from the ECA, 2 from the IAS.

ECA audits: In 2019, DG ECFIN was the target of 3 Special ECA Reports, one on the European Fund for Strategic Investments, one on venture capital and one on national budgetary frameworks. They contained 20 recommendations, 15 were accepted, 5 rejected. None of the 5 compromise DG ECFIN's control environment. DG ECFIN also closed 15 ECA recommendations from 5 audits. However, one Important ECA recommendation is 2 years past its original expected completion date. Implementation relies on agreement with the EIB only now imminent, so completion is expected Q2 2020. In addition, 2 recommendations from an ECA audit on EU-funded loan guarantee instruments were due for implementation at end 2019 but were delayed to Q2 2020.

IAS Audits: In 2019, the IAS conducted and completed a new audit on DG ECFIN's performance management system leading to 1 Important recommendation; an ECFIN action plan to implement it is agreed with the IAS and being implemented as planned for completion by Q2 2020. Meanwhile, the IAS closed 1 audit recommendation from an audit on evaluation in ECFIN and are reviewing whether ECFIN's implementation of another Important recommendation from the same audit is satisfactory.

<u>Limited conclusion regarding IAS audits:</u> It is the limited conclusion of the IAS that the internal control systems in place in DG ECFIN for the audited processes are effective.

<u>Conclusion regarding audits:</u> At the time of drafting this 2019 Annual Activity Report there is no reason to believe that audit recommendations issued to DG ECFIN impair its Declaration of Assurance.

2.1.3 Assessment of the effectiveness of internal control systems

The Commission has adopted an Internal Control Framework based on international good practice, to ensure the achievement of its policy and management objectives. Compliance with the internal control framework is a compulsory requirement. DG ECFIN uses the organisational structure and internal control systems best suited to achieve its policy and internal control objectives in accordance with the internal control principles and due regard to the risks associated with the environment in which it operates.

Assessment of the internal control systems

In 2019 DG ECFIN worked with the newly Internal Control Principles to assess the effectiveness of our key internal control systems in accordance with applicable Commission guidance and using monitoring indicators supplemented by other sources of information (details in annex 11). This allows the Internal Control Coordinator to report the state of internal control and make recommendations to the Director General.

Based on available data, all but one measurable internal control monitoring criteria met their target values; as that one indicator only just missed the target value and reflected circumstances outside ECFIN's control, it is not considered to reflect a failing of the underlying control principle.

DG ECFIN's Risk Management exercise found no critical risks in the DG and only one "High" risk, a resources related risk associated with InvestEU (details to be found in annex 11). An action plan is in place to mobilise the resources.

To conclude, DG ECFIN has assessed its internal control system during the reporting year and considers it effective and that the components and principles are present and functioning as intended.

2.1.4 Conclusions on the assurance

This section reviews the assessment of the elements already reported above (in Sections 2.1.1, 0 and 2.1.3), and the sub-conclusions already reached. It draws an overall conclusion to support the declaration of assurance and whether it should be qualified with reservations**.**

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

All 5 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. Available audit results and observations did not highlight critical or high risks that would qualify the Declaration of Assurance, as shown in section 2.1.2. Management assessments of the implementation of internal control principles and standard did not identify deficiencies with a negative impact on the declaration as shown in section 2.1.3.

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

As regards the **CIP SMEG07 and CIP GIF 2007** programmes, the 2018 Statements of Assurance (management letters) were received from the EIF on 11 April 2019, with no reservation. The 2019 Statements of Assurance will be received only in April 2020. From the 2019 unaudited Financial Statements already received for CIP SMEG 07 and CIP GIF 2007, no further control deemed necessary by the external auditor is to be reported. As regards **Grants under the European Local ENergy Assistance** (ELENA) entrusted management, the Management Declaration of Assurance and the audited financial statements, prepared by the external independent auditor, were received in March 2020. The external auditor reported that no further control enhancement is deemed necessary.

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[26].

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

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

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

Brussels, 31 March 2020

[e-signed]

Maarten Verwey

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

2.2 Other organisational management dimensions

This section looks at how the key objectives, indicators and expected outputs in DG ECFIN's Annual Management Plan 2019 have evolved to illustrate how the DG has performed over the last year in terms of organisational management.

Examples of economy and efficiency introduced by DG ECFIN in the course of 2019

In 2019, DG ECFIN successfully managed an open procedure with fully electronic submission of tenders (eSubmission) and completed the on-boarding process to the Public Procurement Management Tool (PPMT) for eProcurement.

ECFIN successfully achieved IT synergies and efficiencies in collaboration with DG DIGIT; two particular examples are (1) the shutdown of all local servers and telecom lines in Luxembourg to be replaced by the Luxembourg Data Centre, and (2) the replacement of ECFIN's physical Voice Recording System by DG DIGIT's ICall365/Anywhere365 corporate solution. In addition, as a spinoff of ECFIN's Windows 10 migration in 2019, the IT Steering Committee introduced a process to manage staff requests for software licenses more efficiently. Finally, DG ECFIN is reviewing all its Functional Mailboxes in order to rationalise them, reducing the impact on the IT infrastructure and reducing the energy and time spent by DG ECFIN staff working with these mailboxes.

