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European Commission

2016

Annual Activity Report

[ECFIN]

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THE DG IN BRIEF

Our mission is to contribute to raising the economic welfare of the citizens in the European Union and beyond, notably by developing and promoting policies that ensure sustainable economic growth, a high level of employment, stable public finances and financial stability.

In pursuing this mission, our core objectives are:

- *to ensure a smooth functioning of the EU's Economic and Monetary Union (EMU) through a strong economic governance framework;*

- *to promote sound macro-economic policies in the Member States (MS) to ensure balanced and sustainable growth and job creation, and to improve sustainability and quality of public finances, in the context of the Stability and Growth Pact, the Macroeconomic Imbalances Procedure (MIP), the Europe 2020 strategy and the European Semester and to undertake surveillance of MS' economies, on the basis of preventive and corrective tools enshrined in secondary legislation, to promote fiscal sustainability and the prevention/correction and/or of internal/external macroeconomic imbalances;*

- *to conduct macroeconomic adjustment programmes and in this context cooperate with the European Stability Mechanism (ESM). We also support efforts to safeguard financial stability by establishing and operating an effective system of macro-prudential supervision;*

- *to design and implement, in close cooperation with the European Investment Bank (EIB) Group and the European Bank for Reconstruction and Development (EBRD), EU investment programmes including the flagship "Investment Plan for Europe", to design financial assistance programmes and to undertake financial market operations and to manage the treasury and assets on behalf of other Commission services;*

- *to maintain close working relations with the EIB Group, the EBRD, the World Bank Group and other multilateral development banks, with a view to promoting EU priorities and common positions and ensuring appropriate coordination of the Commission's financial cooperation with these institutions. To maintain close working relations with the International Monetary Fund (IMF) and with the corresponding G7 and G20 groups to develop international strategies in the economic and financial area;*

- *to prepare the gradual enlargement of the euro area;*

- *to support economic prosperity, growth and stability not only within the EU but also at the international level by shaping global economic governance and EU international economic relations with a view to advancing EU interests and putting in place an efficient and robust policy framework conducive to a sustainable and balanced growth of the global economy, supported by an efficient and stable international monetary and financial system.*

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

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

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

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

We play an important role in preserving financial stability in the EU by providing financial assistance to euro area MS facing a severe deterioration of their borrowing conditions and to MS outside the euro area facing difficulties with their balance of payments. The former is currently provided by the ESM, governed by a specific treaty currently outside the EU framework but fully consistent with EU policies; the latter through the Balance of Payments (BoP) facility which is governed by an EU regulation.

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

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

DG ECFIN has many stakeholders. Its management of programmes and financial operations on behalf of the Commission and its leading role in the definition and promotion of the economic objectives of the Union define its relations with other Directorates-General (DGs) in the Commission. Outside the Commission, EU MS authorities are also key stakeholders, in ways that go considerably beyond the traditional and formal relationship between the Commission and MS in the Council. So too are national parliaments, social partners and other business, academic and civil society organisations owing to our increasing role in the formulation and advocacy of national economic policies. And as the Commission pursues greater efforts to promote the external dimension of the EMU, DG ECFIN's international partners in the IMF, G7, G20 and international development banks, together with key non-EU national authorities have all also become increasingly important stakeholders in our work.

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

As regards organisational developments, DG ECFIN underwent a significant reorganisation on 1st March 2016. The goal of the reorganisation was to fully align our organisational structure to the overarching priorities of the Juncker Commission. To that end, the reorganisation was deliberately redesigned to provide the right conditions for a more flexible, matrix-oriented way of working, involving cross-Directorate teams working on specific projects: what DG ECFIN calls *Teams for Themes*. That redesign also allows DG ECFIN to deliver better on its priorities by ensuring better coordination and a more integrated approach to the surveillance of both budgetary and structural policies; this is essential as these two groups of policies impact each other significantly.

Broadly speaking, perhaps the two most important specifics of the reorganisation were first further centralisation of the strategy, policy impulse, coordination and communication functions linked to the European Semester under the Directorate responsible for Policy, strategy, coordination and communication. To that end, the Directorate now also has a Unit dedicated to facilitating the deepening of the EMU and strengthen the euro-area dimension of the European Semester. Second, there was a reallocation of Member States across the three country directorates to improve coherence and achieve a better geographical and workload balance.

