



**2015**

# **Annual Activity Report**

**Directorate-General for International  
Cooperation and Development – DG DEVCO**

## Foreword

This report reviews the work of the European Commission's Directorate-General for International Cooperation and Development (DG DEVCO) in 2015. DG DEVCO is the Commission's Directorate-General responsible for formulating EU development policy in the wider framework of international cooperation and sectorial policies in the field of external aid, in pursuit of a number of objectives. These include reducing poverty in the world, securing sustainable economic, social and environmental development and promoting democracy, the rule of law, good governance and respect for human rights. DG DEVCO promotes coordination of European Union and Member States' development activities and manages the external aspects of European Union development cooperation. This report looks at the main steps taken by DG DEVCO to fulfil its commitments, to achieve the objectives set in the Management Plan and to provide assurance on the use of resources provided for the completion of its mission.

2015 was a crucial year for development.

On the policy front, the EU, and DG DEVCO in particular, was instrumental in securing the adoption of a multilateral agreement where all parties agreed on the Means of Implementation of the Post-2015 development agenda. The Addis Financing for Development Conference in July 2015 opened a busy year of landmark UN Conferences: in September, the adoption of the Sustainable Development Goals and Agenda 2030 as successors to the Millennium Development Goals was agreed in New York; in December, a legally-binding agreement to combat climate change, was struck at the Climate Change Conference in Paris, with an important EU-ACP (Africa, Caribbean and Pacific) agreement paving the way to the final deal. As regards our future partnership with the ACP countries, a broad consultation was launched on the scope and the priorities of the new partnership.

On the implementation side, DG DEVCO continued to focus efforts through its actions to fight poverty, improve governance and support sustainable and inclusive growth and human development, while the implementation of the 2014-2020 programming cycle reached full speed. Based on a DG DEVCO proposal, a dedicated EU Trust Fund for Africa was created in 2015 to tackle the root causes of irregular migration and forced displacement in Africa. Many of the actions the Trust Fund will finance were embedded in the broader engagement with EU partner countries and regions through National and Regional Indicative Programmes and various thematic instruments.

A new Gender Action Plan in external relations for the period 2016-2020 was endorsed by the Council in October 2015, based on the Joint Staff Working Document on " Gender Equality and Women's Empowerment: Transforming the Lives of Girls and Women through EU External Relations 2016-2020" jointly prepared by DG DEVCO and EEAS in cooperation with relevant Commission services. In addition, the EU and DG DEVCO in particular, have been contributing to addressing peace building and peace keeping matters, namely through the African Peace Facility and the Instrument contributing to Stability and Peace.

2015 was also the European Year for Development. A success in explaining to EU citizens why DG DEVCO does what it does; a success in getting EU citizens engaged in development issues at local level.

All this was done while adjusting to requested reductions in staffing numbers.

Development cooperation, as part of the EU's wider external action, has gained an increased importance in 2015, calling for DG DEVCO's continuous engagement.

Brussels, 31 March 2016

Acting Director-General

Klaus Rudischhauser

(signed)

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# INTRODUCTION

## The Directorate General in brief

### ○ Our mission

Within the European Commission, the Directorate-General for International Cooperation and Development (DG DEVCO) is in charge of development cooperation policy in a wider framework of international cooperation, adapting to the evolving needs of partner countries. This encompasses cooperation with developing countries at different stages of development, including with countries graduated<sup>1</sup> from bilateral development assistance, to cover the specific needs of these countries during the transition period between low income countries and upper middle income countries. DG DEVCO works closely with other Commission services responsible for sectorial policies, as well as with the European External Action Service, so as to facilitate and help ensure a consistent approach.

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

DG DEVCO is responsible, together with the European External Action Service, for the multiannual programming of the external aid instruments. This is increasingly done jointly with Member States' programming of their national assistance.

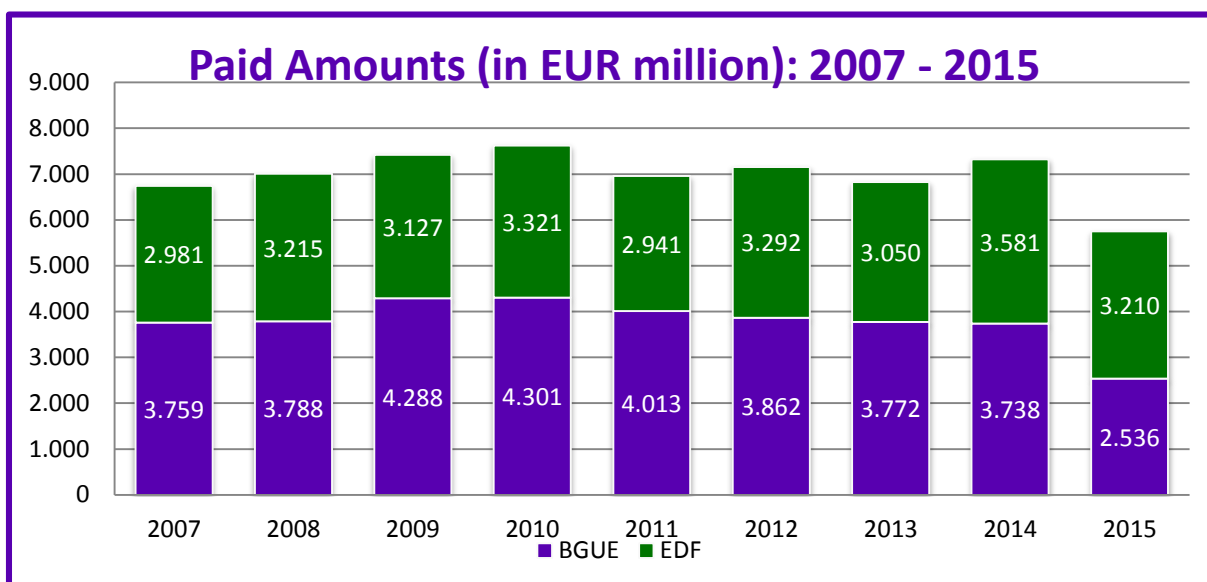
DG DEVCO is in charge of implementing the European Union's external aid instruments<sup>2</sup> which are financed by the EU Budget and the European Development Fund (EDF). In this context, DG DEVCO ensures the high quality and impact of aid, the swift implementation of projects and programmes and the visibility of European aid.

The graph below presents the evolution of DEVCO payments from 2007 for EU General Budget and for EDF. The EUR 1 400 million decrease in 2015 is explained by the lack of payment credit encountered in 2015 on the EU Budget and by the transfer of the European Neighbourhood Instrument portfolio to the newly created DG NEAR (Directorate General for Neighbourhood and Enlargement Negotiations).

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<sup>1</sup> Countries that "graduate" are no longer eligible under bilateral cooperation under EU Financial Framework 2016-2020 but they remain eligible to participate under regional or thematic programmes financed by the EU.

<sup>2</sup> The Development Cooperation Instrument (DCI), the Instrument for Democracy and Human Rights Worldwide (EIDHR), the Instrument contributing to Stability and Peace (IcSP) long term objectives and the Instrument for Nuclear Safety Cooperation (INSC), but excluding humanitarian aid, the European Neighbourhood Instrument (ENI), the Instrument for Pre-accession Assistance (IPA), the Partnership Instrument (PI), macro-financial assistance, CFSP and the IcSP short term objectives.



In 2015: Total of EUR 5 746 million (EUR 2 536 million for EU Budget and EUR 3 210 million for EDF)<sup>3</sup>

### ○ Our role

Within the European Commission, DG DEVCO promotes coherence between the European Union's development policy and its other internal and external policies.

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

DG DEVCO concentrates funds to countries most in need, in line with the particular importance the European Union recognises for supporting development in Sub-Saharan Africa. DG DEVCO focuses on a limited number of sectors to deliver better results and higher impact. It is also setting up a results framework to improve its reporting on results.

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

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

<sup>3</sup> Reconciliation of the amount of EUR 2 536 million paid for EU Budget in 2015 with the amount of EUR 2 616 million as presented in Annex 3A: EUR 2 536 Mo + EUR 41.3 million (co-delegations given by DEVCO) + EUR 91.2 million (support expenditure for EDF paid under BL 21.010407) – EUR 52.7 million (horizontal co-delegation given to DEVCO) = EUR 2 616 million.

Balance of EUR 121 6 million between the amount of EUR 3 210 million paid for EDF and the amount of EUR 3 088 million presented in table 2.1 of Annex 3B is explained by the Recovery Orders.

## ○ Our organisation and operating context

DG DEVCO represents the Commission/European Union on the international stage, in bilateral settings and multilateral forums like the United Nations. It is in charge of the management of over some EUR 8 billion in commitments per year, providing assistance in more than 130 countries on five continents. The EU and its Member States collectively form the world's largest donor, accounting for more than half of global Official Development Assistance.

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

DEVCO implements cooperation policy in a devolved way through a network of EU Delegations and Offices around the world. The risks inherent to this complex set up and environment are duly mitigated by appropriate management, supervision, support and control systems required to ensure the highest levels of regularity, quality, impact and visibility of the programmes implemented.

The accountability and reporting chain in DEVCO is organised as a Pyramid through which the statements of assurance signed by each Head of Delegation set the basis of the assurance provided by the other (sub)-delegated authorising officer at the upper levels of the Pyramid.

All Authorising Officers by (sub)-delegation substantiate their statements of assurance in their annual reports taking into account the results achieved for 24 DEVCO Key Performance Indicators (KPI) regrouped in three categories: sound financial management, efficiency of the internal control systems and efficiency of the audit system.

### • **Legal and policy setting**

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

The current legal instruments for aid delivery<sup>4</sup> were negotiated between 2011 and 2013 and are applicable until 2020. The 11th European Development Fund finances cooperation with African, Caribbean and Pacific countries under the Cotonou Agreement, and also with Member States' Overseas Countries and Territories. It is an intergovernmental fund managed outside the EU budget and it accounts for about 40% of the portfolio. Instruments

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4 Development Cooperation Instrument, EUR 19 661.64 million; the European Development Fund EUR 30 506 million; European Instrument for Democracy and Human Rights EUR 133.75 million; Instrument for Nuclear Safety Cooperation EUR 225.32 million; the Greenland Decision EUR 217.8 million and Common Implementing Regulation.

financed from the budget account for the remainder and include a series of EU Regulations, both geographic and thematic, notably on democracy and human rights, and stability and peace. Accounting for one quarter of the portfolio, the Development Cooperation Instrument encompasses geographic assistance for Asia and Latin America and a Pan-African programme. It also includes major thematic programmes geared towards cooperation with civil society organisations and local authorities, and towards global public goods and challenges in the areas of human development, food security and agriculture, environment and climate change, sustainable energy, migration and asylum.

- ***Ways of delivering aid***

A number of innovations have been introduced to mobilise additional funds for development – notably with a view to meeting the pledge to devote 0.7% of gross national income to official development assistance – and also to mobilise private funds. New aid modalities – including EU trust funds and blending of grants with loans or equity from other public and private sources – have been designed to leverage funds. However, they are part of a wider range of aid implementation modalities, which also includes budget support, grants, procurement contracts and delegated cooperation with beneficiary countries, international organisations and Member States' agencies.

## EXECUTIVE SUMMARY

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

### A. Main highlights of the year (executive summary of section 1)

The Union's development cooperation is succeeding in spreading European values across a fast-changing world, gaining influence and respect for the EU. Above all, it makes a decisive contribution to the overriding aim of eradicating extreme poverty once and for all. EU development policy and DG DEVCO's work in implementing this policy are strongly anchored in two main priorities of the President Juncker Commission: "**The EU as a Stronger Global Actor**" and "**Towards a New Policy on Migration**". Furthermore it significantly contributes to "**A New Boost for Jobs, Growth and Investments**" and "**A Resilient Energy Union with a Forward Looking Climate Change Policy**".

2015 was a remarkable year for development cooperation and DG DEVCO. The series of landmark international agreements that were decided throughout the year have collectively re-cast the way the EU will think and act on the international development and cooperation scene for the next fifteen years, strongly highlighting DG DEVCO's role as an important development global actor and important vector for the Commission priority towards a new policy on migration.

### The EU AS A STRONGER GLOBAL ACTOR

The EU has to play its role in responding efficiently to global challenges, in projecting its values and contributing to peace and prosperity in the world.

Through its development cooperation policy the EU contributes to reducing poverty in the world, to ensure sustainable economic, social and environmental development, and promotes democracy the rule of law, good governance and the respect of human rights.

The adoption in 2015 of the **Sustainable Development Goals** - the successors of the Millennium Development Goals - and the adoption of the UN Agenda "**Transforming our world: the 2030 Agenda for Sustainable Development**" set a new framework for global action to eradicate poverty and achieve sustainable development by 2030. The EU has committed itself to fully implement the Agenda 2030 across the range of both internal and external policies. The scope, ambition and universality of this new Agenda- for which the EU played a leading and influential role from the outset- represents a true achievement in a generally difficult time for multilateralism. 2015 was also the year in which international negotiations on Financing for Development led to the adoption of the **Addis Ababa Action Agenda**. In Addis, the EU was instrumental in securing the adoption of a multilateral agreement where all parties agreed on the Means of Implementation of the post-2015 development agenda. The EU has brought forward important contributions including on the

**Official Development Assistance (ODA)** with an ambitious collective commitment to achieve UN 0.7% target within the frame of the new 2030 agenda.

During 2015 DEVCO also launched a broad consultation on the **future partnership of the EU with the ACP countries** to feed in the future policy proposal during 2016. A dedicated Task Force has been created, and in close cooperation with EEAS it produced in 2015 a Joint Consultation Paper (06/10/2015 JOIN(2015) 33 final) which will guide the next steps of the revision process of the future partnership.

The EU continued its proactive engagement on the boards and committees of global initiatives, namely **the Global Fund to Fight AIDS, Tuberculosis and Malaria, Global Vaccine Alliance (GAVI)**, and the **Global Partnership for Education**. Board membership and significant contributions to these initiatives have enabled the EU to play a key role in shaping the global policy agendas in health and education, as well as ensuring progress towards the development goals at country level and better alignment with national priorities.

## **Ebola crisis**

DG DEVCO supports programmes and projects around the world, wherever assistance is needed. We tailor our support to fit the needs and demands of the region or country being helped. Programmes with a global reach allow the EU to provide similar support to countries facing similar problems. The EU is well placed to respond to global outbreaks and crises like for example the largest and most complex Ebola epidemic outbreak ever. The EU was in the forefront of the international response.

Although the epidemic started in 2014, **EU's response to the Ebola crisis** continued throughout 2015 (EUR 660 million development funding pledged). Additional budget support was paid to Liberia (EUR 31 million) and Sierra-Leone (EUR 43 million) to cushion the economic impact of the epidemic and provide the countries with valuable funds to stabilise the state budget – for example to pay salaries and cover other important recurrent costs. A number of strategic projects under the **AWARE (A West Africa Response to Ebola)** programme linking humanitarian assistance with development were launched, e.g. strengthening health systems, resilience of livelihoods in Guinea or access to water in schools in Liberia. The first recovery programmes were also launched in Guinea (health) and in Liberia (education and energy). By the end of the year, the **three affected countries** were all on the path to being declared **Ebola free**.

## **Peace & stability**

A top priority of the EU is to build peaceful societies and eradicate poverty in fragile and conflict-affected countries.

The EU **Bêkou Trust Fund** was created on July 2014 with a mandate to support resilience and to link relief recovery and development in Central African Republic (CAR) in the aftermath of an unprecedented crisis in 2013/2014. The fund is endowed today with EUR 113 million. Since its creation the Fund has successfully adopted, launched and implemented a series of projects attending the urgent needs of the populations in the sectors of gender, health, urban rehabilitation, food security and refugees. To date, more than **0.5Mio** citizens of CAR are directly benefitting from the projects financed by Bêkou. Other results: almost half a

million people were assisted under basic health programme (vaccinations, assisted deliveries, etc), 10.000 farmers received 200 tons of seeds, almost 1.000 women were trained (including against gender-based violence), etc. The Fund has ensured a high visibility to the EU in CAR despite a very fragile context, lack of interest from the donor community and additional outbursts of violence.

Building a **self-reliant and resilient Afghan State**. After a decade of aid cooperation delivered through multi donor trust funds, time has come to provide needed fiscal space to the National Unity Government which came into play in September 2014. The objective of the state building contract for Afghanistan is to support the National Unity Government in its declared objective of transition towards increasing self-reliance and resilience against prevailing high levels of fragility. The State Building Contract (SBC) would focus on strengthening the efficiency and legitimacy of the state and allow for an increase in the government's budgetary flexibility to implement priority policies. At the end of 2015, the road map for a **EUR 200 million** SBC as a key instrument to support state-building efforts in a context of **political, security and economic instability** was endorsed. This SBC should be one of the EU's flagship deliverables at the EU co-hosted Ministerial Conference in Brussels on 5 October 2016.

In order to be able to continue providing support to African Union Commission (AUC) in the area **of peace and stability**, the **African Peace Facility** Action Programme 2014-2016 was increased by EUR 150 million, up to a total of EUR 900 million to finance new African-led peace support operations (Multi-National Joint Task Force against Boko Haram, ECOWAS mission in Guinea Bissau) and the continuation of ongoing ones (African Union Mission in Somalia, monitoring and verification of South Sudan peace agreements). **The Early Response Mechanism (ERM)**, established in 2009, provides the African Peace Facility (APF) with a flexible tool in addressing urgent crises across Africa. This tool is providing the African Union and African regional economic communities (RECs) with an immediately available and reliable source of funding for the first steps of actions aimed at **preventing, managing and resolving crises**. In 2015, the ERM funded 9 actions for a total amount of EUR 7 million. They were instrumental in either preventing or mitigating conflict in several African regions.

## **Civil society & local authorities**

An empowered civil society and strong local authorities are crucial components of any democratic system and constitutes an asset in itself. They represent and foster pluralism and can contribute to more effective policies, equitable and sustainable development and inclusive growth.

**Local Authorities - Strategic partnerships**. In 2015, the European Commission signed strategic, six-year political partnerships with five global and regional associations of local authorities to strengthen them and increase their role as governance actors and their influence on the international agenda. These partnerships will help the associations fully contribute to the **implementation of the Sustainable Development Goals** adopted last September in New York – of which 65% of the targets will need local actors to be successful. They will also directly contribute to reaching the objectives set at the **UN Framework Convention on Climate Change COP 21**, where the role of local authorities was enhanced on initiatives of climate change mitigation and adaptation.

## Improving livelihoods and fostering socioeconomic growth

Support to agriculture is fundamental for reducing poverty and boosting growth. Up to 90% of the population in many developing countries depends on agriculture and farming for their living, as these provide income, employment and food, as well as raw materials for industry and exports.

Access to modern, sustainable, affordable and reliable energy is vital as it is a prerequisite for development. Yet more than 1.3 billion people in the world do not have access to electricity and 2.7 billion rely on traditional biomass for cooking.

**ElectriFI and AgriFI.** These two innovative mechanisms, aiming to unlock and leverage investments in the sectors of energy and agriculture in developing countries, will mobilise financing from the private sector, and both development and commercial financiers, to bring about a catalytic impact on inclusive development and sustainable growth. Support will be provided to mainly poor rural regions currently deprived of access to energy, smallholder agriculture and MSME agro-entrepreneurs.

ElectriFI operations were launched during the **COP21** with an initial budget of approx. EUR 75 million.

AgriFI was officially launched by Commissioner Mimica on the World Food Day in Milan in October 2015. A first tranche of EUR 75 million was allocated by the Commission to this initiative in 2015.

## Gender

Gender discrimination is still entrenched in many cultures and systems. Overcoming it is a crucial objective in its own right. Ensuring that women can participate fully in society, politically, economically and socially will also boost their ability to take their communities forward. The EU supports measures tackling gender inequalities and strives to include gender issues in all aspects of development policy.

In October 2015 a new **Gender Action Plan in external relations for the period 2016-2020** was endorsed by the Council, based on the Joint Staff Working Document on **“Gender Equality and Women’s Empowerment: Transforming the Lives of Girls and Women through EU External Relations 2016-2020”** jointly prepared by DG DEVCO and EEAS in cooperation with relevant Commission services. This Plan identifies ways of improving leadership, accountability and results of EU development cooperation for women and girls, addressing key weaknesses identified in the Evaluation on Gender equality and Women's Empowerment<sup>5</sup>. It is mandatory in all external relations of the EU and will increase the inclusion of a gender-sensitive approach to development initiatives and programmes in all fields. It is outcome-focussed, ambitious and results-driven. It emphasises institutional changes and the shifting of mind-sets that hinder gender equality.

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<sup>5</sup> [https://ec.europa.eu/europeaid/strategic-evaluation-eu-support-gender-equality-and-womens-empowerment-partner-countries-final\\_en](https://ec.europa.eu/europeaid/strategic-evaluation-eu-support-gender-equality-and-womens-empowerment-partner-countries-final_en)

## TOWARDS A NEW POLICY ON MIGRATION

The European Commission's agenda on migration sets out a European response, combining internal and external policies, making best use of EU agencies and tools, and involving all actors: EU countries and institutions, international organisations, civil society, local authorities and national partners outside the EU.

New innovative instruments alongside existing mechanisms were put in place to tackle the root causes of irregular migration while ensuring a global response, presence and added-value of the EU.