2.2.1 Human resource management

The DG's staff allocation and organisational structure is regularly reviewed. Several reorganisations in 2019 ensured ECFIN better targeted its political and operational priorities. The exploitation of key data continued, drawing upon data sources such as DG HR's ATLAS and benchmarking exercises. Internal redeployment possibilities are always exhausted before DG ECFIN asks for any HR reinforcement. Hence, DG ECFIN has heavily invested resources in the setup of InvestEU before asking for an InvestEU related HR reinforcement. It has also redeployed staff for, inter alia, the European Green Deal and the design of a European Unemployment Benefit Reinsurance Scheme by shrinking the administrative support team to senior management, cutting overheads, reducing the Greek team and the resourcing of some horizontal activities.

DG ECFIN develops its staff according to its business needs by consulting staff directly via (1) its Learning and Development (L&D) Advisory Group with representatives from across the DG, (2) staff surveys and (3) discussions with Directorates. This approach has also been used to identify learning needs and priorities for 2020.

In 2019, project teams continued to work on initiatives resulting from the 2018 all-staff event, ECFIN team time Reflection Day, as well as examining how ongoing projects could help address issues arising from the Commission Staff Survey in 2018. Notable initiatives to highlight from this activity are the ECFIN Buddy scheme to support newcomers and the weekly summer staff picnics.

2.2.2 Better regulation

DG ECFIN is committed to ensuring EU policy objectives are achieved effectively and efficiently. The principles of Better Regulation are applied across 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 2019, 83% of the primary directives and regulations managed by DG ECFIN had been subject to an evaluation in the last five years. Moreover, DG ECFIN implemented 2 recommendations by the Internal Audit Service on its evaluation function.

2.2.3 Information management aspects

To comply with the Commission's Action plan to implement the Internal Data Protection Regulation (2018/1725), DG ECFIN focused in 2019 on a stocktaking exercise with all ECFIN-Directorates to identify which notifications in the (old) DPO-2 application were still active and in need of conversion to the new Data Protection Management System (DPMS) and which were outdated and needing archiving. The exercise concluded in 2019 within the deadline. Key to meeting the deadline were training and working sessions provided by the ECFIN Data Protection Coordinator (DPC) with Directorates' data protection correspondents. ECFIN's first annual report to senior management on the year's activities in the field included a Data protection protocol providing instructions and templates in case of a detected data breach. Notwithstanding, there was a small breach of personal data later in the year, leading to a further review and tightening of the procedure strengthening the 4 eyes principle and awareness raising.

ECFIN continuously seeks to improve its document and information management. Hence, in 2019, ECFIN produced tailored instructions for all ECFIN services on document management rules. As a result, the number of unfiled documents (0.3%) and empty files (5.3%) are in line with our targets, whilst the number of unused files is down to 10.4%, and Ares e-Signatory is increasingly used (62% in 2017, 79% in 2018 and 86% in 2019).

2.2.4 External communication activities

In 2019, DG ECFIN's external communication activities focused on the outgoing Juncker Commission's priority 1 (jobs, growth and investment) and priority 5 (a deeper and fairer EMU). For priority 1 DG ECFIN created infographics and web presentations covering the economic forecasts, the Juncker investment plan for Europe, Euro area statistics, European semester steps and packages (Country reports, SGP decisions, CSRs, EA recommendations) and key publications, not to forget preparing the web presence of InvestEU and co-producing video clips on EIPP beneficiaries.

Priority 5 work covered communication material and social media visuals highlighting the benefits of the Euro, including two Eurobarometer surveys in several Euro and non-Euro Member States as well as work on the international role of the Euro. A EURO@20 campaign was held to mark the Euro's 20th anniversary on 1 January 2019.

The 2019 Brussels Economic Forum (BEF) in June was the best attended BEF ever with over 1000 participants and 12 600 viewers following online. It provided a high-level platform to discuss EU economic policy priorities, populism, a new social contract and a new kind of growth for Europe. Other DG ECFIN initiatives to grow its public profile include a journalist seminar programme, a new seminar for European parliament staff to build crucial inter-institutional links and understanding, and continuing financial and logistical support to the European Semester officials' (ESOs) network.

DG ECFIN produced and promoted 6 new clips of its video series "European Economy explained" to simplify complex EU economic issues. One on the international role of the Euro got more than 38 000 views following release. Separately, in cooperation with DG EMPL, DG ECFIN produced 11 short "Real Economy" videos by Euronews to bring EU economic matters to a daily audience of TV and online viewers.