In 2015 DEVCO launched as a major initiative - **EU Emergency Trust Fund for stability and addressing root causes of irregular migration and displaced persons in Africa** (EUTF Africa). The creation of the 'EUTF Africa' provided a platform for the EU to step up its collective response to address the root causes of irregular migration and forced displacement. DEVCO worked intensely with other European donors, partner countries and regional organisations, Commission services and the EEAS, to rapidly establish in November 2015 the Trust Fund: **strengthening economic development; enhancing resilience; ensuring better management of migration; and strengthening governance, stability and security**. The EUR 1.8 billion EU Trust Fund, supports some of the most fragile and vulnerable countries across Africa<sup>6</sup>, reinforcing the EU's ongoing, significant development cooperation in the continent. It has the purpose of addressing the situation in the Sahel, Horn of Africa and Northern Africa, namely to provide better employment opportunities and living conditions in the area, in particular for the youth, as well as to contribute to a better migration management and a strengthening of governance, stability and security. The EU Trust Fund for Africa demonstrated its capacity to work as a flexible instrument to respond to crises, in less than two months after its establishment: providing over EUR 100 million in projects for the Lake Chad/Sahel window and over EUR 250 million for Horn of Africa. It confirms once more the important role EU plays in the global context.

The **Migration EU expertise (MIEUX)** represents an important mechanism to ensure that the EU can deliver relevant support contributing to maximising the development impact of migration. Fully in line with the **EU framework on migration in EU Development Cooperation**, and based on the demand-driven and peer-to-peer approach, the EU has been able to provide quick and targeted support to improve the migration and asylum capacities of governments in partner countries since 2009. With over **100 requests**, more than **70** completed and ongoing **actions**, and more than **250 experts** deployed, MIEUX has demonstrated its capacity to efficiently support EU partner countries in all thematic areas of migration, with a strong focus on cross-cutting issues including **governance and human rights**. Following the successful completion of the initial pilot phase, MIEUX entered its third phase in December 2015, with a budget of EUR 8 million until 2019.

For example, at geographical level, Asia and Sub-Saharan Africa were clearly the main regions benefitting from MIEUX interventions in 2015, with respectively 17 and 15 activities implemented over the year in these two regions, out of 41 activities implemented at global level.

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<sup>6</sup> in 3 regions: Sahel and Lake Chad, Horn of Africa, North of Africa as well as neighbouring countries to the three regions

## **TOWARDS A RESILIENT ENERGY UNION WITH A FORWARD LOOKING CLIMATE CHANGE POLICY**

Pollution, deforestation and desertification are just a few of the threats facing some of the world's poorest populations. Climate change is not only an environmental problem but also poses a clear risk to development and international security. Ravaged environments undermine a country's food production, public health and resilience to natural disasters, and threaten economic development, safety and the rule of law. Healthy and well-managed ecosystems, on the other hand, provide the conditions for green growth and jobs, and a better quality of life.

EU support for development is thus anchored in the need to protect and conserve environments and ecosystems for the wellbeing of all people. Its work in this area is guided by its commitment to global environment and climate change agreements, and EU internal policies.

The end of 2015 marked the adoption at the **COP21 in Paris** of the legally binding agreement to combat climate change, with an important **EU-ACP agreement** paving the way to the final deal. The Paris Agreement and the accompanying COP Decision set out a clear vision and direction for a global transformation to a **low emission and climate resilient world** in the context of sustainable development and poverty reduction for all countries. Development cooperation has an essential role in supporting this process, in particular in the poorest and most vulnerable countries. ODA will continue to be one of the main sources of climate finance, and the EU will enhance its efforts to integrate climate change into its strategies (backed by the overall EU commitment to achieve 20% of its spending to be climate relevant).

## **A NEW BOOST FOR JOBS, GROWTH AND INVESTMENT**

By alleviating poverty, improving the enabling environment for the private sector in developing countries while contributing to decent work, and making a contribution to public financial management, good governance and the rule of law, the EU's bilateral, multilateral and global development efforts can make a positive contribution to sustainable growth in developing countries. Over the medium term, sustainable development in developing countries can increase the size of the EU's external markets, generating prosperity and opportunities for jobs and growth within the EU as well as in developing countries themselves.

Strengthening the strategic partnership with Africa is one of the EU's political priorities. The EU-Africa Partnership promotes a relationship between equals and is based on shared interests and common values. While supporting African integration, the EU also aims to boost sustainable and inclusive growth and to contribute to prosperous and peaceful societies. Sustainable prosperity and peace in Africa also benefit Europe by contributing to addressing mutual challenges such as climate change and demographic unbalances, by offering new economic, trade and investment opportunities for both sides, and by reducing mutual security threats.

## Communicating our achievements and results

Throughout the year, the very successful communication campaign for **the European Year for Development 2015** (EYD2015) demonstrated the impact of DG DEVCO's development assistance through partnerships with Member States and non-state actors (including the private sector all over Europe. The year resulted in a significant rise in citizens' awareness of the EU's leading role in development worldwide.

One of the EYD's flagship events, the 9th edition of the **European Development Days**, took place on 5-6 June in Brussels. These were attended by 7 300 participants and more than 180 journalists from a wide range of media, resulting in excellent worldwide media coverage. The EDDs included over 130 sessions on the twelve monthly EYD2015 themes with a variety of debates, brainstorming sessions and presentations in line with the EYD2015 motto: **'Our world, our dignity, our future'**.

**First report on selected results of projects and programmes financed by the European Union.** In the first quarter of 2015, DEVCO issued the SWD(2015) 80 "Launching the EU International Development and Cooperation Results Framework" which was positively welcomed by the EU Council. The SWD detailed the structure and operationalisation of the Framework and presented the list of indicators to be measured and reported against (77 in total, across three levels: 1. development progress (impact); 2. outcomes and outputs achieved by partner countries with EU support; 3. DEVCO organisational performance). DEVCO finalised the first reporting exercise in the second quarter of 2015 reaching over 100 EU Delegations and HQ Units in charge of the management of more than 600 projects and programmes that ended in the course of 2013/14. The outcome of this exercise is being consolidated into a first report on results, providing data against the indicators included in the EU Results Framework as well as other results achieved at country, regional or thematic level by EU funded actions. Results corresponding to outcomes and outputs achieved by EU projects and programmes which ended in 2013/2014 have been consolidated in a database with more than 4600 results. This reporting on results is envisaged to become part of the DEVCO's Annual Report as of AAR 2016.

## 2015 Challenges

**Fragility, insecurity political uncertainties, crises, vulnerability to natural disaster in some of the partner countries** remain among the challenges that DEVCO faced in implementing the policy of development.

The graduation of some of our partner countries and the increased importance of emerging donors have prompted reflections in 2015 on how DEVCO could best engage with graduated countries and new donors while fine-tuning and adapting to evolving needs.

In 2015 DEVCO continued to be faced with the **challenge of lack of payment credits**. The budgetary situation in the development cooperation was extremely difficult. DEVCO put in place mitigation actions well in advance to ensure the continuity of development aid and to limit the adverse consequences of the existing payment shortages. The measures included prioritisation of the use of available payment appropriations (favouring the more fragile beneficiaries) and safely delaying some payments to next year (postponing signature or the start of new contracts and projects, decreasing the amount of pre-financing, postponing budget support payments).

## B. Key Performance Indicators<sup>7</sup>

1. **Millennium Development Goal 1**, indicator 1.1: Proportion of the population living below 1.25 dollar (Purchasing Power Parity) per day;
2. **Millennium Development Goal 2**, indicator 2.2: Proportion of pupils starting in grade 1 who reach the last grade of primary school;
3. **Millennium Development Goal 4**, indicator 4.1: Under 5 mortality rate;
4. Number of partner countries which have improved their overall governance performance as measured by the World Bank's Worldwide Governance Indicators;
5. **CO<sub>2</sub> equivalent emission reduction by 2020** in the context of global action to keep the global temperature rise below 2°C;
6. **GDP per capita partner countries**: number of countries with a growing/ stable GDP per capita
7. **RER** (Residual error rate)

The six key policy indicators presented in the table below are directly or indirectly related to the achievement of the Millennium Development Goals (MDG). They were selected by DEVCO for assessing the achievement of its general objective of "fostering the sustainable and inclusive development in partner countries and regions and the promotion of the democracy, the rule of law, good governance and respect of human rights with the primary aim at eradicating poverty".

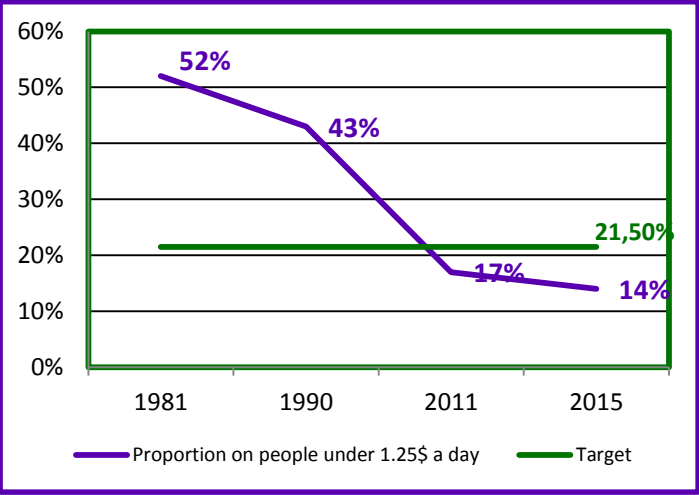
Eight **MDGs** were agreed at the United Nations summit in 2000 by the donor community, which includes EU and its Member States, with the ultimate purpose to **eradicate poverty** by 2015. The EU has been committed to helping achieve the MDGs since their very inception and has led the way in integrating them into its development policy and practice. Hence, the achievements of the MDGs are at the core of EU development policy. However the EU alone is not the sole actor responsible for the achievement of these indicators.

Together, the EU and its Member States are the **main contributors to the MDGs in financial terms**, since they provide around **half of the world's Official Development Assistance (ODA) since 2000**. Moreover, the EU plays a role in coordinating the actions of the different donors. Thanks to its supranational dimension, it can set ambitious joint objectives and map out comprehensive solutions to global development challenges. The EU has a world-wide presence in more than 130 countries, wide-ranging expertise and a unique credibility when it comes to human rights, electoral observation, governance and crisis resolution. Finally, the EU has the critical weight to respond to global challenges. The EU's development activities are coordinated with its efforts in other fields, such as humanitarian aid, environment, security and trade policy.

In terms of human development, the EU continues to be committed to spend at least 20% of its aid to basic social services, with a focus on health, education and social protection, throughout the 2014-2020 financial framework.

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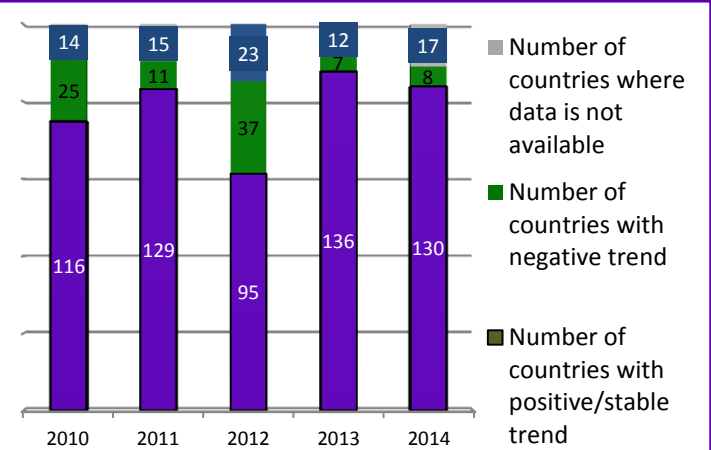
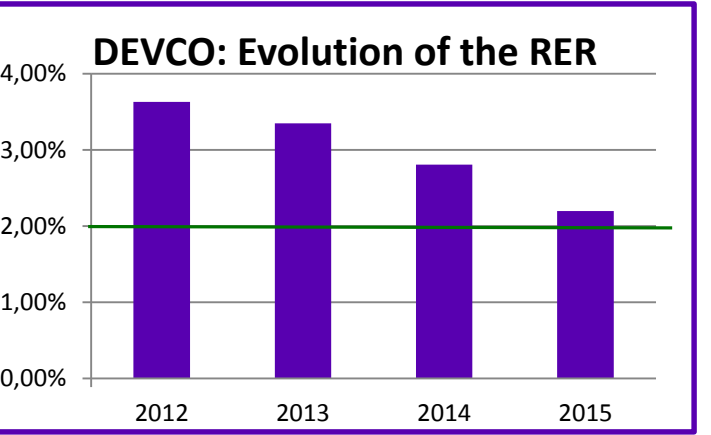
<sup>7</sup> These Key Performance Indicators refer to Policy achievements and are different from the 24 KPIs that DEVCO monitors for external aid management (analysed in annex 10 of this report).

Result/Impact indicator	Target (or milestones)	Latest known results as per Annual Activity Report															
<p>IMPACT INDICATOR 1: <b>Millennium Development Goal 1.1:</b> Proportion of population living below \$1.25 (PPP) per day</p>	<p>“Halve, between 1990 and 2015, the proportion of people whose income is less than \$1.25 a day” (Target 2015)</p>	<p>Target achieved five years ahead of schedule, in 2010. In 2015 this proportion is estimated to 14%<sup>8</sup>.</p> <p>This indicator has already been achieved and, having regard to its share in the world’s ODA and its policy objectives, the EU has significantly contributed to it.</p>  <table border="1"> <caption>Data for Millennium Development Goal 1.1 Graph</caption> <thead> <tr> <th>Year</th> <th>Proportion on people under 1.25\$ a day</th> <th>Target</th> </tr> </thead> <tbody> <tr> <td>1981</td> <td>52%</td> <td>21.50%</td> </tr> <tr> <td>1990</td> <td>43%</td> <td>21.50%</td> </tr> <tr> <td>2011</td> <td>17%</td> <td>21.50%</td> </tr> <tr> <td>2015</td> <td>14%</td> <td>21.50%</td> </tr> </tbody> </table>	Year	Proportion on people under 1.25\$ a day	Target	1981	52%	21.50%	1990	43%	21.50%	2011	17%	21.50%	2015	14%	21.50%
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2015	14%	21.50%															
<p>IMPACT INDICATOR 2: <b>Millennium Development Goal 2.2:</b> Proportion of pupils starting in grade 1 who reach the last grade of primary school</p>	<p>Ensure that, by 2015, children everywhere, boys and girl alike, will be able to complete a full course of primary schooling (Target 2015)</p>	<p>Together with the net enrolment rate the primary school completion rate gives a good picture of progress towards the education MDG. While the net enrolment rate in primary school increased substantially between 2000 and 2011, the persistent early school leaving has slowed progress towards this goal in developing regions. The completion rate of primary school remained constant between 2000 and 2012 at 73%.</p> <p>More efforts should be done in tackling early school leaving by addressing factors like travelling long distances from home to school, household poverty, the expense of education, and lack of teachers and classrooms. More recent data not available, the indicator will continue to be monitored by UNESCO.</p> <p>EU’s support to education has produced tangible progress, even if the targets have not fully been met yet. Since 2000, EU aid contributed to enrolling over 13 million children in primary education. Under the 2007-2013 financial framework, the EU brought support to the education sector in 42 countries (EUR 4.2 billion).As an example of progress achieved in the education sector, the number of children not attending primary education decreased by 50% between 1999 and 2011, and 63% of countries had achieved gender parity by 2011 (up from 57% in 1999).</p>															

<sup>8</sup> The MDG report 2015

		<p>Challenges remain, as 57 million children and 69 million adolescents have no access to effective basic education</p> <table border="1"> <caption>Percentage of pupils completing a full primary course</caption> <thead> <tr> <th>Year</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>1990</td> <td>78%</td> </tr> <tr> <td>2000</td> <td>73%</td> </tr> <tr> <td>2011/2012</td> <td>73%</td> </tr> </tbody> </table> <table border="1"> <caption>Net enrolment rate</caption> <thead> <tr> <th>Year</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>1990</td> <td>80%</td> </tr> <tr> <td>2000</td> <td>83%</td> </tr> <tr> <td>2011/2012</td> <td>90%</td> </tr> </tbody> </table> <p>Legend:  <span style="color: green;">—</span> Percentage of pupils completing a full primary course  <span style="color: green;">—</span> Target  <span style="color: purple;">—</span> Net enrolment rate</p>	Year	Percentage	1990	78%	2000	73%	2011/2012	73%	Year	Percentage	1990	80%	2000	83%	2011/2012	90%
Year	Percentage																	
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<p>IMPACT INDICATOR 3: <b>Millennium Development Goal 4.1</b>: Under 5 mortality rate</p>	<p>Reduce by two thirds, between 1990 and 2015, the under-5 mortality rate. (Target 2015)</p>	<p>Globally major progress has been made in improving child survival over the past 2 decades. This indicator has halved since 1990, dropping from 90 to an estimated 43 deaths per 1,000 live births in 2015 (projections). Despite impressive improvements, progress has been insufficient to meet the MDG target.</p> <p>Inequities in child mortality between high-income and low-income countries remain large. Sub-Saharan Africa has the world's highest child mortality rate; however the absolute decline in child mortality was the largest over the past 2 decades. This rate has fallen from 179 deaths per 1,000 live births in 1990 to an estimated 86 in 2015<sup>e</sup>.</p> <p>Reducing these inequities across and within countries and saving more children's lives by ending preventable child deaths are important EU priorities.</p> <p>EU's support to health has produced tangible progress, even if the targets have not fully been met yet. Since 2004, EU aid contributed to providing immunisation against measles to over 20 million children. As another illustration of progress in the health sector, maternal mortality ratio dropped by 43%, from 380 to 216 deaths per 100,000 live births between 1990 and 2015, and 71% of deliveries were attended by skilled health personnel (up from 59% in 1990). Challenges remain, as still an estimated 16,000 children under the age of 5 die each day, the majority in Sub-Saharan Africa and Southern Asia.</p> <p>The EU continues to be committed to allocate at least 20% of its aid to basic social services, with a focus on health and education, throughout the new 2014-2020 financial framework.</p>																

		<table border="1"> <caption>Under 5 number of deaths/1000</caption> <thead> <tr> <th>Year</th> <th>Under 5 number of deaths/1000</th> <th>target</th> </tr> </thead> <tbody> <tr> <td>1990</td> <td>97</td> <td>32</td> </tr> <tr> <td>2000</td> <td>80</td> <td>32</td> </tr> <tr> <td>2010</td> <td>63</td> <td>32</td> </tr> <tr> <td>2012</td> <td>53</td> <td>32</td> </tr> <tr> <td>2013</td> <td>45.6</td> <td>32</td> </tr> <tr> <td>2015</td> <td>43</td> <td>32</td> </tr> </tbody> </table>	Year	Under 5 number of deaths/1000	target	1990	97	32	2000	80	32	2010	63	32	2012	53	32	2013	45.6	32	2015	43	32			
Year	Under 5 number of deaths/1000	target																								
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2015	43	32																								
<p>IMPACT INDICATOR 4: Number of partner countries which have improved their overall governance performance as measured by the World Bank's Worldwide Governance Indicators</p>	<p>Positive trend in the number of countries improving their overall governance performance. (Target 2020)</p>	<p>For the developing countries progress was achieved in the number of countries improving their overall governance performance, from 75 in 2010 to 90 in 2014.</p> <table border="1"> <caption>Governance Performance Trends</caption> <thead> <tr> <th>Year</th> <th>Number of countries with positive trend</th> <th>Number of countries with negative trend</th> <th>Number of countries where data is not available</th> </tr> </thead> <tbody> <tr> <td>2010</td> <td>75</td> <td>78</td> <td>2</td> </tr> <tr> <td>2011</td> <td>95</td> <td>56</td> <td>4</td> </tr> <tr> <td>2012</td> <td>69</td> <td>83</td> <td>3</td> </tr> <tr> <td>2013</td> <td>82</td> <td>70</td> <td>3</td> </tr> <tr> <td>2014</td> <td>90</td> <td>56</td> <td>9</td> </tr> </tbody> </table>	Year	Number of countries with positive trend	Number of countries with negative trend	Number of countries where data is not available	2010	75	78	2	2011	95	56	4	2012	69	83	3	2013	82	70	3	2014	90	56	9
Year	Number of countries with positive trend	Number of countries with negative trend	Number of countries where data is not available																							
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2014	90	56	9																							
<p>IMPACT INDICATOR 5: <b>CO<sub>2</sub> equivalent emission reduction</b> by 2020 in the context of global action to keep the global temperature rise below 2°C</p>	<p>Developing countries: 26-32 GtCO<sub>2</sub> equivalent Globally: 44 GtCO<sub>2</sub> equivalent (Target 2020)</p>	<p>The latest global emission figures available relate to the 2011-2012 period. Preliminary estimates indicate that <b>global emissions</b> grew by an average of 3% per year, to 53 GtCO<sub>2</sub>e in 2011 and 54 GtCO<sub>2</sub>e in 2012. Trends varied from an increase of 6% in G20 countries that are not members of OECD to a decline of 1% and 2% in OECD Europe and OECD North America. Globally emissions continue to grow in all groups of developing countries that are not on track to meet the 2020 target mentioned above. Latest available data published in the IPCC Fifth Assessment report (AR5) completed in November 2014.</p> <p>The EU is the largest contributor to climate-related financing in developing countries. Its support helps to protect biodiversity worldwide, protect countries against natural disasters and improve forest protection. In order to reinforce its action in this area, the annual spending related to climate change and biodiversity under the new External Action instruments adopted in 2014 will be tracked to show EU contribution to these goals and ensure</p>																								

		<p>compliance with the objective of allocating at least 20% of the EU budget to a low carbon and climate resilient society.</p>																								
<p>IMPACT INDICATOR 6: <b>GDP per capita partner countries:</b> number of countries with a growing/ stable GDP per capita</p>	<p>Increasing trend in the number of countries with a stable or growing GDP/capita (Target 2020)</p>	<p>For the developing countries progress was achieved in the last years. Data availability remains an important factor in assessing if a positive trend was registered for the last year.</p>  <table border="1"> <caption>Data for GDP per capita trend chart</caption> <thead> <tr> <th>Year</th> <th>Number of countries with positive/stable trend</th> <th>Number of countries with negative trend</th> <th>Number of countries where data is not available</th> </tr> </thead> <tbody> <tr> <td>2010</td> <td>116</td> <td>25</td> <td>14</td> </tr> <tr> <td>2011</td> <td>129</td> <td>11</td> <td>15</td> </tr> <tr> <td>2012</td> <td>95</td> <td>37</td> <td>23</td> </tr> <tr> <td>2013</td> <td>136</td> <td>7</td> <td>12</td> </tr> <tr> <td>2014</td> <td>130</td> <td>8</td> <td>17</td> </tr> </tbody> </table>	Year	Number of countries with positive/stable trend	Number of countries with negative trend	Number of countries where data is not available	2010	116	25	14	2011	129	11	15	2012	95	37	23	2013	136	7	12	2014	130	8	17
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<p><b>Residual Error Rate</b></p>	<p>At or below 2%</p>	<p>Monetary unit sampling of up to 240 transactions from contracts closed in the period September 2014 to August 2015. Positive trend achieved since 2012: 2012: 3.63%, 2013: 3.35%, 2014: 2.81%, 2015: 2.20%.</p>  <table border="1"> <caption>DEVCO: Evolution of the RER</caption> <thead> <tr> <th>Year</th> <th>RER (%)</th> </tr> </thead> <tbody> <tr> <td>2012</td> <td>3.63</td> </tr> <tr> <td>2013</td> <td>3.35</td> </tr> <tr> <td>2014</td> <td>2.81</td> </tr> <tr> <td>2015</td> <td>2.20</td> </tr> </tbody> </table>	Year	RER (%)	2012	3.63	2013	3.35	2014	2.81	2015	2.20														
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## **C. Key conclusions on Management and Internal control (executive summary of section 2)**

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

The Commission has adopted a set of internal control principles, based on international good practice, aimed to ensure the achievement of policy and operational objectives. The financial regulation requires that the organisational structure and the internal control systems used for the implementation of the budget are set up in accordance with these standards. DG DEVCO has assessed the internal control systems during the reporting year and has concluded that the internal control principles are implemented and function as intended with the exception of one requirement in relation to document management which is partially met. Please refer to AAR section 2.3 for further details.

In addition, DG DEVCO has systematically examined the available control results and indicators, including those aimed at supervising entities to which it has entrusted budget implementation tasks, as well as the observations and recommendations issued by internal auditors and the European Court of Auditors. These elements have been assessed to determine their impact on the management's assurance as regards the achievement of control objectives. Please refer to Section 2 for further details.

In conclusion, management has reasonable assurance that, overall, suitable controls are in place and working as intended; risks are being appropriately monitored and mitigated; and necessary improvements and reinforcements are being implemented. The Director-General, in his capacity as Authorising Officer by Delegation has signed the Declaration of Assurance, albeit qualified by reservation concerning Direct management – grants, indirect management with International Organisations and Member State Agencies and the Management of the African Peace Facility.

**D. Information to the Commissioner(s)**

The main elements of this report and assurance declaration, including the reservations envisaged, have been brought to the attention of Commissioner Mimica, in charge of International Cooperation and Development.

## 1. Key results and progress towards the achievement of general and specific objectives of the DG<sup>9 10</sup>

EU Development cooperation is succeeding in spreading European values across a fast-changing world, gaining influence and respect for the EU. Above all, it makes a decisive contribution to the overriding aim of eradicating extreme poverty once and for all. EU Development Policy and DG DEVCO's work in implementing this policy are strongly anchored in two main priorities of the President Juncker Commission: **"EU as a Stronger Global Actor"** and **"Towards a New Policy on Migration"**. Furthermore it significantly contributes to **"A New Boost for Jobs, Growth and Investments"** and **"A Resilient Energy Union with a Forward Looking Climate Change Policy"**.

2015 was a remarkable year for DEVCO. The series of landmark international agreements that were decided throughout the year have collectively re-cast the way EU will think and act on the international development and cooperation scene for the next fifteen years, strongly highlighting DEVCO's role as an important development global actor and important vector for the Commission priority towards a new policy on migration.

### EU AS A STRONGER GLOBAL ACTOR

The EU has to play its role in responding efficiently to global challenges, in projecting its values and contributing to peace and prosperity in the world.

Through its development cooperation policy the EU contributes to reducing poverty in the world, to ensure sustainable economic, social and environmental development, and promotes democracy the rule of law, good governance and the respect of human rights.

#### Addis Ababa Action Agenda; Agenda 2030; Adoption of the SDGs

2015 saw the agreement of a bold and transformative new vision for sustainable development and poverty eradication, reflected in the successful conclusions to the July **Financing for Development Conference in Addis Ababa** and the **September UN Summit for the adoption of the 2030 Agenda for Sustainable Development** in New York. Taken together, these agreements have set the international frame for efforts on poverty eradication and sustainable development for years to come. The EU played a positive and influential role during these UN negotiations, working with others to raise the overall level of ambition and making a collective EU commitment to allocate **0.7% of GNI** for development assistance. This includes the specific commitment to provide **0.15-0.2% ODA/GNI** to **Least Developed Countries (LDCs)** helping to target ODA to those most in need.

#### Future partnership with the ACP countries "Post-Cotonou Agreement"

DG DEVCO has embarked in 2015 on the process of the preparing **the partnership with**

<sup>9</sup> See footnote 1.

<sup>10</sup> This section is to be read in conjunction with annex 11 "Performance tables" which contains all general and specific objectives of DEVCO and their related indicators and outputs. All the examples presented here contribute to DEVCO's specific objectives presented in annex 11.

**countries of Sub-Saharan Africa, the Caribbean and the Pacific**, since the current Cotonou Agreement will expire in 2020. A dedicated Task Force directly referring to the Director General has been created for that purpose. This Task Force, in collaboration with the European External Action Service, has conducted a series of roundtables with a wide range of stakeholders and drafted a **Joint Consultation Paper** (06/10/2015 JOIN(2015) 33 final) on the matter. The public consultation was closed at the beginning 2016 and a report with the outcome was made available in early 2016. This consultation will provide precious material which, combined with internal reflections and a thorough analysis of the large number of existing evaluations, will guide the next steps of the process. In parallel, regular meetings at the Council and the European Parliament have been held to help define the European position on the many different aspects of the matter. A proposal for a post-Cotonou framework will be made in the last quarter of 2016 through a recommendation. In preparation, an evaluation and impact assessment staff working document (looking at future options) will be provided. Work in that regard is currently ongoing.

### Global Initiatives in health and education

The EU is a strong supporter of the **Global Fund to fight AIDS, Tuberculosis and Malaria (GF)**, **GAVI** and the **Global Partnership for Education (GPE)**. These global initiatives focus on addressing major challenges for many partner countries in their efforts to achieve the health and education MDGs and SDGs, such as those related to the three diseases in the case of the GF and ensuring equity of access and improving learning outcomes in the case of the GPE. Through its proactive participation on the boards of the Global Fund, GAVI and GPE, the EU played an instrumental role improving governance, programmatic oversight and a more effective allocation and programming of resources to poor countries. Board membership in these initiatives gave a significant voice to the EU in the international debate on health and education policy, as well as providing a platform to support progress in aid and development effectiveness and country ownership.

### EBOLA

DEVCO supports programmes and projects around the world, wherever assistance is needed. We tailor our support to fit the needs and demands of the region or country being helped. Programmes with a global reach allow the EU to provide similar support to countries facing similar problems. The EU is well placed to address global outbreaks and crises like for example the largest and most complex Ebola epidemic outbreak ever. The EU was in the forefront of the international response.

### EU response to the EBOLA crisis

The DEVCO response to the Ebola epidemic continued through-out 2015. Additional budget support was paid to Liberia (EUR 31 million) and Sierra-Leone (EUR 43 million) to cushion the economic impact of the epidemic and provide the countries with valuable funds to stabilise the state budget – for example to pay salaries and cover other important recurrent costs. A number of strategic projects under the AWARE (A West African Response to Ebola) programme linking humanitarian assistance with development were launched, e.g. strengthening health systems, resilience of livelihoods in Guinea or access to water in schools in Liberia. The first recovery programmes were also launched in Guinea (health) and in Liberia (education and energy).

On the global scene DEVCO organised the international Ebola high-level conference on 3 March 2015 together with ECHO and the EEAS. The conference was a major success in keeping the momentum and the focus on the continued fight against the disease. It was also an important follow-up to the previous conference organised by DEVCO in September 2013 at the very start of the Ebola response. The total DEVCO pledge to the fight against Ebola and the recovery had reached EUR 660 million. At the end of 2015 the epidemic was brought under control. The challenge will now be - from a development perspective - the recovery of the three countries which have faced a major setback in their development due to the direct and indirect impact of the Ebola epidemic an impact that has been amplified by the collapse of global commodity prices especially iron ore.

## **Peace and stability**

The EU supports partner countries around the world in their efforts to secure lasting peace, promote their political stability or rebuild societies and infrastructures after crisis situations. The EU's priorities in this field are to promote good governance, establish the rule of law, fight against crime and strengthen law enforcement.

### **The EU Bêkou Trust Fund**

Trust Funds are development tools that pool together resources from different donors in order to enable a quick, flexible, and collective EU response to the different dimensions of an emergency situation. Two types of TFs have been introduced in the 11th EDF Financial Regulation (Article 42), based on the EU Budget financial regulation<sup>11</sup>:

- 1) **“Emergency and Post-Emergency”** TFs to address all type of crisis, by allowing the EU Commission to decide and apply rapid award procedures and to delegate implementing tasks if deemed to be more efficient,
- 2) **“Thematic”** TFs to address global challenges, by allowing the Commission to directly implement required activities under its standard procedures.

The experience of the EU Bêkou Trust Fund offers an example of a flexible and safe method for donors of financing activities in the context of a fragile country. It enabled them to give form to and act upon their political commitment to resolving the crisis in the Central African Republic while allowing swift implementation of activities dedicated to resilience. In one year, more than **500.000 people** have directly benefitted from the "LRRD" projects supported by Bêkou.

This new way of working ensured additional resources aimed at achieving concrete results for crises and global challenges, opened new avenues as regards absorption capacities and fostered greater EU visibility and leadership in coordinating donor activities.

**The EU Bêkou Trust Fund** was created on July 2014 with a mandate to support resilience and

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<sup>11</sup> Since the adoption of the financial regulation, the EU has established 2 Trust funds totally or partly funded by the 11th EDF: the Bêkou Trust Fund in Central African Republic and the EU Emergency Trust Fund for Africa.

to link relief recovery and development in Central African Republic (CAR) in the aftermath of an unprecedented crisis in 2013/2014. The fund is endowed today with EUR 113 million. The violence outbreak of September and October 2015 has not led to significant delay in the implementation of the projects – and all the ongoing activities resumed after few weeks of suspension.

Since its creation, the Fund has successfully adopted, launched and implemented a series of projects attending the urgent needs of the populations in the sectors of gender, health, urban rehabilitation, food security and refugees.

In the sector of "**gender**" the programme implemented has improved both the social and the economic conditions of Central African women through trainings, medical and psychological support as well as financial support. Some **results** obtained in 2015:

- **990 women** have been trained (including against gender based violence)
- **45 local NGOs** associated for the implementation of the project
- **1780 persons** benefitted from economic training

Another project implemented in the "**health**" field, run in Bangui and five other cities across the country, aimed at ensuring access to basic health services to 1 million people in a context where most of the health structures and services have been disrupted in the aftermath of the crisis of 2013. Some **results** obtained in 2015:

- Ensuring access to basic health services in **6 cities** across the country
- **450 000 direct beneficiaries** (vaccination, assisted deliveries, etc.)
- Reorganisation of "health district" ensuring long-term effects of the project

The program implemented under the "**urban rehabilitation**" sector involves the reconstruction of the poor and violence-prone neighbourhoods of Bangui through labour intensive work (HIMO), allowing among others the rehabilitation of public infrastructures. Some **results** obtained in 2015:

- **1.100 workers** hired and trained during the works
- **800 people** enrolled in awareness raising programme on conflict prevention

The "**food security**" program aims to support food and nutrition security based on three components: a) The strengthening of food resilience at the community level; b) the reorganization of the "transhumance" network; c) the establishment of local food production and small livestock farming around Bangui. In 2015 the following **results** were obtained:

- **10.000 farmers** have received 200 tons of seeds
- **28 121 tools** and **200 tons of seeds** distributed (DRC with FAO)
- **30 000 cattle were immunised** (vaccination against diseases)

### State Building Contracts Afghanistan

The main objective of this initiative is to provide effective support to the state-building efforts in a fragility context with a reform-minded government facing fundamental political, security and economic challenges.

The establishment of the democratically elected Afghan National Unity Government in late 2014 presented an unprecedented window of opportunity in Afghanistan's post-2001 history to strengthen public institutions at a crucial time of security transition following the withdrawal of the majority of foreign troops. First discussions on a possible roadmap for budget support were initiated during the December 2014 London Conference on Afghanistan, when Commissioner Mimica met Afghanistan's Minister of Finance. The assurances received during the Commission/EEAS mission to Afghanistan allowed to proceed with presenting the roadmap for a EUR 200 million State-Building Contract at the 15 December Budget Support Steering Committee, where it received unanimous support with Afghanistan having the potential to be a model case for the implementation of a State-Building Contract to address political, security and economic instability in a highly fragile context.

The objective of a state building contract for Afghanistan is to support the National Unity Government in its declared objective of transition towards increasing self-reliance during a critically fragile phase of transition. The SBC would focus on strengthening the efficiency and legitimacy of the state by supporting domestic revenue mobilisation, basic service delivery, public sector reform, public financial management, anti-corruption, and gender. The areas of focus will build on the EU's expertise in the MIP focal sectors, where the state building contract will provide a complementary tool to existing support, strengthening the EU's role in policy dialogue also in perspective of the EU co-hosted Afghanistan Conference in October 2016. Importantly, the SBC will allow for an increase in the government's budgetary flexibility to implement government policies and prioritise spending in well-performing priority areas. This is essential in an environment where public expenditure largely consists of ring-fenced ODA expenditure and where public policy is sometimes characterised as the sum of ODA projects not conducive to decisive government action within a volatile environment and during a socio-economic crisis causing large-scale out-migration.

An evaluation is underway to look at the EU cooperation with Afghanistan from 2007 to 2016.

### **African Peace Facility - The Early Response Mechanism (ERM)**

Across Africa, **conflict** continues to cause **human suffering**. It is also one of the root causes of migration and a major impediment to economic and social development. This is why **supporting peace and security is at the heart of the EU's strategy for the continent**. The EU believes that peace and security efforts should be led by Africans if they are to be successful. The EU therefore established the **African Peace Facility (APF)** in 2004 to support those efforts. From its outset, the APF financed peace support operations in areas affected by conflict, such as **Darfur**. However, it lacked a mechanism that allowed the African Union to address conflict before it broke out. The **Early Response Mechanism (ERM)** was established in 2009 to help prevent political and security crises from degenerating into open conflict. It is an **emergency mechanism** that is able to make funds available for the African Union in less than 10 days so that it can immediately support mediation, confidence-building or any other activity that prevents mounting tensions in troubled areas turning into situations that affect the living conditions of the population.

In 2015, the ERM funded 9 actions for a total amount of EUR 7 million that were instrumental in either preventing or mitigating conflict in several African regions. In **South Sudan**, where a civil war erupted in December 2014, the ERM financed the dialogue that resulted in an agreement for a ceasefire between the Government and the opposition, thus improving the situation of hundreds of thousands of people displaced by the war. The ERM also contributed to consolidating peace **between North and South Sudan** by supporting negotiations on outstanding disputes on issues such as border demarcation and wealth sharing. In the Central African Republic the ERM helped to find a way to end violence, by financing mediation efforts that resulted in a climate conducive to the holding of elections in February 2016. In the Great Lakes Region, where the population living in the eastern areas of the **Democratic Republic of the Congo** have suffered from one of the worst man-made humanitarian disasters over the last two decades, the ERM helped to restore and promote trust between the DRC and its neighbours by supporting a joint verification mechanism of the agreements that they had entered into in, order to bring stability to the region. Even in **Burundi**, where the political situation deteriorated quickly at the end of 2015, swift ERM funding helped to deter further violence by both allowing the AU to deploy Human Rights observers and security officers and by financing the rapid commencement of an Inter Burundian dialogue mediated by Uganda.

The ERM was externally evaluated in 2015 and found to be a particularly relevant and useful mechanism able to quickly mobilize funds and support crises-related efforts of a preventative and mediatory nature. In view of the performance of the instrument, the Commission has decided to increase the ERM's resources to EUR 15 million until mid-2018.

## **Civil society & local authorities**

An empowered civil society and strong local authorities are crucial components of any democratic system and constitute an asset in itself. They represent and foster pluralism and can contribute to more effective policies, equitable and sustainable development and inclusive growth.

### **Framework partnership Agreement with Local Authorities**

In 2015, the international agenda gave new impetus to the role of local authorities in development. In January, the European Commission signed strategic, **six-year political partnerships with five global and regional associations of local authorities**. These unique partnerships aim to:

- Strengthen the capacity of local authorities and national associations of local authorities as actors of governance;
- Increase the influence of local authorities on the international agenda, guided by the principles of sustainability and solidarity;
- Foster an enabling environment in favour of political, fiscal and administrative decentralisation, and sustainable and inclusive local development.

These objectives will fully contribute to the implementation of the **Sustainable Development Goals (SDGs)** adopted last September in New York. SDG 11 "*Make cities inclusive, safe, resilient and sustainable*" puts local authorities in the spotlight as key governance actors. Moreover, out of the 169 established targets, 21% can only be

implemented with local actors, 24% should be implemented by local actors, and 20% should have an orientation towards local urban stakeholders.

The Framework Partnership Agreements will also directly contribute to reaching the objectives set at the **UN Framework Convention on Climate Change COP 21**. Here, the role of local authorities was enhanced on initiatives of climate change mitigation and adaptation. This was well illustrated by the “*1 000 Mayors Declaration*”, which saw mayors from around the world committing to support long-term climate goals – such as a transition to 100% renewable energy in their communities or an 80% reduction in greenhouse gases by 2050.

As such, through the FPA signed with the "Association internationale des Maires francophones" (AIMF), the Commission is backing up the AIMF's support to Cameroon's network of women mayors (REFELA-CAM). The women network's capacities are being strengthened in order to implement a pilot programme aimed at producing and providing sustainable energy at local level. The AIMF also supports Mayors and border dwellers of the Lake Kivu area, enhancing the development and economic integration of territories impacted by years of conflict.

## **Improving livelihoods and fostering socioeconomic growth**

Support to agriculture is fundamental for reducing poverty and boosting growth. Up to 90% of the population in many developing countries depends on agriculture and farming for their living, as well as raw materials for industry and exports.

Access to modern, sustainable, affordable and reliable energy services is vital as it is a prerequisite for development. Yet more than 1.3 billion people in the world do not have access to electricity and 2.7 billion rely on traditional biomass for cooking.

### **ElectriFI and AgriFI financing initiatives**

DG DEVCO has set up two initiatives to attract investments in the sectors of sustainable energy (ElectriFI) and agriculture (AgriFI), so as to bridge the gaps in structuring and financing new investments. These support mechanisms will be instrumental in stimulating the private sector, mobilising financiers and bringing about a catalytic impact on economic growth. In developing countries there is often a lack of access to seed capital, as well as medium and long-term capital, partly due to the reluctance of the risk adverse banking sector.

#### **ElectriFI**

Addressing the lack of access to sustainable, reliable and affordable energy services is a major development challenge and a key pillar of Climate Change policy. Cost-efficient access to such services is central to inclusive and equitable economic growth. The Electrification Financing Initiative (ElectriFI) has been established to respond to this need.

ElectriFI is an innovative mechanism aiming to support investments by making financing available throughout the entire project cycle.

The European Development Finance Institutions, together with other major development financiers active under the EU blending framework, have put together a concrete proposal

under ElectrIFI with an initial budget of approx. EUR 75 million, which was launched during the COP21 in December 2015.

In addition to the above, many other actions in which DEVCO engaged within 2015 fall under the initiative to serve the challenge of global access to modern, affordable and sustainable energy services in an intensive manner. Among these, 20 projects that were approved under the blending facilities, representing grants of a total amount of EUR 261 million and a total investment of EUR 4 185 million; 2 projects that were supported by the EU–EDFI private sector development facility, where an amount of approximately EUR 12.5million was committed to guarantee an investment of approximately EUR 27.9 million; and the equity contribution of EUR 22 million in funds of a targeted size of EUR 250-300 million under the Global Energy Efficiency and Renewable Energy Fund (GEEREF).

### AgriFI

AgriFI aims at generating more income for the 75% of the poor living in rural areas. To achieve inclusive and sustainable agricultural growth, increased investment in smallholder agriculture and micro, small and medium sized agribusiness enterprises (MSMEs) is required. Investment in agriculture in developing countries is growing, but initiatives to support the investment capacity of small producers and rural MSMEs are still generally insufficient. AgriFI addresses this situation by providing greater risk-bearing capacity through public money, in order to encourage project promoters and attract private finance to viable investments which would not have happened otherwise.

AgriFI relies upon 3 pillars: i) investment, ii) business development and advisory services for farmers and agri-entrepreneurs, and iii) a robust monitoring framework based on value chain analysis for better accountability and decision making. AgriFI was officially launched by Commissioner Mimica on the World Food Day in Milan in October 2015. A first tranche of EUR 75 million was allocated by the Commission to this initiative in 2015.

### Gender

Gender discrimination is still entrenched in many cultures and systems. Overcoming it is a crucial objective in its own right. Ensuring that women can participate fully in society, politically, economically and socially will also boost their ability to take their communities forward. The EU supports measures tackling gender inequalities and strives to include gender issues in all aspects of development policy.

#### Action Plan for gender equality and women's empowerment for the period 2016-2020

The new Gender Action Plan in external relations, based on the Joint Staff Working Document "**Transforming the lives of women and girls through EU external relations 2016-2020**" was endorsed in October 2015, after one year of preparation in consultations with Member States, other Directorates General (DG NEAR, DG ECHO, FPI) and the EEAS. The new Gender Action Plan is stimulating and ambitious, and it emphasizes the shifting of mind-sets that hinder gender equality. Inside the Commission and the EEAS, it aims at obtaining more **leadership and strategic approach, more investment and better coordination, more and shared accountability**. Externally, it proposes to act in transformative areas of women and girls lives: **the fight against violence and harmful practices**, their **access and control over**

**resources, their access to quality sexual and reproductive health services and their participation at all levels of the decision making.**

The new Action Plan will be based on specific country-level analysis and it will foster the effective inclusion of the gender perspective in the programming process. This action plan will focus on results and will strengthen the gender monitoring and evaluation. It pays a strong attention to the cultural shift needed to eliminate social norms and practices that hinder a full enjoyment of human rights for women and girls, to change the mind-set which is at the source of discrimination. Besides, this Action Plan reflects the EU position in the Agenda 2030: a stand-alone goal on gender equality is needed, but the Commission insisted to see the gender component mainstreamed and strengthened throughout all Sustainable Development Goals.

## **TOWARDS A NEW POLICY ON MIGRATION**

The European Commission's agenda on migration sets out a European response, combining internal and external policies, making best use of EU agencies and tools, and involving all actors: EU countries and institutions, international organisations, civil society, local authorities and national partners outside the EU.

New innovative instruments alongside exiting mechanisms were put in place to tackle the root causes of irregular migration while ensuring a global response, presence and added-value of the EU.

### **EU Emergency Trust Fund for stability and addressing root causes of irregular migration and displaced persons in Africa**

DG DEVCO made an important, concrete contribution to deliver under the EU's commitments to address irregular migration and forced displacements, and in particular those in the Action Plan adopted at the EU-Africa Valletta Summit in November 2015. As stated by President Juncker at the Summit: "This Emergency Trust Fund for Africa, set up at a record speed, shows once more the EU's commitment to swiftly reply to the large challenges we are facing in the region". DEVCO worked intensely with other European donors, partner countries and regional organisations, Commission services and the EEAS, to rapidly establish in November 2015 an **EU Emergency Trust Fund for stability and addressing root causes of irregular migration and displaced persons in Africa**.

The creation of the Emergency Trust Fund for Africa provided a platform for the EU to step up its collective response to address the root causes of irregular migration and forced displacement, and in particular those in the Action Plan adopted at the EU-Africa Valletta Summit in November 2015. Signed at the Summit by the 28 Heads of State contributing to the **EUR 1.8 billion** EU Trust Fund, it supports some of the **most fragile and vulnerable countries** across Africa (in 3 regions Sahel and Lake Chad, Horn of Africa, North of Africa and neighbouring countries), reinforcing the EU's ongoing development cooperation in the continent.

The four key priorities under the EU Trust Fund **complement the EU's migration agenda**, and will bolster efforts to address the **root causes of migration** and **support stability and growth** in Africa: strengthening economic development; enhancing resilience; ensuring better

management of migration; and strengthening governance, stability and security.

The EU Trust Fund for Africa demonstrated its capacity to work as a flexible instrument to respond to crisis, in less than two months after its establishment: a first operational committee for Horn of Africa was held at the end of 2015 and the first operational committee for the Sahel/Lake Chad region at the start of 2016, providing over EUR 350 million in projects for the two regions. Programmes are being prepared rapidly for roll-out on the ground and operations will continue and intensify in 2016.

### MIEUX (Migration EU expertise)

In recent years, **migration** has received increased attention among development actors and since 2011 has been included as a priority area in the EU Agenda for Change. The 2030 Agenda on the Sustainable Development Goals recognises migration as a positive force for development and the European Agenda on Migration sets out a comprehensive EU approach, aiming at a triple-win situation: an improved situation for countries of origin, for countries of transit/destination and, of course, for the migrants themselves.

It is within this framework that the *Migration EU expertise – MIEUX* programme has proven its particular relevance. *MIEUX* represents a flexible and innovative mechanism that ensures that the EU can deliver relevant and tailor-made expert assistance to partner countries in the area of migration and asylum, in line with their needs.

By providing quick and targeted support to improve the migration capacities of authorities in partner countries, the *MIEUX* approach, which is demand-driven and based on a peer-to-peer exchange, is reinforcing EU migration policy dialogues and partnerships, and complementing more medium- to long-term EU interventions, through the concrete implementation of commitments taken and needs identified in these frameworks.

With over 100 requests, more than 70 completed and ongoing actions, and more than 250 experts deployed, primarily coming from EU Member States public administrations, *MIEUX* has demonstrated its capacity to efficiently support EU partner countries in all thematic areas of migration, with a strong focus on cross-cutting issues including governance and human rights. Following the successful completion of that initial pilot phase, *MIEUX* entered its third phase in December 2015, with a budget of EUR 8 million until 2019.

Throughout the years, *MIEUX* has evolved to adjust to developments and has been readapted in line with lessons learned and recommendations. For instance, the scope of *MIEUX* has been enlarged and broadened to encompass all thematic sub-areas of migration, including legal migration, irregular migration, asylum and international protection, and migration and development. Cross-cutting topics related to migration management, policy development, data management and human rights are now also deeply embedded in all of *MIEUX*'s interventions. The exchange of knowledge, technical capacities and experience between EU government officials and their counterparts in developing countries – which is *MIEUX*'s main feature, remains at the core of the programme.

In 2015, the thematic focus of *MIEUX*'s actions was mostly on irregular migration and trafficking in human beings (with 14 activities in total), migration and development (11 activities), and labour migration and mobility (10 activities). Overall in 2015, 426

stakeholders in partner countries took part in workshops or regional consultations organised through MIEUX, and nearly 110 persons were trained or took part in a study visit through the programme.

At geographical level, Asia and Sub-Saharan Africa were clearly the main regions benefitting from MIEUX interventions in 2015, with respectively 17 and 15 activities implemented over the year in these two regions, out of 41 activities implemented at global level.

For instance, in 2015, MIEUX directly supported the formulation of the government's diaspora engagement policy in Burundi, and the development of a strategy on trafficking in persons in Côte d'Ivoire.

## **TOWARDS A RESILIENT ENERGY UNION WITH A FORWARD LOOKING CLIMATE CHANGE POLICY**

Pollution, deforestation and desertification are just a few of the threats facing some of the world's poorest populations. Ravaged environments undermine a country's food production, public health and resilience to natural disasters, and threaten economic development, safety and the rule of law. Healthy and well-managed ecosystems, on the other hand, provide the conditions for green growth and jobs, and a better quality of life.

The EU support for development is thus anchored in the need to protect and conserve environments and ecosystems for the wellbeing of all people. Its work in this area is guided by its commitment to global environment and climate change agreements, and EU internal policies.

The European Union is at the forefront of international efforts to protect global environmental public goods and address climate change, with the aim to preserve our living environment and promote sustainable and inclusive development within the limits of planets boundaries.

### **COP 21 in Paris agreement to combat climate change**

In 2015 the international community adopted two major agreements that will define our work in international cooperation and development for the years to come. The 17 goals of the new **2030 global sustainable development agenda** underline a commitment to balance economic, social and environmental objectives. One of the sustainable development goals adopted (SDG13) **focuses on climate change. The Paris Agreement (COP21)** is the first-ever legally-binding global climate deal covering all countries with an important EU-ACP agreement paving the way to the final deal. Under the framework of the 2030 Agenda and the Paris Agreement awareness of the links between climate change, poverty reduction, development and sustainability for a global transformation to a low emission and climate resilient world needs to be strengthened. Developed countries agreed to provide USD 100 billion a year to address climate change in developing countries by 2020 until 2025 when a new collective goal will be set. The EU has already committed itself to playing its part, by devoting at least **20 % of its budget for 2014-2020 to climate change related actions.** Development cooperation has an essential role in supporting this process, in particular in the poorest and most vulnerable countries. **ODA** will continue to be one of the main sources of climate finance, and the EU will enhance its efforts to integrate climate change into its

strategies (screening all programmes and projects to integrate climate change, including the food security, agriculture and health sectors).

### An EU strategic approach to wildlife conservation in Africa

Under the EU Biodiversity for Life (B4Life) flagship initiative, an African Wildlife Crisis Window has been created to address the increasing concern of wildlife poaching and biodiversity loss and define a strategic approach for African wildlife conservation. The study 'Larger than Elephants', was also carried out. It describes the scale of the crisis facing Africa and its people, identifies lessons learned from conservation programmes to date and sets out priority areas for future action. The study is an example of the European Commission's new joined-up approach to development cooperation and provides inputs for an EU strategic approach to wildlife conservation in Africa. Similar strategic studies are now developed for Asia and Latin America.

## A NEW BOOST FOR JOBS, GROWTH AND INVESTMENT

Beyond Europe, there exist additional opportunities coming from the development policy and instruments that are at its disposal to primarily stimulate investment, create economic activities, and hence growth and jobs in partner countries while at the same time having positive economic effects in Europe.

The Agenda for Change emphasises the support of **inclusive growth and job creation as a key priority of EU external cooperation**. By alleviating poverty, improving the enabling environment for the private sector in developing countries while contributing to decent work, and making a contribution to public financial management, good governance and the rule of law, the EU's bilateral, multilateral and global development efforts can make a positive contribution to sustainable growth in developing countries. Over the medium term, sustainable development in developing countries can increase the size of the EU's external markets, generating prosperity and opportunities for jobs and growth within the EU as well as in developing countries themselves.

Strengthening the strategic partnership with Africa is one of the EU's political priorities. The EU-Africa Partnership promotes a relationship between equals and is based on shared interests and common values. While supporting African integration, the EU also aims to boost sustainable and inclusive growth and to contribute to prosperous and peaceful societies. Sustainable prosperity and peace in Africa also benefit Europe by contributing to address mutual challenges such as climate change and demographic unbalances, by offering new economic, trade and investment opportunities for both sides, and by reducing mutual security threats. In this respect, the EU support to the establishment of the African Continental Free Trade Area (CFTA) funded via the African Union Support Programme was adopted. The EU also further engaged the European and African Private Sector via a High Level event on "Catalysing private sector engagement and resources for development: the EU and African perspectives", in the framework of the third UN Conference on Financing for Development (Addis Ababa, 15 July 2015), organised jointly by the European Commission and the African Union Commission. Private sector organisations involved in large infrastructure projects and in mining in Africa were also brought together in the context of a joint EU-AU High Level Workshop on the infrastructure needs of the Mineral Sector in Africa (Brussels, March 2015).

## Communicating our achievements and results

### European Year for Development 2015

In 2015, DG DEVCO implemented the European Year for Development 2015 with the motto "**Our World, Our Dignity, Our Future**". The main objective of the year was to inform, involve and raise awareness of EU citizens, especially young people, of the results achieved by the EU and its Member States in development as the **world's biggest aid donor**. Additional focus was placed on highlighting the importance of Policy Coherence for Development and the win-win dimension of EU's collective actions. The European Year for Development 2015 successfully adopted a co-ownership approach throughout the year that saw key partners in development run their own activities, publish their own content on the collaborative campaign website, co-curate the EYD2015 Twitter and Facebook accounts and use the vast online and digital campaign thematic material at their levels to best reach citizens. The campaign received wholehearted support from a large and diverse number of stakeholders – from all EU Institutions and EU Member States to civil society groups and the private sector.

At the end of 2015, the European Parliament, the Council and the Commission adopted a 'Joint Declaration on the legacy of the European Year for Development' acknowledging its results in bringing development cooperation closer to the citizens and highlighting six lessons learned from the year: build on partnerships; address young people; put human stories at the centre of communication; be interactive; be fact-based; and keep the spirit of the EYD2015 as expressed through its motto. An evaluation report capturing the year's implementation, results and overall assessment of the measures taken at the EU and Member States level will be available at the latest by 31 December 2016.

### First report on selected results of projects and programmes financed by the European Union

DEVCO prepared a draft of the first detailed report on selected results of projects and programmes financed by the European Union. The draft report is based on the new EU International Cooperation and Development Results Framework launched by the European Commission in March 2015. This draft First Report on Selected Results on data collected between July 2013 and June 2014,<sup>12</sup> presents in particular the following aggregated results to which the EU contributed through **projects and programmes that ended between mid-2013 and mid-2014** and were funded mainly by the DCI, ENI and EDF instruments.

#### *a) EU contributions to results in partner countries: aggregated results*

##### **Good Governance**

- **32,000** human rights defenders were supported in promoting civil, political, economic, social and cultural rights

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<sup>12</sup> The report is to take the form of a Staff Working Document and the draft is on the point of being launched, around Mid-March 2016, for Inter-services consultation.

- **19** elections were supported where the electoral process was perceived by independent observers as free and fair
- **197 000** individuals benefited directly from justice, rule of law and security sector reform programmes
- **372 000** people benefited directly from legal aid programmes, central to ensuring equality before the law ensuring by providing the right to counsel and the right to a fair trial.

### Conflict Prevention, Peace Building and Security

- **651 000** people benefited directly from programmes that specifically aim to support civilian post-conflict peace building and/or conflict prevention.

### Sustainable Agriculture, Food Security and Nutrition

- **2 883 000** hectares of agricultural and pastoral ecosystems were managed by sustainable land management practices to reverse the degradation of agricultural ecosystems in partner countries caused by factors such as climate change
- **528 000** people received rural advisory services to add value to their produce and improve the links between farmers and markets
- **51 000** people secured tenure of land, building up their assets in order to enjoy sustainable livelihoods
- **4 544 000** women of reproductive age and children under 5 benefited from nutrition-related programmes
- **988 000** food-insecure people received assistance through social transfers.

### Energy

- **1 300** km of transmission/distribution lines were built or upgraded, as part of efforts to provide access to secure, sustainable energy services.

### Public Financial Management

- **16** countries improved their overall public financial management, which is critical to the efficient management of public resources and delivery of services in partner countries.

### Education

- **19 447 000** children were enrolled in primary education
- **9 562 000** children were enrolled in secondary education
- **33 000** teachers were trained, all providing a foundation for future learning and skills.

### Health

- **1 160 000** births were attended by skilled health personnel, helping to reduce maternal mortality and neonatal mortality
- **934 000** children under 1 year were immunised, helping to reduce child mortality
- **43 053 000** women used a method of contraception in 2013

- **4 233 000** people with advanced HIV infection received antiretroviral therapy in 2012
- **150 000 000** insecticide-treated bed nets were distributed during 2010-2012 for malaria prevention.

### Natural Resources, Environment and Climate Change

- **49** partner countries either developed and/or implemented climate change strategies, to help them adapt to global changes such as climate change and ecosystem degradation
- **13 785 000** hectares of protected areas were managed, to help ensure biological diversity and to preserve natural heritage
- **3 900** micro, small and medium-sized enterprises (MSMEs) applied sustainable consumption and production practices to support a 'green' economy that generates growth, creates jobs and helps to reduce poverty.

### Transport

- **11 000** km of roads were constructed/rehabilitated/maintained to provide better access to transportation, particularly for the most disadvantaged groups in partner countries.

### Employment and Social Protection

- **326 000** people benefited from Vocational and Educational Training (VET)/skills development and other active labour market programmes intended to improve employability, productivity and competitiveness in partner countries.

### Trade and Private Sector Development

- **450** firms gained access to credit, to help them avoid risks and make investments
- **140** quality certifications were issued to improve partner countries' national quality infrastructure in order to meet international standards and thus reap the benefits of the multilateral trading system
- **7** countries improved their business environment thereby enabling private enterprises to develop, leading to economic growth.

The results information has been drawn from the reporting by EU implementing partners (i.e. partner countries, international organisations, Member State development agencies, international financial institutions and NGOs).

The results presented here have been aggregated on the basis of indicators in the EU Results Framework<sup>13</sup>. They have been aggregated across all countries against each indicator. Along with the aggregate results, examples of achievements for each EU Results Framework indicator are also given.

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<sup>13</sup> Staff Working Document Launching the EU International Cooperation and Development Results Framework (2015)80 final

## ***b) European Commission's organisational performance as a donor***

Besides the field results of the project and programme, the forthcoming report will also present the data over 2014 for a set of selected performance indicators as contained in the aforementioned EU International Cooperation and Development Results Framework relating in particular to the following key policy priorities:

### **Nutrition mainstreaming<sup>14</sup>**

The Commission has made a commitment with respect to the global target to reduce the number of stunted children by 70 million, by 2025, which has been agreed by the World Health Assembly (Global Hunger Event, London, and August 2012). It has also accepted responsibility for supporting EU partner countries so that at least 10% of this target, benefiting at least 7 million children, is met through EU-funded programmes. The Commission also pledged to finance EUR 3.5 billion to combat malnutrition, at the 'Nutrition for Growth' event during the G8 Summit in Northern Ireland on 8 June 2013.

### **Gender mainstreaming**

The best available benchmark by which to measure financial contributions to gender equality and women's empowerment is the OECD-DAC gender marker. Measuring the amount of funding support to gender equality is important both in terms of accountability and to identify where more resources may be needed.

The target set for 2013 meant that 75% of all new EU-funded cooperation and development projects and programmes would score G1 or G2 – that is, they would either have a significant gender equality dimension (G1) or would have gender equality as a principal objective (G2). However, the marker does not measure multilateral aid, general budget support, debt relief or emergencies.

Despite improvements, the target of 75% remains far from being met – reaching 31.3% in 2014 and 51.7<sup>15</sup>% in 2015. This illustrates the need to continue deploying efforts on gender equality. It could also point to possible difficulties in implementing or using the marker adequately.

### **Fragile states**

In its Communication on the [Agenda for Change](#) (2011), the Commission committed to give priority to countries “most in need and fragile” and highlighted the importance of tackling the challenges of fragility. It stated that the EU should strive to help countries in situations of fragility to establish functional and accountable institutions that deliver basic services and support poverty reduction. In 2014, the EU committed 26.7% of the value of new commitments towards fragile states (37.9% in 2015<sup>16</sup>) and spent 36% of total disbursements

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<sup>14</sup> Contrary to the figures for the other indicators in this section, the figures for this indicator are based on 2013 data.

<sup>15</sup> The value for 2015 is provisional. For this indicator the improvement of the result vs. 2014 is partly due to a better quality of the denominator (total number of projects).

<sup>16</sup> The value for 2015 is provisional

on support to fragile states<sup>17</sup>, (44% in 2015<sup>18</sup>).

### **Leverage of blending operations**

The EU intends to use its blending operations to mobilise external financing to realise investments in partner countries. The leverage ratios presented are those expected in the blending operations approved under its seven blending facilities, as estimated by the financial institutions involved. Building on the ratios of commitments made in 2014, it is expected that for each euro granted by the EU, the financial institutions concerned will invest 10.5 euros, while the total investments expected to be mobilised amount to 20.7 euros. Thus, the mobilisation of private financing has already reached a leverage of 2.3 (1 euro of EU funds has leveraged 2.3 euros from private financing) and the Commission is exploring all possibilities to increase private-sector involvement even further.

The outcomes of a strategic evaluation (to be available in summer 2016) on the seven blending instruments are expected to provide insightful evidence on the process and value added of EU support to date

### **Human development**

Human development is an important component of EU aid policies, with a 20% benchmark set in the Agenda for Change. In 2014, the EU committed EUR 843 million towards actions contributing to human development, representing close to 16% of the total commitments made in the same year. Being 2014 – the first year of the Multiannual Financial Framework (2014-2020) – commitments will have to be stepped up in coming years in order to reach the target of 20% by 2020.

### **Environment and climate change**

The climate-relevant part of all EU budgetary commitments made in 2014 for actions funded in the context of international cooperation and development was estimated at around 11.4% (12.6% in 2015<sup>19</sup>), while the biodiversity-relevant part was estimated at 2.5% (4.3% in 2015<sup>20</sup>). In the coming years, the Commission, informed by the recommendations of the Evaluation on Environment and Climate Change<sup>21</sup> will look into further strengthening the integration of environment and climate change considerations across all sectors of EU cooperation, building on the momentum created by the adoption of the new sustainable development agenda and the outcome of the climate change negotiations.

### **Trade facilitation**

Funds to support the implementation of the Trade Facilitation Agreement are a component

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<sup>17</sup> As defined in the OECD list of fragile states and economies for 2014

<sup>18</sup> The value for 2015 is provisional

<sup>19</sup> The value for 2015 is provisional.

<sup>20</sup> The value for 2015 is provisional

<sup>21</sup>[https://ec.europa.eu/europeaid/thematic-evaluation-eu-support-environment-and-climate-change-third-countries-2007-2013\\_en](https://ec.europa.eu/europeaid/thematic-evaluation-eu-support-environment-and-climate-change-third-countries-2007-2013_en)

of the broader Aid for Trade assistance provided by the EU. Trade-related needs are provided for while funds programmed under the EU's 2014-2020 Multiannual Financial Framework cover trade-related needs well in excess of the EU's commitment of EUR 400 million for trade facilitation. The value of the indicator in 2014 reflects the prioritisation of trade facilitation in a context whereby the Trade Facilitation Agreement is still in the process of ratification. Such prioritisation is expected to rise once this Agreement has entered into force.

## 2015 Challenges

**Fragility, insecurity political uncertainties, crises and vulnerability to natural disaster in some of the partner countries** remain among the challenges that DEVCO faced in implementing the policy of development.

The **graduation** of some of our partner countries and the increased importance of **emerging donors** have prompted the reflection in 2015 on how DEVCO could best engage with graduated countries and new donors while fine-tuning and adapting to evolving needs.

### Lack of payment credits challenge

In 2015 DEVCO continued to be faced with the **challenge** of lack of payment credits. The budgetary situation in the development cooperation was extremely difficult. DEVCO encountered already in August the situation of dealing with very scarce financial resources, and despite some additional funds received in October the gap between the needs and the available funds remained uncovered. Mitigation actions were put in place well in advance to ensure the continuity of development aid and to limit the adverse consequences of the existing payment shortages. The measures included prioritisation of the use of available payment appropriations (favouring the more fragile beneficiaries) and safely delaying some payments to next year (postponing signature or the start of new contracts and projects, decreasing the amount of pre-financing, postponing budget support payments).

Despite all these measures, many invoices could not be paid and payments amounting to EUR 483 million were transferred to 2016. In addition, this will result in the payment of an estimated amount of EUR 1 million of late interest which creates a high reputational risk with many stakeholders (partner countries and NGOs that are highly dependent on our payments).

## State of play of the examples of economy and efficiency mentioned in the 2015 Management Plan of the DG.

### Simplification exercise

DG DEVCO initiated in 2014 an exercise of simplification of its processes, aiming at improving their effectiveness and efficiency, cutting red tape and increasing staff's satisfaction. All processes of the DG were thoroughly analysed. More than one hundred recommendations resulting from this exercise, covering a wide range of topics such as human resources, reporting, procurement, evaluation, document management and IT have been agreed. Their implementation has continued throughout 2015.

Significant results have been reached in terms of time saved and processes made more efficient in a wide range of fields. Here are some examples of what has been accomplished in 2015:

- Non-substantial riders to financing decisions and decommitments led in Delegations are now fully carried out by the Delegations themselves. The average lengths by these processes have dropped from 75 to 12 days.
- The workflows for the approval of deviations have been drastically simplified, also leading to major time savings. The average length has dropped from 39 to 8 days.
- Programme estimates contracts have been fully revamped: they now can last longer, their ceilings have been updated and most importantly partner countries may use their own procurement systems upon conditions.
- The management of calls for proposals has improved, notably through grouping of different calls and better targeting the objectives to reduce the number of applicants.
- The documents supporting the new financing decisions have been revised and unified.
- A new Results Oriented Monitoring handbook has been released, increasing the quality of the planning and the conclusions of the missions.
- The establishment of the EAMR has again been improved and eased for the Delegations with the 2015 exercise.
- Other reports have ceased to be produced (NAO report) or should be produced less frequently (Financing for Development).
- The role of the Budget Support Steering Committee has been streamlined, removing cases where discussions were not necessary.
- Most signataires have now turned electronic.
- A corporate system, Basis, is now running for preparing briefings and speeches, which eases their preparation, follow-up, archiving and reuse.
- The Heads of Delegation could officially take part in the appraisal of their staff through Sysper for the 2014 exercise.

### **Management of calls for proposals (PROSPECT)**

**PROSPECT** is a new online tool for calls for proposals which aims at improving the whole process of calls and at integrating it in a single online system. It has been deployed in Headquarters as of January 2015 and in Delegations as of July 2015.

Relevant activities were put in place to prepare and train more than 10.000 users (colleagues, external assessors, applicants). User manuals and e-learning were made available and training sessions were organised in Headquarters bi-monthly and in Delegations upon request (IT training), while ad hoc training was made available remotely via videoconference sessions. Feedback received during the first year of deployment clearly showed the added value of the system, especially in terms of efficiency gains and simplification brought in the day-to-day management of calls for proposals.

As of July 2015, PROSPECT is used by all DEVCO services managing calls for proposals (CfP) under direct management. A first assessment of the associated efficiency and simplification gains from the introduction of this new IT tool will be performed in the third quarter of 2016, on the basis of the figures that will become available after the first complete year of usage of the system in Headquarters and Delegations.

A survey has already been launched and addressed to the 5 services that first used the system in HQ and Delegations and which have already finalised the CfP procedure. These preliminary results confirm that PROSPECT has substantially increased the efficiency of CfP by reducing the overall workload associated to calls for proposals by up to 1 month per call.

Indeed, to-date 93% of the applicants to calls for proposals submitted their applications and received the results of the evaluation online. This is indeed a revolution for this process that was heavily relying on paperwork, archiving and encoding by the EC services. More than 95% of the applicants who participated to an anonymous online survey confirmed that PROSPECT has simplified the application process and provides a better service quality.

## 2. 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, which monitors the functioning of the internal control systems on a continuous basis, and by internal and external auditors. Its results are explicitly documented and reported to the Director-General. The reports produced are:

- **86 External Aid Management Reports (EAMR)** produced by EU Delegations, together with the statements of assurance signed by the Heads of Delegations. These statements include - as foreseen in the Financial Regulation - information on the efficiency and effectiveness of the internal control systems put in place in the Delegations, as well as information on the management of the operations sub delegated to them providing thus their assurance to the relevant Director in accordance with the sub delegation received;
- **13 Sub-Delegated Authorising Officers' Reports** produced by DEVCO Directors and Heads of units having received a sub-delegation from the Director-General or his Deputies;
- **11 reports from Authorising Officers in other DGs** managing budget appropriations in cross-delegation;
- the **activity report of the EU Trust Fund "Békou"**<sup>22</sup>;
- **Management declarations** from International Organisations and Member States Agencies;
- **Available pillars assessment reports:** International Organisations and National Agencies need to pass pillar assessments pursuant to the Financial Regulation in order to be able to sign delegation agreements under indirect management. These assessments are designed to check whether the European Commission can entrust budget implementation tasks to entities that demonstrate a level of financial management and protection of the EU's financial interest equivalent to that of the Commission;
- the **2015 Report on Internal Control Standards** - compliance and effectiveness - issued by the Internal Control Coordinator;
- the **observations and recommendations** reported by the Commission Internal Audit Service (IAS);
- the **opinion of the Commission Internal Audit Service**;
- the **2015 Residual Error Rate Study (RER)**;
- a **desk review of the results of the Residual Error Rate studies** and the European Court of Auditors reports for the last 3 years (2012-2014)

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

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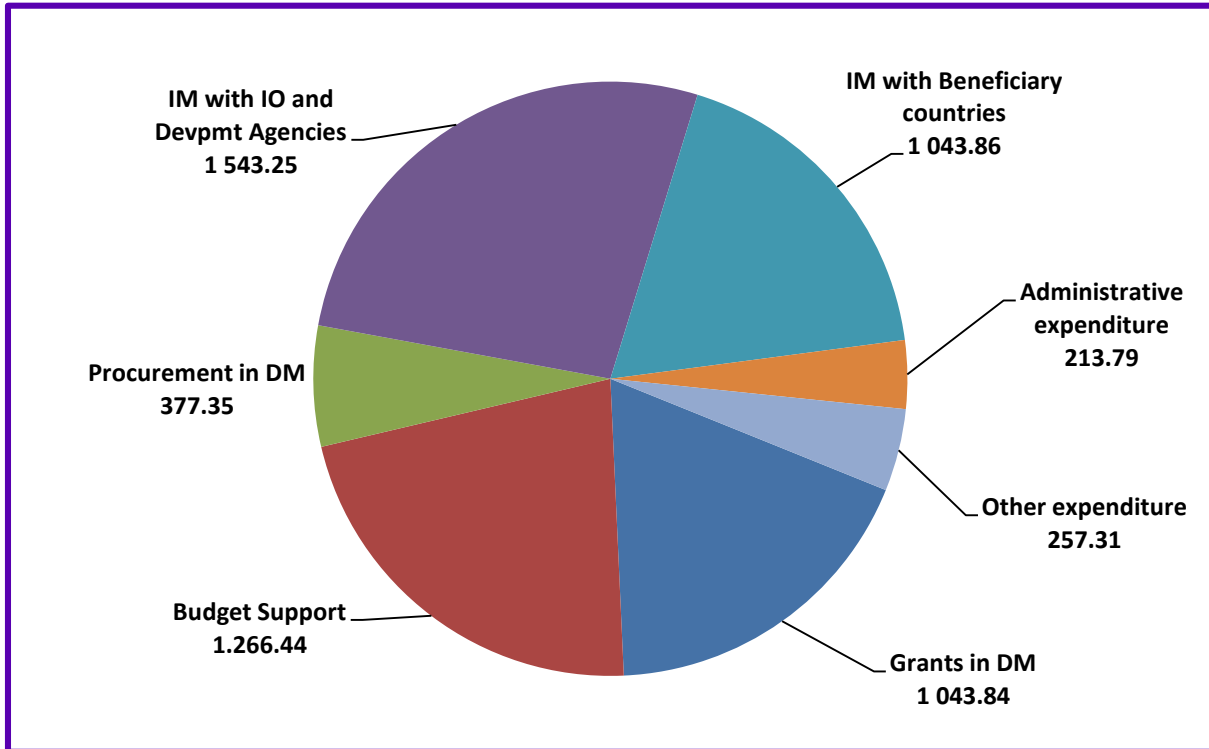
<sup>22</sup> No activity was carried out in 2015 by the EU Trust Fund "Africa" created in November 2015.

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

## 2.1 Control results

The breakdown by management modes of total payments made by DEVCO in 2015 is presented in the below chart<sup>23</sup>:

Total 2015 DEVCO payments: EUR 5 746 million



This section reports and assesses the elements identified by management that support the assurance on the achievement of the internal control objectives<sup>24</sup>. The DG's assurance building and materiality criteria are outlined in the AAR Annex 4. Annex 5 outlines the main risks together with the control processes aimed to mitigate them and the indicators used to measure the performance of the control systems.

### 2.1.1 Control effectiveness as regards legality and regularity

DG DEVCO has set up internal control processes aimed at ensuring the adequate management of the risks relating to the legality and regularity of the underlying transactions, taking into account the multiannual character of programmes as well as the nature of the payments concerned.

<sup>23</sup> Payment made by DEVCO in 2015 in contribution to EU Trust Fund Bekou amounts to EUR 18.4 million. It represents only 0.3% of total amount paid by DEVCO in 2015 and is therefore not material.

<sup>24</sup> Effectiveness, efficiency and economy of operations; reliability of reporting; safeguarding of assets and information; prevention, detection, correction and follow-up of fraud and irregularities; and adequate management of the risks relating to the legality and regularity of the underlying transactions, taking into account the multiannual character of programmes as well as the nature of the payments (FR Art 32).

## Global objective of control:

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

Since 2012, DEVCO estimates an annual residual error rate by means of a Residual Error Rate (RER) study based on a methodology developed as a reply to a recommendation by the European Court of Auditors (ECA)<sup>25</sup>. The main purpose of the RER study is to provide a representative indicator for the determination of the materiality of potential weaknesses. The errors identified by the RER are systematically followed-up.

The fourth RER study was carried-out in 2015. The methodology is based on the examination of closed contracts, after the implementation of all ex-ante and ex-post controls. As a consequence, it results in an assessment of the errors not detected by the overall control system. The RER study for 2015 applied the methodology on the basis of a sample (drawn by monetary unit sampling) of 210 transactions. These transactions relate to contracts closed in the CRIS data base in the period September 2014 to August 2015. The multiannual nature of DEVCO's programmes is taken into account in this methodology, as the contracts closed during the said period and taken into account for the monetary unit sampling were authorised over a period of several years.

### In 2015, the residual error rate stands as follows:

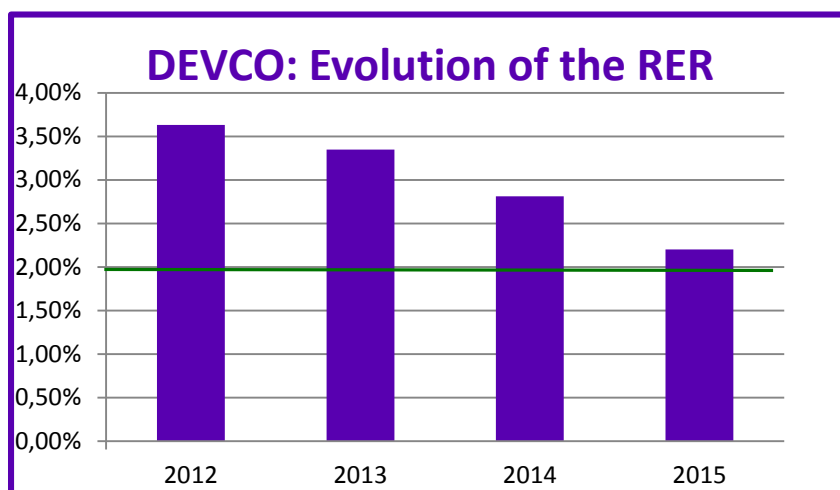
<b>Confirmed errors:</b>	<b>0.99 points</b>
Of which Indirect Management with International Organisations:	0.45 points
Of which Direct Management of grants (mainly NGOs):	0.54 points
<b>Error due to missing or inadequate documentation:</b>	<b>0.77 points</b>
Of which Indirect Management with International Organisations:	0.58 points
Of which Direct Management of grants (mainly NGOs):	0.19 points
<b>Estimated errors:</b>	<b>0.44 points</b>

As a consequence, the most likely estimate of the representative residual error rate was 2.20%<sup>26</sup> compared with 2.81% in 2014, 3.35% for 2013 and 3.63% for 2012. The overall error rate should be seen in the light of the fact that a large part of the error is due to missing or inadequate documentation (altogether 0.77 percentage points, of which 0.58 percentage points relating to transactions with international organisations) rather than confirmed errors.

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<sup>25</sup> The RER study does not represent an assurance engagement (or audit) and therefore is not performed in accordance with International Standards on Auditing. It follows its own methodology which is described in the RER Methodology and Instruction Manual. The main differences with an audit are: reliance on previous supervision and controls; mainly desk review; estimation of errors in defined cases; scope of examination of procurement procedures. The methodology and manual provide the framework for RER procedures and clearly describe the situations in which reliance should be placed on previous control work and where substantive testing should be undertaken. Previous control work may include financial and technical audits, audits performed in the framework of the European Court of Auditor's Declaration of Assurance (DAS), verifications, evaluations and technical supervisors' reports. Reliance on previous control work does not entail re-performance of audit procedures or examination of detailed working papers. This aspect of the RER Methodology is founded on cost-effectiveness considerations. Where the quality of previous control work is examined and deemed capable of supporting reliance, there remains the possibility that errors will not have been detected by that previous control work, as is the case for any similar engagement. In such a case, these errors will remain undetected where full reliance is placed on previous control work. Where there is no previous control work or where the quality of previous control work cannot be demonstrated to have reached the standards demanded by the RER Methodology, the study requires performance of detailed substantive procedures designed to reveal undetected errors.

<sup>26</sup> 95% confidence rate with an upper error limit at 4.54% and a lower error limit at 1.07%.



The European Parliament and the 2014 synthesis report invited DEVCO to issue a more risk differentiated assurance. A risk analysis was therefore carried out on the basis of past RER and ECA results for a three-year period (reporting years 2012, 2013 and 2014).

For both RER and ECA, the basic populations (around 81500), samples (around 1300) and transactions with errors (444) were split according to the five Internal Control Templates (ICT: Direct Management: Grants, Direct Management: Budget Support, Direct Management: Procurement, Indirect Management with Beneficiary Countries, Indirect Management with International Organisations and Member State Agencies). Per ICT, an apparent specific error rate was calculated following the same methodology as used by the ECA. The confidence interval was calculated in order to guarantee a 95% confidence level. As the confidence intervals are different, these apparent error rates should be used with prudence. They can, however, give an indication about the inherent risk per ICT and were therefore transformed into risk indexes, setting the overall error rate at a risk index of 100:

Expenditure categories	Related to 2015 DEVCO portfolio
<b>Global</b>	<b>100</b>
I Direct Management - Grants	151
II Direct Management – Budget Support	8
III Direct Management – Procurement	53
IV Indirect Management with Beneficiary Countries	103
V Indirect Management with IO and Member State Agencies	129

**Main risk areas:**

There are two high risk pending areas: Direct Management - Grants and Indirect Management - International Organisations and Member State Agencies.

This risk analysis now allows drawing a targeted conclusion for the reservation to be issued due to the fact that the overall error rate is above 2%.

Below sections describe the main implementation modalities used by DEVCO in 2015 for the delivery of the External Aid. They present for each of them the characteristics and results of the applicable controls and conclude on the level of risk associated to each of these implementation modalities.

Main control by Internal Control Template (ICT)						
Moment of Control	Control type	ICT 1 Grants in DM	ICT 2 Budget Support (DM)	ICT 3 Procurement in DM	ICT 4 IM with Beneficiary countries	ICT 5 IM with IO or MS Agencies
Prior to Contracting	Budget Support Eligibility Assessment	NA	100%	NA	NA	NA
	Ex-ante checks	100%	100%	100%	100%	100%
Contracting	Ex-ante checks	100%	100%	100%	100%	100%
Prior to Payment	Expenditure verifications contracted by fund recipients	All final payments of grants > EUR 100 000	NA	Only for fee-based service contracts	Only for fee-based service contracts	All final payments of grants > EUR 100 000
		Further pre-financing > EUR 5 million				Further pre-financing > EUR 5 million
Payments	Ex-ante checks	100%	100%	100%	100%	100%
Monitoring the Implementation	Service contracts for the supervision of works	NA	NA	100% of works contracts	NA	NA
Partly ex-ante / partly ex-post	Engagements under Annual Audit Plans	audit coverage ratio > 5%	NA	audit coverage ratio > 5%		
After implementation of all other controls	Annual Residual Error Rate (RER) Study	representative monetary unit sample				
Relative Weight of expenditure per ICT		ICT 1 Grants in DM	ICT 2 Budget Support (DM)	ICT 3 Procurement in DM	ICT 4 IM with Beneficiary countries	ICT 5 IM with IO or MS Agencies
Payments made in 2015 for each ICT (EUR million)		1 043.84	1 266.44	377.35	1 043.86	1 543.25
% of total of DEVCO payments in 2015 (EUR 5 746 million)		18%	22%	7%	18%	27%

## A. Direct Management

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

### Grants in Direct Management (ICT 1)

#### General description:

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

Payments for grant contracts in direct management represented 18% of the total amount paid in 2015 on DEVCO Budget lines (General Budget and EDF).

#### Controls in place:

##### Stage 1 – Prior to contracting

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

##### Stage 2 – Contracting

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

##### Stage 3 – Implementation

All payment requests and related reports are verified and approved by DEVCO staff (ex-ante controls). Before any operation is authorised, the operational and financial aspects are

initiated and verified by two different (operational/financial) entities. This is the "four eyes" principle of the Financial Regulation, which DEVCO, taking into consideration the specific high risk environment of external aid actions, reinforces by requiring controls by two separate agents for each of these two stages. Checklists and types of controls are regularly updated in accordance with the results of the risk analyses as well as changes in the regulatory environment.

The first pre-financing payment, which covers either 80% of the amount of the contract or 80% of the EU's part of the first annual budget, is paid after both parties have signed the contract. For multi-annual actions, an interim report (technical and financial) and payment request are sent once a year. The balance is paid on approval of the final report. If it appears that actual eligible costs are lower than anticipated or declared, the grant is reduced proportionately.

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

Expenditure verifications are compulsory for:

- Any request for payment of the balance in the case of grants of more than EUR 100 000;
- Any request for pre-financing payments per financial year in case of grants of EUR 750 000 or more.

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

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

Control results and risk analysis:

- Desk review of the results of ECA reports and the RER studies from 2012 to 2014 shows that grant contracts in Direct Management have a high risk index value of 151 compared with the average index value of 100. The amount at risk for this ICT is EUR 35 million.
- High risk index values are confirmed by the result of the RER study 2015 in which grants in direct management represent 65.6% of the overall error identified by the consultants.

- High risk index values are also confirmed by the results of the audits contracted by the Commission and by the assessment made by project manager in the EAMR. Indeed, 7.48% of the total amount audited in 2015 for grants in direct management was identified as non-eligible by the external auditors<sup>27</sup>. Grants in Direct Management represent 33.9% of the total ineligible amount identified in 2015 by external audits. Furthermore, grants in direct management represents a large part of the contracts assessed as problematic by their project managers in the 2015 EAMR with regards to activity implementation (63.5%) and objective achievement (79.8%).

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

Based on the above elements, the level of **risk associated to Grants in Direct Management** is assessed by DEVCO as **HIGH**. This is why the declaration of assurance of DG DEVCO will be qualified with a reservation for the expenditure made in the framework of grants in direct management (see point 2.4 below).

Several actions were decided by DEVCO in 2015 in order to mitigate these risks:

- Active promotion of a sound financial management amongst beneficiaries and partners through the diffusion of the Financial Toolkit and good practices.
- Systematic application of the quality grid for expenditure verifications and audits, including non-payment/reimbursement of reports of insufficient quality.
- Use of audit plan audits to complement expenditure verifications carried out by beneficiaries.
- Simplification of procedures and contractual conditions for grants.

### **Budget Support in Direct Management (ICT 2)**

#### **General description:**

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

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<sup>27</sup> Based on final audit reports received and registered in 2015.

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

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

Payments for Budget Support represented 22% of the total amount paid in 2015 on DEVCO Budget lines (General Budget and EDF).

### **Controls in place:**

#### **Stage 1 – Prior to contracting**

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

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

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

#### **Stage 2 – Contracting**

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

#### **Stage 3 – Implementation**

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

An important element of the governance of budget support is the Budget Support Steering Committee (BSSC) composed of higher Management of DEVCO, the EEAS and DG ECFIN

whose role is to enhance political and policy scrutiny and to ensure coherence of EU budget support operations. A risk management framework is also part of DEVCO's decision making process regarding budget support operations. Building on an identification of major risks and ways to mitigate them, the risk management framework systematically informs the policy dialogue with partner countries on the strategic level, as well as by focussing on key issues. Eligibility criteria have to be met both prior to and throughout the subsequent life of a budget support programme. The continuous assessment of the eligibility criteria enables the Commission to ensure the legality of the programmes, through commitments to payments.

<b>BSSC Activity</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015 (**)</b>
<b>New BS operations</b>	<b>18</b>	<b>56</b>	<b>41</b>	<b>36</b>
<i>Good Governance and Development Contracts (GGDC), Fundamental Values assessment</i>	10	5	3	6
<i>State Building Contracts</i>	4	6	12	9
<i>Sector Reform Contracts</i>	4	45	26	21
<b>Payments</b>	<b>84</b>	<b>141</b>	<b>100</b>	<b>70</b>
<i>for guidance</i>		84	76	70
<i>for info</i>		57	24 (*)	
<b>Others</b>	<b>6</b>	<b>5</b>	<b>3</b>	<b>4</b>
<b>TOTAL decisions</b>	<b>108</b>	<b>202</b>	<b>144</b>	<b>110</b>
<b>Risk Management Frameworks validation</b>			<b>61</b>	<b>71</b>
<b>TOTAL including RMFs validation</b>	<b>108</b>	<b>202</b>	<b>205</b>	<b>181</b>

\* In addition of those 24 payments, 32 others payments have been submitted for comments to DEVCO/03 from September 2014

\*\* 2015: BSSC for DCI and EDF (FAST for ENI excluded)- 22 payments and 1 new BS operation have not been submitted to the BSSC in 2015

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

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

#### Control results and risk analysis

- Desk review of the results of ECA reports and the RER studies from 2012 to 2014 shows that Budget Support operations have a very low risk index value of 8 compared with the average index value of 100.
- The number of errors identified by ECA on Budget Support decreased from 19 errors for 2010 to 2 errors with minor impact for 2014. A Budget Support Working Group launched in September 2013 in order to analyse the errors identified by ECA on BS payments during the last 3 years concluded that most of the errors were caused by a small number of issues: exchange rate issues, reliability of accounts, evaluation of disbursement conditions, and assessment of progress on Public Finance Management. Necessary controls for avoiding these errors have since been put in place.

- Low risk index values are confirmed by the result of the 2015 RER study in which no errors were identified for Budget Support operations by the consultants.
- Low risk index value also results from a system of ex-ante controls put in place by DG DEVCO for Budget Support operations and which prevents any payment to be made unless all required pre-conditions and targets have been met by the beneficiary countries. The efficiency of the ex-ante control system is illustrated by the fact that BS Operations represent 38% of the amount of payment requests blocked by ex-ante controls.

Based on the above elements, the level of **risk associated to Budget Support Operations** is assessed by DEVCO as **LOW**. This is in line with the 2013 Annual Reports concerning EDF and the budget, wherein ECA mentioned that the nature of the instrument and of the payment conditions limit the extent to which transactions are prone to errors.

### Procurement in Direct Management (ICT 3)

#### General description:

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

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

Payments for procurement contracts in direct management represented 7% of the total amount paid in 2015 on DEVCO Budget lines (General Budget and EDF).

#### Controls in place:

##### Stage 1 – Prior to contracting

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

##### Stage 2 – Contracting

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

### Stage 3 – Implementation

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

Disbursement of pre-financing is subject to contractual conditions (e.g. if an advance exceeds a specified threshold, the Contractor must provide a financial guarantee for the full amount of the pre-financing payment). The release of intermediary and final payments is subject to verification/validation of expenditure<sup>28</sup>:

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

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

Additional audits to be carried out by external auditors can be contracted by DEVCO as part of DEVCO's annual audit plans based on risk analyses. Moreover, payments for procurement

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<sup>28</sup> These payment requests may be subject to additional ex-ante audits contracted as part of DEVCO's annual audit plans by the Commission as deemed appropriate by the Authorising Officer by Sub-delegation.

contracts in direct management are included in the population of the Residual Error Rate study ordered each year by DEVCO on representative sampling of closed contracts. Findings from the risk based audits and from the RER study are systematically followed up by DEVCO which takes necessary actions for the recovery of non-eligible expenditures.

#### Control results and risk analysis:

- Desk review of the results of ECA reports and the RER studies from 2012 to 2014 shows that procurement contracts in Direct Management have a very low risk index value of 53 compared with the average index of 100.
- Low risk index value is confirmed by the result of the 2015 RER study in which procurement in direct management represented merely 0.1% of the total error.
- Low risk index value is also confirmed by the external audits carried out in 2015. Indeed, only 0.64% of the total amount audited in 2015 for procurement contracts in direct management was identified as non-eligible by the external auditors<sup>29</sup>.

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

#### B). Indirect Management

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

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

##### General description

Under indirect management with beneficiary countries, either the beneficiary country or an entity designated by it is entrusted by the Commission with the budget implementation tasks. This delegation is partial: it does not include the delegation of the budget-implementation task of carrying out payments.<sup>30</sup>

Payments for indirect management with beneficiary countries represented 18% of the total amount paid in 2015 on DEVCO Budget lines (General Budget and EDF).

##### Description of the controls in place

Despite the delegation to Partner Countries of the conduct of procurement and grant award procedures and of the management of the resulting contracts, controls described in Section

<sup>29</sup> Based on final audit reports received and registered in 2015.

<sup>30</sup> In addition, the Commission has however the possibility to delegate to the Partner Countries the power of carrying out payments to contractors and grant beneficiaries in the framework of programme estimates (PE). These payments relate to the ordinary operating costs of the PE, direct labour and small size contracts (i.e. below EUR 300 000 for procurement and below to EUR 100 000 for grants). In 2014, total payments made for programme estimated amounted to EUR 279 million.

2.1 above apply to Indirect Management with Beneficiary Countries<sup>31</sup>. Within this scope of delegation, it is the Commission, and not the contracting authority, which makes all payments directly to the contractors and grant beneficiaries. As a rule, all contracts must be awarded and implemented in accordance with the procedures and standard documents laid down by the Commission for its external operations, in force at the time of the launch of the procedure in question (with ex-ante control by the Commission at regular steps during the procedure).

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

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

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

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

### Control results and risk analysis

- Desk review of the results of ECA reports and the RER studies from 2012 to 2014 shows that operations in Indirect Management with Beneficiary Countries have a risk index value of 103 in line with the average index value of 100.
- In the 2015 RER study Indirect Management with Beneficiary Countries represented merely 4.6% of the total error.
- Low risk index value is confirmed by the external audits carried out in 2015. Indeed, only 0.54% of the total amount audited in 2015 for operations in Indirect Management with Beneficiary Countries was identified as non-eligible by the external auditors<sup>32</sup>.
- Low risk index value also results from system of ex-ante controls put in place by DG DEVCO for operations in Indirect Management with Beneficiary Countries and which prevent any contracts to be funded and payment to be made without prior approval by the Commission. The efficiency of the ex-ante control system is illustrated by the fact that operations in Indirect Management with Beneficiary Countries represent 23.8% of the amount of payment requests blocked by ex-ante controls.

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<sup>31</sup> Except for Budget Support Eligibility Assessment which by definition applies only to Direct Management

<sup>32</sup> Based on final audit reports received and registered in 2015.

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

## **Indirect management with International Organisations and Member States' Agencies (ICT 5)**

### **General description**

Under indirect management with international organisations and Member States' agencies budget implementation tasks are entrusted by the Commission to this type of entities.

### **Description of the controls in place**

#### **Stage 1 – Prior to contracting**

Candidate entities to be entrusted with budget-implementation tasks (the candidate delegate) have to demonstrate a level of financial management and protection of the EU financial interests equivalent to that of the Commission. This is verified by carrying out an ex-ante assessment, a pillar assessment of the entity. Pillars are the broad areas covered by this assessment and include (1) internal control, (2) accounting and (3) independent external audit. Moreover, the assessment must also include at least one of the following, so that the entity can be entrusted with the corresponding budget-implementation tasks: (4) procedures and rules for grants, (5) for procurement, (6) for financial instruments, as well as (7) a specific pillar for sub-delegation for which the entities concerned have been assessed positively.

#### **Stage 2 – Contracting**

DEVCO establishes and signs agreements with the organisations assessed and identified under stage 1. A standard agreement model is used for all EU-financed operations under indirect management with international organisations and Member States' agencies.

#### **Stage 3 – Implementation**

All payment requests and related reports are verified and approved by DEVCO staff (ex-ante controls). Before any operation is authorised, the operational and financial aspects are initiated and verified by two different (operational/financial) entities.<sup>33</sup> This is the "four eyes" principle of the Financial Regulation, which DEVCO, taking into account the specific high risk environment of external aid actions, reinforces by requiring controls by two separate agents for each of these two stages. Checklists and types of controls are regularly reviewed and updated to respond to feedback from risk analyses as well as changes to the

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<sup>33</sup> These payment requests may be subject to additional ex-ante verifications contracted as part of DEVCO's annual audit plans by the Commission as deemed appropriate by the Authorising Officer by Sub-delegation.

regulatory environment.

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

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

#### Control results and risk analysis

- Desk review of the results of ECA reports and the RER studies from 2012 to 2014 shows that Operations in Indirect Management with IO and MS Agencies have a high risk index value of 129 compared with an average index value of 100. The amount at risk for this ICT is EUR 53 million.
- High risk index value is confirmed by the result of the 2015 RER study in which Operations in Indirect Management with IO and MS Agencies represent 29.7% of the total error identified by the consultants.
- High risk index value is also confirmed by the results of the audits contracted by the Commission. Indeed, 4.11% of the total amount audited in 2015 for Operations in Indirect Management with IO and MS Agencies was identified as non-eligible by the external auditors<sup>34</sup>. Operations in Indirect Management with IO and MS Agencies represent 37.41% of the total ineligible amount identified in 2015 by external audits.
- It is also of interest to consider in this context the limited effect of ex-ante controls on payments with regards to operations in Indirect Management with IO and MS Agencies. Only 0.05% of the expenditure made for these operations was identified as ineligible by ex-ante controls. It represents less than 1% of the total amount of payment requests blocked by ex-ante controls.

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

Based on the above elements, the level of **risk associated to operations in Indirect Management with International Organisations and Member States' Agencies** is assessed by DEVCO as **HIGH**. This is why the declaration of assurance of DG DEVCO will be qualified with a reservation for the expenditure made in the framework of operations implemented in Indirect Management with International Organisations and MS Agencies (see point 2.4 below).

DEVCO's main focus in order to reduce this risk is on clarification and simplification of the

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<sup>34</sup> Based on final audit reports received and registered in 2015.

rules, procedures, agreement templates, and framework agreements that apply to its relations with IOs.

In addition, the following actions decided by DEVCO in 2015 should help mitigate these risks:

- Suspension of indirect management in case of repeated errors or breach of compliance with the rules for provision of documentation;
- Adaptation of the Terms of Reference for Verification Missions to International Organisations other than the WB and the UN (action continued from the previous Action Plan);
- Raising awareness and monitoring action for the clearing of pre-financing paid to IO more than two years ago (2013 and before).

### C) Cross-sub delegations

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

The cross-delegation agreements require the AOD of these DGs to report on the use of these appropriations. In their reports, the AODs did not communicate any events, control results or issues which could have a material impact on assurance.

Description	Fund Management Center	Budget Position	Paid Amount (EUR)
Environment and Climate change	DEVCO/CLIMA	21.020701	7 751 166
Environment and sustainable development of natural resources	DEVCO/CLIMA	21.025106	4 382 302
Pan-African Programme	DEVCO/EAC	21.020900	1 199 708
Pan-African Programme	DEVCO/ESTAT	21.020900	1 239 429
Support expenditure for Development Cooperation Instrument	DEVCO/SANTE	21.010401	55 000
Environment and sustainable development of natural resources	DEVCO/ENV	21.025106	4 488 801
Environment and Climate change	DEVCO/ENV	21.020701	10 999 324
Pan-African Programme	DEVCO/GROW	21.020900	No payments <sup>35</sup>
Coordination and awareness in development framework	DEVCO/DGT	21.080200	2 706
Cooperation with development countries in Asia	DEVCO/SCIC	21.025103	344 353

<sup>35</sup> 2.000.000€ have been committed

Pan-African Programme	DEVCO/SCIC	21.020900	41 924
European Development Fund - B Envelope	DEVCO/ECHO	02.10.21.20.30	87 855 393
Support expenditure for Development Cooperation Instrument	DEVCO/BUDG	21.010401	108 653
Human Development	DEVCO/NEAR	21.020703	213 699
Civil Society in Development	DEVCO/NEAR	21.020801	156 155
Cooperation with third countries in the areas of migration and asylum	DEVCO/NEAR	21.025101	7 857 839
Food security	DEVCO/NEAR	21.025104	7 050 877
Non state actors in development	DEVCO/NEAR	21.025105	8 651 443
Environment and sustainable management of natural resources, including energy	DEVCO/NEAR	21.025106	1 127 973
Human and social development	DEVCO/NEAR	21.025107	6 279 855
Enhancing the respect for and observance of human rights and fundamental freedoms and supporting democratic reforms	DEVCO/NEAR	21.0401	4 947 754
Completion of the European Instrument for Democracy and Human Rights	DEVCO/NEAR	21.0451	18 200 687
Pilot project-Civil society forum EU Russia	DEVCO/NEAR	21.047702	70 481
Evaluation of the results of Union aid and follow-up and audit measures	DEVCO/NEAR	21.0801	1 604 786
Cooperation with developing countries in Asia, including Central Asia and the Middle east	DEVCO/NEAR	21.025103	207 311
<b>TOTAL</b>			<b>174 837 619</b>

DG DEVCO also received cross-sub-delegations from other DGs to manage funds. The use of these funds has been reported adequately on to the relevant DGs. No reserve has been made.

## CONCLUSION

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

For DG DEVCO (EU and EDF budgets combined), the estimated overall amount at risk<sup>36</sup> for the 2015 payments made is EUR 174 million. This is the AOD's best, conservative estimation of the amount of expenditure authorised during the year (EUR 5 745.8 million) not in conformity with the applicable contractual and regulatory provisions at the time the payment is made.

The conservatively estimated future corrections<sup>37</sup> for those 2015 payments made are EUR 50 million. This is the annual amount of errors that the DG conservatively estimates to identify and correct from controls that it will implement in successive years.

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<sup>36</sup> Global error rate multiplied with the expenditure in each spending area, weighted with its specific risk index plus estimated annual future correction.

<sup>37</sup> This estimate is based on DEVCO data on recoveries, average for the period 2009-2015.

## 2.1.2 Efficiency and Cost-effectiveness

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

### A) Cost-effectiveness of controls

Estimation of the cost of controls: DG DEVCO's control costs were determined by using the same methodology as used for AAR 2014. Staff costs of control were established on a post-by-post basis by using the full time equivalent amounts set by DG BUDG and percentages for control tasks per screening category.

Following observations by the ECA, some changes were made to the costs taken into account as other costs of control, notably the external costs of evaluations and similar efforts to measure and improve results were removed from the other costs of control while the external cost of supervision of works contracts was added.

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

Total cost of controls for year 2015 is estimated by DEVCO at EUR 293.36 million.

Control cost 2015 in EUR million per management mode and per control stage							
Control Stages <sup>38</sup>	ICT1 - Grants in DM	ICT2 - Budget Support (DM)	ICT3 - Procurement in DM	ICT4 - IM with Beneficiary Countries	ICT4 - IM with IO or MS Agencies	Other	Total
Stage 1	20.02	13.91	16.57	24.65	22.15	2.28	99.59
Stage 2	10.01	0.62	8.29	12.32	11.00	1.14	43.38
Stage 3	18.40	14.84	39.68	18.70	19.66	1.42	112.70
Stage 4	8.36	1.71	6.55	10.22	10.00	0.85	37.70
<b>Total</b>	<b>56.80</b>	<b>31.08</b>	<b>71.10</b>	<b>65.89</b>	<b>62.81</b>	<b>5.69</b>	<b>293.36</b>

<sup>38</sup> Stage 1: prior to contracting; Stage 2: contracting; Stage 3: Implementation; Stage 4: Ex Post controls and follow-up.

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

<u>Cost effectiveness of controls (2015)</u>	<u>Internal Control Templates (ICT)</u>						<u>Total</u>
	<u>ICT 1 - Grants in Direct Management</u>	<u>ICT 2 - Budget Support</u>	<u>ICT 3 - Procurement in Direct Management</u>	<u>ICT 4 - Indirect Management with Beneficiary countries</u>	<u>ICT 5 - Indirect Management with International Organisations and Member States's Agencies</u>	<u>Other</u>	
<b>Control costs / Paid amounts</b>	5,44%	2,45%	18,84%	6,31%	4,07%	1,21%	5,11%
Control cost (EUR million)	56.80	31.08	71.10	65.89	62.81	5.69	293.36
Paid amounts (EUR million)	1 043.85	1 266.44	377.35	1 043.86	1 543.25	471.09	5 745.84
<b>Ineligible expenditure identified by ex-ante controls / Cost of ex-ante controls on payments</b>	<b>85,96%</b>	<b>248,14%</b>	<b>17,26%</b>	<b>122,78%</b>	<b>3,82%</b>	<b>932,27%</b>	<b>85,59%</b>
Ineligible expenditure identified by ex-ante controls (EUR million)	15.82	36.82	6.85	22.96	0.75	13.27	96.46
Cost of ex-ante controls on payments (EUR million)	18.40	14.84	39.68	18.70	19.66	1.42	112.70
<b>Ineligible expenditure identified by external audits contracted by the Commission / Cost of external audits contracted by the Commission</b>	<b>520,12%</b>	<b>NA</b>	<b>10,41%</b>	<b>223,80%</b>	<b>278,24%</b>	<b>NA</b>	<b>333,00%</b>
Ineligible expenditure identified by external audits contracted by the Commission (EUR million)	18.63	0.00	0.15	9.22	20.55	6.40	54.95
Cost of external audits contracted by the Commission (EUR million)	3.58	0.00	1.41	4.12	7.39	0.00	16.50
Recovery orders issued by DEVCO in 2015 for the reimbursement of undue payments / cost of stage 4 of controls (ex-post controls and follow-up)							237%
Recovery orders issued by DEVCO in 2015 for the reimbursement of undue payments (EUR million)							89.90
Cost of stage 4 of controls (ex-post controls & follow-up) (EUR million)							37.86

## Conclusion on the cost-effectiveness of controls

Total cost of controls for year 2015 is estimated by DEVCO at EUR 293.36 million. It represents 5.11% of total payments made by DEVCO in 2015. Taking into account the risky environment in which DEVCO operates and the complex set up for the implementation of External Aid, we consider the total cost of control is reasonable.

Costs effectiveness of DG DEVCO's controls is also demonstrated by the benefits of the controls as presented below:

- The **RER of DG DEVCO** for 2015 is estimated at 2.20%. Although above the materiality level of 2% set by the central services, this error rate is **relatively low** and **in constant reduction** since 2012.
- ***The main benefit of DEVCO's control system is the prevention of errors. The fact that DEVCO's system is geared towards ex-ante controls and not ex-post controls can be explained by the nature of its operations.*** In 2015, DEVCO was in charge of operations implemented in more than 130 countries on five continents, supervised by more than 90 fund centres (Delegations and HQ services) involving thousands of fund recipients and other stakeholders involved in the implementation. Most of these operations take place in a context which is much more error-prone than is the case for operations of other Commission DGs and Services, in countries and regions with a low level of development, deficient infrastructure and weak governance. However, these operations are needed and the EU has decided to play an active role in implementing them in line with a wide-ranging international consensus, not only at the level of governments but also at civil society level. Operations implemented by DEVCO are also necessary because of the EU's very own interest. Due to the diversity of DEVCO's operations and the fact that it covers a vast geographical area, DEVCO has no other choice than to rely on a significant number of external partners for its operations. Funds usually are provided by means of pre-financing payments; expenditure is then incurred by DEVCO partners and subsequently cleared on the basis of reports. Relationships with partners are less stable than in other spending DGs and Services and/or a higher number of partners are located outside EU jurisdiction. All these factors lead to a very pronounced need to focus on preventive controls.
- Some **measurable benefits** of DEVCO's controls are captured in its information systems:
  - **KPI 20:** Total amount of EUR 96.46 million of undue payment was prevented by DEVCO's ex-ante controls in 2015. It represents 85.6% of the cost of the ex-ante controls. Ex-ante controls are particularly cost effective for Budget Support (ratio benefit/cost of 248%) and for Indirect Management with Beneficiary countries (ratio benefit/cost of 123%).
  - **KPI 24:** Total amount of EUR 54.95 million was identified as ineligible in the final audit reports received by DEVCO in 2015. It represents 333% of the estimated cost of external audits contracted by the Commission. External audits are particularly cost effective for Grants in Direct Management (ratio benefit/cost of 520%), Indirect Management with Beneficiary countries (ratio benefit/cost of 224%) and Indirect Management with IO and MS Agencies (ratio benefit/cost of 278%).

- Recovery Orders: Recovery Orders for a total amount of EUR 89.9 million were issued by DEVCO in 2015 for the reimbursement of undue payments (errors & irregularities). It represents 237% of the cost of ex-post controls and follow-up.
- The results of the controls in place for Grants in Direct Management and for operations implemented through Indirect Management with International Organisations and Member States Agencies do not meet the expectations. They will be reinforced/adapted in the year to come.

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

**Based on the above, we consider that the controls put in place by DG DEVCO are cost effective.**

## B) Control efficiency

<u>Control efficiency (2015)</u>	Internal Control Templates (ICT)						Total
	ICT 1 - Grants in Direct Management	ICT 2 - Budget Support	ICT 3 - Procurement in Direct Management	ICT 4 - Indirect Management with Beneficiary countries	ICT 5 - Indirect Management with International Organisations and Member States's Agencies	Other	
<b>Ineligible expenditure identified by ex-ante controls / Invoiced amount</b>	<b>1.71%</b>	<b>2.85%</b>	<b>1.80%</b>	<b>1.90%</b>	<b>0.05%</b>	<b>4.33%</b>	<b>1.74%</b>
Ineligible expenditure identified by ex-ante controls (EUR million)	15.818	36.824	6.845	22.958	0.745	13.265	96.46
Invoiced amount (EUR million)	923.46	1 291.32	380.66	1 209.84	1 437.52	306.68	5 549.48
<b>ICT part in ineligible expenditure identified by ex-ante controls</b>	<b>16.40%</b>	<b>38.18%</b>	<b>7.10%</b>	<b>23.80%</b>	<b>0.77%</b>	<b>13.75%</b>	<b>100.00%</b>
<b>Ineligible expenditure identified by external audits / Audited amount</b>	<b>7.48%</b>	<b>0.00%</b>	<b>0.64%</b>	<b>0.54%</b>	<b>4.11%</b>	<b>3.68%</b>	<b>2.03%</b>
Ineligible expenditure identified by external audits contracted by the Commission (EUR million)	18.63	0.00	0.15	9.22	20.55	6.40	54.95
Audited amount (EUR million)	249.02	33.54	23.14	1 722.72	499.48	174.08	2 701.98
<b>ICT part in ineligible expenditure identified by external audits</b>	<b>33.90%</b>	<b>0.00%</b>	<b>0.27%</b>	<b>16.78%</b>	<b>37.40%</b>	<b>11.65%</b>	<b>100.00%</b>
<b>Time to pay (Art. 92.1 FR): % of payments made within contractual deadlines (data on 15/12/2015)</b>							<b>83.00%</b>
<b>Average time to pay (calendar days)</b>	36	140	26	32	36	43	34
<b>% of payments made within 30 days</b>	57.23%	12.73%	73.82%	66.86%	62.82%	51.83%	63.79%
<b>Time to inform applicants (Art. 128.2 FR)</b>	<b>24.5</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>
<b>Time to grant as from information notice (Art. 128.2 FR)</b>	<b>33.3</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>

## Conclusion on the efficiency indicators

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

### 1 – Time to pay:

In 2015, 83% of the payments were made within the contractual deadlines provided by the Financial Regulation. Moreover, 64% of the payments were made with the internal target of 30 days set by the Commission. When excluding Budget Support payments, the proportion rises to 65.82% in line with the target of 66% set by DG DEVCO for year 2015.

### 2 – Grants management:

In 2015, DG DEVCO has respected the time limit of six months set by the Financial Regulation for informing applicants of the outcome of the evaluation of their application. The average time taken by DEVCO in 2015 is 24.5 calendar days and the longest period is 126 calendar days<sup>39</sup>.

Except in one case<sup>40</sup>, DG DEVCO has respected the time limit of three months set by the Financial Regulation for signing grant contracts as from the date of informing applicants of the outcome of the evaluation of their application. The average time taken by DEVCO in 2015 is 33.3 calendar days<sup>41</sup>.

Based on the above, we consider that the controls put in place by DG DEVCO are efficient.

DG DEVCO has started using the possibility foreseen in FR art 66.2 to differentiate the frequency and/or the intensity of the DG's controls in view of the different risk-profiles among its current and future transactions and of the cost-effectiveness of its existing and any alternative controls.

In particular:

- DEVCO has put in place a simplified circuit for the payment of prefinancings;
- A reinforced circuit is in place for Budget Support operations;
- DEVCO has increased the number of verification missions carried out on International Organisations.

In 2016, DG DEVCO will look into ways to further simplify/adapt its financial circuits on the basis of a complementary risk analysis.

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<sup>39</sup> Based on a limited set of data available in the new IT application launched by DEVCO on 15/07/2015 for the management of the calls for proposals (data for grants in direct management only).

<sup>40</sup> 156 calendar days for grant contract nr EIDHR/2015/371-627

<sup>41</sup> Based on a limited set of data available in the new IT application launched by DEVCO on 15/07/2015 for the management of the calls for proposals (data for grants in direct management only).

## 2.1.3 Fraud prevention and detection

DG DEVCO has developed and implemented its own anti-fraud strategy (AFS) since 01/01/2014, elaborated on the basis of the methodology provided by OLAF.

In 2015, DG DEVCO<sup>42</sup> transmitted 29 cases of suspected fraud or irregularity to OLAF. OLAF opened nine new investigations in 2015. At the end of 2015, a total of 25 investigations were still on-going.

Evaluations and investigations opened	2014 (including neighbourhood policy)	63 (37 evaluations, 26 investigations)
	2015 (without neighbourhood policy)	31 (22 evaluations, 9 investigations)
Evaluations and investigations closed	2014 (including neighbourhood policy)	67 (12 with follow-up, 13 without follow-up, 42 dismissed)
	2015 (without neighbourhood policy)	44 (15 with follow-up, 6 without follow-up, 23 dismissed)

In the period 2005 – 2015, a total of 169 cases was closed with follow-up. This represents 25 % of all DEVCO OLAF cases closed in this period (671 cases).

A review of the anti-fraud strategy was undertaken in 2015 and also involved consultations with the other external aid Directorates General (NEAR, ECHO, FPI) as well as the EEAS. The review concluded that no substantial amendment needed to be made to the AFS. The actions foreseen in the AFS Action Plan continue to be implemented. In 2016, DG DEVCO will assess whether updates of its AFS are required following the issuance of updated guidance by OLAF. A performance review of the AFS is scheduled for mid-2017. The next full review will take place in mid-2019.

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

### Safeguarding of assets and information

Pre-financings are considered as the main asset of DEVCO. On 31/12/2015, the total open pre-financing amounted to EUR 8 134 million. The nature of the actions under Heading 4 of the budget (EU as a global player) defines in itself the duration of contracts and pre-financings. Duration of 4 years between a commitment and the closure of a project cannot be considered as a very long period for low disbursement projects based of the completion

<sup>42</sup> 2015 portfolio, i.e. excluding the neighbourhood policy.

of activities on the ground.

However, DEVCO is taking seriously the risk linked to a high level of pre-financings and has carried out monitoring actions over the last years towards the clearing or recovery with a particular focus on old pre-financings. A pre-financing is considered 'old' if it was paid at least 24 months before the beginning of the reporting period. As a result of this action, the total amount of old-pre-financing has decreased from EUR 3 722 million to EUR 2 577 million (reduction of 31%) between 01/01/2013 and 01/01/2016.

It resulted also in the reduction in the percentage of expired contracts in DEVCO's portfolio from 18.62% on 31/12/2013 to 15.38% on 31/12/2015. In real term, the number of expired contracts has decreased from 2702 contracts on 31/12/2013 to 1958 contracts on 31/12/2015 (reduction of 28%).

As far as IT security is concerned, the standard Information Systems Security Policy of the Commission is applied (Decision C(2006) 3602). Due to the evolution of the information systems, an update of relevant documentation has been done, in particular for the Information systems security plans

### **Reliability of reporting**

Several actions were taken in 2015 in order to further improve the reliability and effectiveness of DEVCO's reporting system:

- Data quality control was reinforced. In addition to regular quality checks and corrections, a new quality campaign focused on contractual data registered in DEVCO's information system was implemented in 2015. It allowed for the correction of many encoding mistakes and in the improvement of business rule and data definition. Specific monitoring actions have been launched in 2015: old prefinancing on International Organisations, particularly old pre-financings and particularly old expired contracts. Action plans and target dates were established for particularly old prefinancings and will be followed up in 2016. Monitoring campaigns with a focus on International Organisations and particularly old records will continue in 2016.
- A revision of DEVCO's KPIs definition, calculation and benchmarks was carried out resulting in increased reliability of KPI values and reporting (see details in annex 10).
- A new Dashboard was made available on DEVCO's Intranet in November 2015 for a reinforced management of External Aid projects. This new tool will support the users in financial management and in the control of data quality, decision making process, planning and strategic management

## 2.2 Audit observations and recommendations

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

The DG was audited by both internal and external independent auditors: the Commission's Internal Audit Service (IAS) and the European Court of Auditors (ECA).

### *State of play of 'Very Important' (VI) audit recommendations*

Body	Audit	VI open in January 2015	New VI issued in 2015	VI Implemented during 2015	In progress
IAC	Controls on EC funded projects implemented by and through the AU Commission	1		1	0
	Management of DEVCO's resources in EU Delegations	2		2	0
	Communication flows	1		0	1
	Identification and management of recoveries	3		3	0
	Management system of audit recommendations		2	1	1
	<b>Total IAC</b>		<b>7</b>	<b>2</b>	<b>7</b>
IAS <sup>43</sup>	Compliance with payment deadlines	1		0	1 <sup>44</sup>
	Local IT	1		1	0
	Budget Support	1		0	1
	DEVCO's anti-fraud strategy		1	0	1
	Management of the African Peace Facility		4	0	4
	Design and implementation of EU Trust Funds		2	0	2
	<b>Total IAS</b>		<b>3</b>	<b>7<sup>45</sup></b>	<b>1</b>
ECA Annual and Special Reports	SR 16/2014 Blending mechanisms	2		2	0
	<b>Total ECA</b>	<b>2</b>		<b>2</b>	<b>0</b>

<sup>43</sup> In accordance with its updated audit plan for 2015.

<sup>44</sup> DEVCO considers the action plan relating to the recommendation as implemented.

<sup>45</sup> 6 recommendations stem from the IAS final audit reports on 'DG DEVCO - Management of the African Peace Facility' and on the 'Design and implementation of EU Trust Funds' which were actually issued on 21/01/2016 and 29/01/2016 respectively.

## ○ Internal audits in 2015

The IAS carried out three audits in 2015, in accordance with its strategic audit plan. The first one, on the 'Adequacy and effective implementation of DG DEVCO's anti-fraud strategy' aimed primarily at assessing whether the strategy in place ensures the adequacy and effective application of the governance, risk management and relevant control processes for fraud prevention, detection and follow-up of fraud. The IAS stated that the internal control system provides reasonable assurance regarding the achievement of the business objectives; nonetheless, it was recommended that DEVCO should review the status and nature of forensic audits and investigations in consultation with OLAF and thereafter, as appropriate, agree on the detailed terms of reference and guidelines, including those for communicating with OLAF. The recommendation was accepted and the measures included in the related action plan were assessed favourably by the IAS and are being implemented as planned.

The purpose of the audit on the 'Management of the African Peace Facility (APF)' - which actually resulted from a specific request made by DEVCO - was the assessment of the adequacy and effectiveness of the internal control systems in place as regards the management and operational monitoring of the APF by DEVCO services, in order to ensure that it is implemented by the African Union Commission (AUC) and other implementing organisations according to legality, regularity and sound financial management principles.

The IAS acknowledged that a number of controls have been set up to address the managerial weaknesses of the AUC as identified in various pillar assessments, including remedial measures in the existing agreements, but concluded that the control systems put in place by DEVCO are not sufficiently effective to protect the EDF against illegal and irregular expenditure under the APF. In particular, the failure to reduce or to follow-up the AUC's weaknesses through comprehensive action plans and a structured monitoring system, inadequately designed and implemented mitigating measures in the contracts signed with the AUC, the lack of coordination between the key actors as well as a shortfall in reporting on the funded activities stand for major risks that may hamper the achievement of the DG's internal control objectives. The situation, as further detailed by the IAS report, is such that it was concluded that a reservation needs to be included in the current report.

The internal audit of the 'Design and implementation of EU Trust Funds' assessed the adequacy of the design and implementation of the TFs' governance processes, their compliance with the legal provisions and the efficiency and effectiveness of their internal control systems, including financial management and accounting aspects. In the final report issued at the end of January 2016, the internal auditors stressed the progress in adopting and launching the implementation of actions, as well as the success in attracting donors and achieving high visibility of the operations. Nevertheless, significant deficiencies in the design and implementation of the governance set up for the existing Funds and in operational performance measurement and management were pointed out. DEVCO rejected the recommendation relating to the governance structure and procedures by invoking the full compliance with the Financial Regulation provisions.

Finally, the IAS performed follow-up audits on the 'Assurance building process in EU Delegations', 'Procurement under decentralised management mode' and on the 'Contribution agreements with UN bodies and other International Organisations', which led to the closure of 8 recommendations now deemed to have been effectively implemented.

### ***State of Play of 'very important' recommendations***

A new very important internal audit recommendation, which resulted from the IAC audit on 'Management system of audit recommendations' and relates more particularly to the monitoring of the portfolio of IAC open recommendations and regular reporting to DEVCO Management and to the IAS, has been duly addressed in 2015.

Regarding IAC recommendations issued in previous years, all the recommendations issued after 1 January 2010 and remaining open have been transferred to the IAS, due to the phasing out of the internal audit function in the Directorates-General at the end of February 2015, as part of the handover process of the IACs' core business files. The IAS carried out an internal screening exercise with the aim of assessing whether the risks linked to each open recommendations were still material and identifying a portfolio of recommendations to be followed up.

The longstanding 'very important' recommendation stemming from the IAC audit report on 'Controls on EC funded projects implemented by and through the African Union Commission', which relates to the quality of reporting on the use of EC funds by the AUC, was implemented. Five others, from the audit reports on 'Management of DEVCO's resources in EU Delegations' and on the 'Identification and management of recoveries', have also been fulfilled.

With regard to the IAS, the long overdue recommendation asking for the development of security plans for all local information systems in DG DEVCO was fully implemented at the end of 2015. Furthermore, the implementation of the action plan set up in 2014 to address the recommendation relevant to Budget Support is on schedule.

Lastly, a 'very important' issue linked to the processing of payments remains open. Though it is admitted that several measures have been duly taken by DEVCO with a view to enhancing the monitoring and reporting system on the payment process, the IAS judged that these have not proven to be effective in reducing the number of late payments, further to a thorough monitoring of the statistics throughout the year 2015. The IAS thus concluded that the risks related to non-compliance with payment deadlines are not fully mitigated and, as a consequence, will perform a new audit on the subject in the course of its 2016-2018 strategic audit plan.

#### **○ ECA audits**

The ECA published its General Budget and European Development Funds (EDF) Annual Reports for the year 2014 in November 2016. Chapter 8 of the 2014 Annual Report on the EC Budget found an estimated error rate for expenditure transactions in the policy group 'Global Europe' of 2.7%, which is marginally higher (0.1 percentage points) than the initial estimation for the financial year 2013<sup>46</sup>. The ECA estimated the level of error in the 2014 EDFs Annual Report at 3.8% (0.4 percentage points higher than the one for 2013).

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<sup>46</sup> The level of error for 2013 has then been recalculated by the ECA after the publication of the 2013 Annual Report, in order to match the structure of the 2014 one, and estimated at 2.1%.

DEVCO's supervisory and control systems were assessed as partially effective in both reports. The ECA also pointed out the reservation raised by DEVCO's Director-General in its Declaration of Assurance in the 2014 Annual Activity Report, since the amount considered at risk represented more than 2% of payments, in spite of the statement that the control procedures give the necessary guarantees concerning the legality and regularity of the underlying transactions. The Commission replied that the residual error above 2% is not a consequence of the design of the control system, but rather of weaknesses in its implementation and that therefore it is still reasonable to conclude that the control procedures in place give the necessary guarantees concerning legality and regularity of the underlying transactions. As a matter of fact, there is no evidence in the RER that there should be system weakness in the control procedures.

The specific recommendations from the 2014 annual reports on the General Budget and on the EDF included:

- ➔ to set up and implement internal control procedures to ensure that pre-financing is cleared on the basis of actual incurred expenditure;
- ➔ to strengthen the ex-ante controls for grant contracts;
- ➔ to reinforce the systematic verification that partner countries use the correct exchange rate to convert Budget Support disbursements into their national currency;
- ➔ to ensure, together with the contractor in charge of the RER study, that the issues found by the ECA are addressed;
- ➔ to improve its indicators in respect of target values against which to assess the efficiency and cost effectiveness of controls, its cost approach, and its procedures and management information systems to measure the benefits of controls.

The ECA also issued four special reports (also called 'performance audits') related to DEVCO in 2015:

- ***9/2015: EU support for the fight against torture and the abolition of the death penalty***

The ECA concluded that the EU support for the promotion of the prevention of torture and the abolition of the death penalty through the European Instrument for Democracy and Human Rights (EIDHR) was only partially effective, even though the relevant projects were carried out as planned and are generally cost-effective, on the main ground that the funding was not optimally targeted and progress was hindered by unfavourable political contexts. The Court thus made a number of recommendations concerning the targeting of financial resources, the selection and improvement of project proposals and the performance measurement framework.

- ***13/2015: EU support to timber-producing countries under the FLEGT action plan***

The support to timber-producing countries with a view to tackling the problem of illegal logging, provided under the FLEGT action plan, was assessed as not sufficiently well

designed, targeted and managed, so that several recommendations were addressed to DEVCO with the aim of improving the management of the FLEGT initiative in the future.

- ***15/2015: ACP–EU Energy Facility support for renewable energy in East Africa***

The ECA considered that the ACP–EU Energy Facility (EF) was fairly successful in promoting access for the poor to modern energy services, but put forward that its use could have been optimised to increase access to renewable energy in East Africa. Furthermore, deficiencies mostly remain in the project selection process and monitoring by the Commission.

- ***21/2015: Review of the risks related to a results -oriented approach for EU development and cooperation action***

This specific review showed that the risks related to a shift in the focus of EU development and cooperation policies from activities to results have been adequately identified by the European Commission. However, further actions still have to be taken in order to harness the full potential of the future EU cooperation and development results framework, notably the need to assess the risks inherent to the choice of a particular aid delivery modality before committing financial resources.

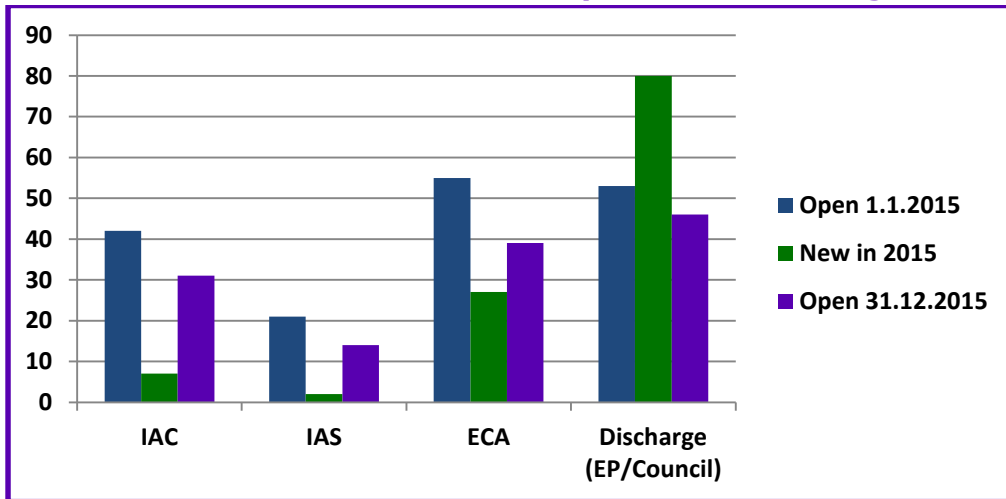
With respect to the follow-up of past recommendations, two outstanding recommendations classified as 'very important' and relating to the report on 'The effectiveness of blending regional investment facility grants with financial institution loans to support EU external policies' - notably outlining the need for an enhanced monitoring by the EU Delegations' staff in order to ensure that the added value resulting from EU grants is achieved - have been fulfilled by DEVCO with the development of adequate internal guidelines, capacity building materials and trainings on blending operations.

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

Sustained efforts have been made in implementing the internal and external audit recommendations addressed to the DG, including the former IACs' ones taken over by the IAS. As a result, the number of recommendations for which the implementation is still in progress is at the lowest over the past three years, with all ECA recommendations classified as 'very important' fully implemented. However, one overdue 'very important' recommendation from an IAC audit remains to be effectively implemented. The progress towards its full implementation is regularly monitored and the current state-of-play does not lead to any assurance-related concern.

In response to the new IAS recommendations concerning the African Peace Facility issued in 2015 which have assurance implications, a reservation is included in the present report. In view of the potential fiduciary and reputational risks, these will be addressed via a dedicated Task Force in charge of defining remedial actions and ensuring their timely implementation and follow-up.

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



## 2.3 Assessment of the effectiveness of the internal control systems

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

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

### ○ General environment

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

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

### ○ ICS in Headquarters

In order to monitor the compliance with ICS, DEVCO carried out a desk review to assess the conformity with the baseline requirements as defined by the central Commission services. The result was that almost all requirements were implemented, with the following exception for which implementation was partially achieved: ICS 11 'Document Management', requirement 23: Every document that fulfils the conditions laid down in the implementing rules needs to be registered, filed in at least one official file and preserved during the period established by the document management rules. To do so, the DG uses systems which respect the above rules, mainly HERMES-ARES-NOMCOM.

Full implementation of this requirement is difficult to achieve, since, e.g. filing of documents is an on-going practice and reaching a stable 100% rate is unlikely in practice. However, it seems reasonable to assess this requirement using the figures provided by the SG in the annual Commission statistics as benchmark. Following this methodology, registration and preservation of documents can be considered implemented in DG DEVCO (HQ). On the contrary, even if the evolution of the filing rates in the last two years is very positive (see

below for details), they do not reach the Commission average yet and, for this reason, this requirement needs still to be considered as only partially implemented.

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

The overall results of the ICS 'effectiveness' management survey in Headquarters show that 65.8% of the respondents assessed control measures in DEVCO as effective and confirm the generally satisfactory perception of management of the functioning of the internal control system.

The Internal Control Standards which achieved the highest positive assessments across the organisation were ICS 13 'Accounting and Financial Reporting', ICS 1 'Mission' and ICS 7 'Operational Structure'.

At the other end of the scale, ICS 3 'Staff Allocation and Mobility' achieved - as in previous years - the lowest effectiveness rating, followed by ICS 5 'Evaluation of Activities' and ICS 6 'Risk Management Process'.

As in previous years, ICS 3 'Staff Allocation' is by far the Standard for which the respondents have the least positive view (64.3% at Director level and 35.6% at Head of Unit level).

#### ● ICS in Delegations

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

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

While for 2015 all KPIs are again in the green area, i.e. well above the benchmark, the ICS with the lowest scores were ICS 10 'Business Continuity', ICS 11 'Document management' and ICS 6 'Risk management process'.

#### ● Actions relating to priority Standard (ICS 11 'Document management')

The 2015 Annual Management Plan of DEVCO indicated 'ICS 11 Document Management' as the ICS prioritised for 2015. A number of actions to improve the effective implementation of this ICS were taken in 2015, in particular:

*Requirement 22: Document management procedures and related systems comply with relevant compulsory security measures, provisions on document management and rules on protection of personal data.*

Compliance with security measures, provisions on document management and rules on protection of personal data are implemented as regards the use of the document management corporate tools (HAN Hermes/Ares/Nomcom) in DEVCO HQ.

The implementation of this requirement has been extended in 2015 by the integration of new IT systems into the HAN platform for the automated registration and filing of the documents handled by these systems. In this context, Basis and Prospect have been fully integrated with HAN in 2015. This work will continue with the integration of more DEVCO IT Systems, such as Pador (integration work ongoing) or ROM in 2016. Particular attention will also be given to the development and deployment of the DEVCO's new operational system.

The implementation of ICS 11 in Delegations is a joint exercise with the EEAS which cannot be fully assessed from Headquarters, but which needs the internal self-assessment of each Delegation concerned. Notwithstanding this, it can be noted that the main element to assess compliance with the ICS requirement is linked to the deployment of ARES in the Delegations. In this respect, as of 31 December 2015 all the EU Delegations (of which 24 in 2015), have successfully migrated to ARES with the active contribution of DEVCO. On this basis, this requirement can be considered as implemented for Delegations in as far as DEVCO HQ can respond to their general situation.

*Requirement 23: Every document that fulfils the conditions laid down in the implementing rules needs to be registered, filed in at least one official file and preserved during the period established by the document management rules. To do so, the DG uses systems which respect the above rules, mainly HERMES-ARES-NOMCOM.*

A full implementation of this requirement is difficult to achieve, since, e.g. filing of documents is an on-going practice and reaching a stable 100% rate is unlikely in practice. However, it seems reasonable to assess this requirement using the figures provided by the SG in the annual Commission statistics as benchmark. Following this methodology, registration and preservation of documents can be considered implemented in DG DEVCO (HQ). On the contrary, even if the evolution of the filing rates in the last two years is very positive, they do not reach the Commission average yet and, for this reason, this requirement needs still to be considered as only partially implemented.

With the aim of improving document management practices at unit level, a Document Management State of Play exercise has been launched in 2014 and pursued in 2015. This exercise takes into consideration a number of indicators that are used to check the situation in the units and serve as basis to define tailored action plans in order to improve the areas with a less strong performance. The exercise includes individual meetings with staff in all the units. As of 31 December 2015, all units were met and all of them progressed in their actions.

### **Other sources: views of external (ECA) and internal (IAS) auditors**

In its 2014 Annual Report the ECA stated that a control system is not effective when it fails to prevent, detect and correct material error. The Commission replied that the residual error above 2% is not a consequence of the design of the control system, but rather of weaknesses in its implementation and that therefore it is still reasonable to conclude that the control procedures in place give the necessary guarantees concerning legality and regularity of the underlying transactions. As a matter of fact, there is no evidence in the RER that there should be system weakness in the control procedures. The IAS, in its contribution to the present report, concluded that the internal control systems audited are overall working satisfactorily, but drew attention to the recommendations issued in the framework

of the audit on the management of the African Peace Facility.

### **CONCLUSION ON INTERNAL CONTROL STANDARDS**

In conclusion, based on the desk review and surveys the internal control standards are effectively implemented with the exception of standard 11, for which a series of measures were taken in 2015. The design of the control system remains sound, but weaknesses in its implementation should be addressed. There are issues to be addressed related to the African Peace Facility. The latter is done through a separate reservation in the present report.

## 2.4 Conclusions as regards assurance

This section reviews the assessment of the elements reported above (in Sections 2.1, 2.2 and 2.3) and draws conclusions supporting the declaration of assurance and whether it should be qualified with reservations.

The information reported in section 2 stems from the results of management and auditor monitoring contained in the reports listed. These reports result from a systematic analysis of the evidence available. This approach provides sufficient guarantees as to the completeness and reliability of the information reported and results in a complete coverage of the budget delegated to the Director-General of DEVCO.

### ○ Positive elements building assurance

#### A functioning accountability chain (EAMR/SDAO/AAR) and satisfactory KPI results for 2015

The accountability and reporting chain in DEVCO is organised as a pyramid through which the statements of assurance signed by each Head of Delegation set the basis of the assurance provided by the other (sub)-delegated authorising officer at the upper levels of the pyramid. All Authorising Officers by (sub)-delegation substantiate their statements of assurance in their annual reports taking into account the results achieved for 24 Key Performance Indicators (KPI) regrouped in three categories: sound financial management, efficiency of the internal control systems and efficiency of the audit system. The KPI results are automatically assessed versus the benchmarks through a “traffic lights” system.

At global level, the total number of KPIs in line with the targets has increased from 15 in 2014 to 20 in 2015. Furthermore, the general trend at KPI level is positive with steady improvement achieved for most of the KPIs.

16 out of the 24 KPIS have met the targets set for 2015:

- 5 in the category 'sound financial management and effective use of EC Resources': RAL absorption period, progress on project implementation, progress on project results achievement, reduction of old pre-financing and reduction of old RAL;
- 8 in the category 'efficiency of internal control systems': 6 KPIs on the assessment of the implementation of the internal control standards in Delegations, % of projects visited by DEVCO staff or by the HOD; and the implementation of the annual evaluation plan;
- 3 in the category 'efficiency of audit system': the 3 KPIs on the implementation of the annual audit plans Year N, N-1 and N-2.

4 further KPIs are extremely close to the benchmarks and can be considered as in line with the objectives set for 2015: accuracy of annual forecast for payments, expired contracts as a percentage of the contract portfolio, percentage of payment paid within the EC internal target of 30 days and ineligible amounts identified by audits.

Results for 4 remaining KPIs are still below benchmarks: Accuracy of financial forecasting for contracts, Accuracy of financial forecasting for decisions, respect of flexibility arrangements for the use of staff in Delegations and Ineligible expenditure identified by ex-ante controls.

Result improvement for these KPIs will be part of DEVCO priorities for year 2016.

Very good results have been achieved at Delegation level with an increase number of Delegations meeting targets for most of the KPIs in 2015:

% of green KPIs	% of Delegations	
	2014	2015
80% and more	21%	29%
60% and more	77%	88%
Less than 50%	4%	3%

At the end of 2015 and thanks to the action plans implemented during the year, only 10 Delegations have achieved the benchmarks for less than 60% of their KPIs compared to 22 Delegations at the end of 2014.

**Full coverage of expenditure by the control mechanisms**

The control instruments in place cover the entire budget expenditure managed by DEVCO. No part of the budget is left out of the control strategy.

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

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

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

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

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

**A positive IAS conclusion**

Because of the dismantling of the Internal Audit Capability (IAC) at the beginning of 2015, the IAC opinion was replaced with a contribution by the IAS. The latter concluded that the internal control systems audited are overall working satisfactorily although a number of very important findings remain to be addressed in line with the agreed action plans.

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

Given the high-risk environment, it is clear that the control system needs to anticipate a significant occurrence of potential error in transactions and build in a high level of prevention, detection and correction controls as early as possible in the payment process.

This means in practice that DEVCO's control architecture places most reliance on ex-ante checks by both external auditors and Commission staff in the field before final project payments are made. DEVCO therefore performs a high level of ex-ante controls both in terms of the coverage and in the nature of these controls, going well beyond the financial safeguards required by legislation.

In light of the results of the RER study, even if it resulted in an estimated RER above the materiality level of 2%, the conclusion is that the main elements in the control strategy are operating in a satisfactory manner (no major flaws in the design of the control system), even if improvements are possible and already being implemented in many cases. These elements do not compromise the overall soundness of the control system, even if they have an impact in its effectiveness in the field, as assessed by the European Court of Auditors. A large part of the overall error rate as estimated by the 2015 RER study related to inadequate or missing documentation rather than to confirmed errors. This means that if beneficiaries would have been in a position to present all requested documents and if these would not raise additional errors, the overall residual error rate would have stayed well below 2%.

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

Continuous efforts have been made throughout 2015 to address past internal (IAC/IAS) and external (ECA) audit recommendations, in particular stemming from IAC audit reports, and to tackle longstanding very important issues resulting from IAS audits.

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

Almost all requirements are considered to be effectively implemented, with the exception of some partial elements of standard 11 (Document management), which are already being tackled. The design of the control system remains sound, but weaknesses in its implementation should be addressed.

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

The current DEVCO anti-fraud strategy (AFS) was examined in 2015 and it was concluded that no substantial amendments were needed.

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

Total cost of controls for year 2015 is estimated by DEVCO at EUR 293.36 million. It represents 5.11% of total payments made by DEVCO in 2015. Taking into account the risky environment in which DEVCO operates and the complex set up for the implementation of External Aid, we consider the total cost of control is reasonable.

Costs effectiveness of DG DEVCO's controls is also demonstrated by the benefits of the controls. The RER of DG DEVCO for 2015 is estimated at 2.20%. Although over the materiality level of 2% set by the central services, this error rate is relatively low and in constant reduction since 2012.

A total amount of EUR 96.46 million of undue payment was prevented by DEVCO's ex-ante controls in 2015 (KPI 20). A total amount of EUR 54.95 million was identified as ineligible in the final audit reports received by DEVCO in 2015 (KPI 24).

Recovery Orders for a total amount of EUR 89.9 million were issued by DEVCO in 2015 for the reimbursement of undue payments (errors & irregularities)

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

- **Elements deserving attention and corrective measures taken**

#### **Follow-up of past reservations**

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

A first action plan was implemented from 1 September 2013. This action plan contained 23 actions. 19 of these actions are assessed by DEVCO as being completed, including five actions having a permanent character that will be continued on a long-term basis. Three actions are considered partially implemented and the implementation of one action has been initiated but not yet achieved. A new action plan is being implemented from 1 September 2015. It follows three axes: firstly, a set of actions in order to address high risk areas. This concerns measures directly addressed to funding via International Organisations, such as the suspension of indirect management in case of repeated errors, or the clearing of pre-financing. It also includes measures related to direct management through grants, like the simplification of contractual conditions for grants. Secondly, a set of general actions to reinforce the effectiveness of the control system, such as the active promotion of good practices in financial management with partners and beneficiaries, but also the recovery of amounts affected by errors in the RER studies and the ECA reports.

Finally, a set of actions regarding the modulation of the control system in view of the risks identified and the cost-effectiveness of control, such as the Revision of the Terms of Reference for the Residual Error Rate for a more focused analysis in view of a differentiated assurance, or the revision of the financial circuits.

#### **Error rates**

The RER results for 2015 suggest that a reservation based on the occurrence of errors in the underlying transactions (legality and regularity) should be made concerning direct grants and indirect management with international organisations and Member State Agencies. The ECA

results for 2014 also exceed the materiality threshold.

### **African Peace Facility (APF)**

Based on the results of an IAS audit described above, an additional reservation should be made, relating to the management of the African Peace Facility (APF). This reservation does not have an additional financial impact as this instrument is part of the indirect management with international organisations.

### **Effective implementation of the ICS**

A number of issues of compliance with ICS 11 (Document management) have required the attention of DEVCO in 2015: Document Management State of Play exercise; move towards a generalisation of the use of the ARES e-signatory; a further expansion of the paperless circuits to correspondence with external counterparts and to the financing and contracting procedures is envisaged.

**The assessment of legality and regularity returns a level of error which is persistently higher than the threshold. The weaknesses in the implementation of the control systems were identified and are being addressed through the action plan.**

## **OVERALL CONCLUSION**

**Given the residual error rate of 2.20% and the fact that two areas have been identified as bearing a high risk, the amount of risk of the reservations (best, conservative estimation of the value of the found to be in eventually - i.e. after implementation of all corrective measures - in breach of applicable regulatory and contractual provisions) is estimated at EUR 88 million (relating to the two high risk areas in reservation 1 and the African Peace Facility in reservation 2).**

**Under these circumstances, DEVCO has decided to review the action plan which has been implemented since September 2015 in order to better differentiate the controls put in place.**

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

### **3. DECLARATION OF ASSURANCE AND RESERVATIONS**

*I, the undersigned,*

*Director-General of the DG International Cooperation and Development,*

*In my capacity as authorising officer by delegation,*

*Declare that the information contained in this report gives a true and fair view.*

*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 observations of the Internal Audit Service and the lessons learnt from the reports of the European Court of Auditors for years prior to the year of this declaration.*

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

*However, the following reservation should be noted: reservation concerning the error rate relating to direct grants and indirect management with international organisations in general, and the African Peace Facility in particular, and Member State agencies.*

*Brussels, 31 March 2016*

*Acting Director-General*

*Klaus Rudischhauser*

*(signed)*

○ **Reservation 1**

<b>DG</b>	<b>DEVCO</b>
<b>Title of the reservation, including its scope</b>	Reservation concerning the error rate being above 2%
<b>Domain</b>	Direct management – grants and indirect management with International Organisations and Member State Agencies
<b>ABB activity and amount affected (= "scope")</b>	All ABB activities in which the domain is used.
<b>Reason for the reservation</b>	Significant occurrence or errors in the underlying transactions (legality and regularity)
<b>Materiality criterion/criteria</b>	Legality and materiality criterion: The materiality criterion is the residual error rate, i.e. the level of errors which remain undetected and uncorrected by the end of the management cycle. The control objective is to ensure that the residual error rate on the overall population is below 2% at the end of the management cycle. As long as the residual error rate is not (yet) below 2% at the end of the reporting year a reservation should be made.
<b>Quantification of the impact (= actual exposure")</b>	The estimated amount at risk for the EU and EDF budgets is calculated by multiplying the most likely estimate of the overall residual error rate (2.20%) by the risk index of the spending areas concerned and by the value of payments made by DEVCO in these areas in 2015, except for the payments made under the African Peace Facility (APF), which is dealt with in reservation 2. The actual exposure (EU and EDF budgets combined, excluding the APF) for 2015 is estimated at EUR 70 million.
<b>Impact on the assurance</b>	Legality and regularity of the affected transactions. The assurance is affected within the scope of the quantified budgetary impact.
<b>Responsibility for the weakness</b>	Units/Delegations in charge of the respective contracts for which a residual error was found.
<b>Responsibility for the corrective action</b>	<ul style="list-style-type: none"> <li>- a set of actions in order to address high risk areas. This concerns measures directly addressed to funding via International Organisations, such as the suspension of indirect management in case of repeated errors, or the clearing of pre-financing. It also includes measures related to direct management through grants, like the simplification of contractual conditions for grants.</li> <li>- a set of general actions to reinforce the effectiveness of the control system, such as the active promotion of good practices in financial management with partners and beneficiaries, but also the recovery of amounts affected by errors in the Residual Error Rate study or the Court of Auditors Report.</li> <li>- a set of actions regarding the modulation of the control system in view of the risks identified and the cost-effectiveness of control, such as the Revision of the Terms of Reference for the Residual Error Rate for a more focused analysis in view of a differentiated assurance, or the revision of the financial circuits.</li> </ul>

○ Reservation 2

<b>DG</b>	DEVCO
<b>Title of the reservation, including its scope</b>	Management of the African Peace Facility (APF) funds during year 2015
<b>Domain</b>	Indirect management with an international Organisation (African Union Commission)
<b>ABB activity and amount affected ("scope")</b>	<p>European Development fund (EDF): Payments made by DEVCO in 2015 in the context of the African Peace Facility in indirect management with a particular International Organisation</p> <p>The APF is the key EU financial instrument to support cooperation with Africa in the area of Peace and Security by financing African-led Peace Support Operations (PSOs), capacity building to implement the African Peace and Security Architecture (APSA) and initiatives under the Early Response Mechanism.</p> <p>The APF has been fundamental in helping the African organisations having a peace and security mandate to begin taking ownership of conflict resolution on the continent – both in terms of their ability to respond to crises through the deployment of Peace Support Operations (often where the UN can't), and improving their capacity to do so.</p>
<b>Reason for the reservation</b>	<p>Based on the fact that the APF allocations under the EDF have doubled over a period of 10 years (with indications for further increases) and that the majority of these funds transit via one organisation and in line with the provisions of the 2012 Financial Regulation, DG DEVCO re-launched in 2015 an Institutional Assessment (pillar assessment) of the Implementing organisation.</p> <p>It concluded that three pillars (accounting, procurement and sub-delegation) out of the six assessed were not compliant.</p> <p>Subsequently the Director General instructed his services to carry out an internal consulting report in order to provide an overview of the management and control systems put in place for the APF. The results of this report confirmed the institutional weaknesses of the implementing partner and the difficulties to adapt our procedures to complex peace and security operations.</p> <p>As part of the actions taken in order to improve the management of the APF the Director General requested the Internal Audit Service of the European Commission to conduct an audit on the financial and operational management of the implementation of the APF. The IAS carried out an audit of the APF in the last quarter of 2015 and submitted its findings and recommendations to DG DEVCO in its final report in Jan 2016.</p>

<p><b>Materiality criterion/criteria</b></p>	<p>The IAS acknowledges the number of controls that have been set up to address the known weaknesses in the management and control system of the Organisation concerned, identified in the various pillar assessments, but concludes that the control system put in place by DG DEVCO for the management and operational monitoring of the African Peace Facility is not sufficiently effective in protecting the legality and regularity of the EDF expenditure under the APF.</p> <p>In particular, mitigating measures at the institutional and contract levels are not sufficiently adequate and are not effectively implemented to address the weaknesses identified in the pillar assessment of the main Organisation concerned, finalised in May 2015.</p> <p>The present reservation is based on these findings.</p> <p>The control system does not address adequately the identified weaknesses, having a material impact on sound financial management and legality and regularity aspects</p>
<p><b>Quantification of the impact (= actual exposure")</b></p>	<p>For the payments to the African Union under the APF in 2015, the amount at risk is estimated by using the upper error limit of the 2015 RER study and the specific risk index for indirect management with International Organisations. The respective amount at risk is estimated at EUR 18 million.</p> <p>The measures foreseen in the action plan will substantially limit the risks.</p>
<p><b>Impact on the assurance</b></p>	<p>The impact of the identified weaknesses is limited to the management of the African Peace Facility and a number of programs managed by the same Organisation. These weaknesses do not call into question the functioning of the overall control system of DEVCO; internal control objective affected: adequate management of the risks relating to the legality and regularity of the underlying transactions, taking into account the multiannual character of programmes as well as the nature of the payments (FR Art 32): significant control system weaknesses confirmed by the Internal Audit Service (IAS)</p>
<p><b>Responsibility for the weakness</b></p>	<p>The weaknesses identified in the control system put in place by DG DEVCO include:</p> <ul style="list-style-type: none"> <li>→ The African Union Commission has never fully complied with the required pillar assessments. No subsequent comprehensive action plans have been designed to reduce the identified weaknesses, neither have these weaknesses been systematically followed up nor monitored.</li> <li>→ The specific remedial measures to mitigate the financial risks have been neither adequately designed nor effectively implemented.</li> <li>→ The various EU actors have neither established detailed working arrangements nor clearly defined their respective roles and responsibilities for the monitoring of the APF projects.</li> <li>→ The current reporting arrangements do not provide sufficient information to the stakeholders on the current state of play and on the implementation of the APF projects.</li> <li>→ It is financed by the EDF, which is an instrument not intended to</li> </ul>

**Responsibility  
for the  
corrective action**

finance activities such as peace support operations and was created as a temporary solution, which kept on lasting longer than temporary;

- Projects are implemented in highly risky environments; its partner/implementing organizations have structural institutional weaknesses;
- It is an instrument subject to continuous demands from the Council and EU Member States with political requirements for action considered as imperative, which often lead to finance interventions retroactively.

DG DEVCO has set up a dedicated Task Force to ensure rapid and effective implementation of the IAS recommendations. The Task Force includes all relevant Commission services (DEVCO, BUDG, Legal Service, SG) and the EEAS. Its main mandate is to prepare and follow-up on the IAS recommendations via an Action Plan; to negotiate with the African Union Commission (AUC) an 'Aide-Mémoire' and related monitoring tool and to follow-up on its implementation; and to engage in a dialogue with the AUC to guarantee a more efficient cooperation. Both the 'Aide-Mémoire' and the Action Plan are expected to be approved in April 2016. In parallel, the Task Force undertakes an in-depth review of new projects and programmes in order to integrate appropriate remedial/mitigation measures in the decisions and contractual documents.

Main elements of the action plan include:

1. Institutional assessment and monitoring by DEVCO of the partnership with the concerned Organisation. This will in particular entail an assessment of progress made by the AUC with regards to the implementation of the pillar assessment roadmap, as well as the regular monitoring by the task force of AUC's compliance with the commitments undertaken in the aide memoire.
2. Design and effectiveness of the remedial/mitigating measures at contract level. All future contracts with the AUC will include a set of remedial measures, which will be submitted to the task force for prior approval.
3. Governance and coordination between DEVCO, EU Delegations and the EEAS. The existing inter-services agreement with the EEAS will be adapted in order to make the allocation of responsibilities, tasks and human resources among DG DEVCO, EEAS and the EU Delegations more clear.
4. Reporting on the APF and management representations. A list of appropriate reporting arrangements will be defined, including types of reports to be issued, content, frequency and responsible unit.
5. Retroactivity of financing. Clear guidance on the implementation of retroactivity principles in projects managed by the AUC will be issued.