EXECUTIVE SUMMARY

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

a) Key results and progress towards the achievement of general and specific objectives of the DG

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

A major priority for DG ECFIN in 2016 was continued work on the implementation of the **Investment Plan for Europe** (IPE), launched in 2014, in which DG ECFIN plays a pivotal role, in close partnership with the European Investment Bank (EIB).

As of December 2016, **European Fund for Strategic Investments** (EFSI) operations mobilising EUR 163.9 billion have been approved across all Member States, which are expected to benefit to more than 388,000 SMEs. The EFSI is making a real difference by supporting innovative and strategic projects that contribute to job creation and growth. Managed by the EIB Group, the EFSI is on track to deliver on mobilising at least EUR 315 billion in additional investments in the real economy by mid-2018. The Commission has scaled up the EFSI SME-Window to provide finance to SMEs through intermediary banks, and has put forward legislative proposals to make it easier to combine EFSI support with European Structural and Investment Funds (ESIF) by aligning the legislative frameworks.

The **European Investment Advisory Hub** (EIAH) received 314 requests as of end-December 2016 from 28 Member States of which 258 were project-related and 2/3 of them came from the private sector.

As far as the second Pillar of the Investment Plan is concerned, the Commission has successfully launched the **European Investment Project Portal** (EIPP) in June 2016. Designed as a bridge between EU project promoters and investors worldwide, the EIPP offers almost 140 investments opportunities (as of end-December 2016).

Work is also ongoing on the **Third Pillar** of the Investment Plan. The Third pillar aims at removing bottlenecks to investment. It requires complementary measures both at EU and national level. DG ECFIN has contributed significantly to the Commission's efforts to address barriers to investment at EU level (initiatives to reinforce the Single Market in the field of services and products, to create a Capital Markets Union, to establish a true Digital Single Market, to complete the Energy Union, the re-launch of the Common Consolidated Corporate Tax Base as well as the Better Regulation agenda). It is also working with MS to identify and address national barriers in the context of the European Semester.

Given the concrete results achieved since the Commission unveiled the Investment Plan for Europe two years ago, President Jean-Claude Juncker presented a proposal in his State of the Union address of 14 September to reinforce the European Fund for Strategic Investments (EFSI), the core of the Investment Plan for Europe, to boost investment

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

further. Three **evaluations** support that proposal: the Commission published its report on 14 September; the European Investment Bank presented its evaluation on 5 October; and the accounting firm EY published an independent evaluation on 14 November. All three reports find that the EFSI has increased access to financing as well as mobilised private capital, and identify areas in which the Investment Plan could be enhanced. The findings - summarised in a Commission Communication issued on 29 November - are broadly addressed in the Commission's legislative proposal to extend the duration of the EFSI until the end of 2020 and increasing the total investment target from EUR 315 billion to at least half a trillion euros. The Commission also called on the EIAH to develop its local technical assistance delivery mode and communicate more proactively.

Building on the experience gained with the successful Investment Plan for Europe, the European Commission proposed a new European **External Investment Plan** (EIP) to encourage investment in Africa and the EU Neighbourhood to strengthen our partnerships and contribute to achieve the Sustainable Development Goals. The EIB's lending operations form an integral part of the EIP. For this purpose, the Commission will expand the EU budget guarantee under the EIB External Lending Mandate (ELM) by a total of EUR 5.3 billion. The increase in funding was supported by the results of a DG ECFIN mid-term evaluation of the ELM that was concluded in June 2016. In total, the EIB will thus lend up to EUR 32.3 billion under the EU guarantee between 2014 and 2020.

Some of the main challenges for developing countries remain achieving inclusive and sustainable growth and creating jobs. The investment climate and the overall policy environment in the EU Neighbourhood and in Africa are not always supportive of private sector investment. The EIP sets out a coherent and consistent approach and its implementation will allow the EU to lead by example in developing more effective partnerships, with partner countries and at the same time implementing international commitments on financing for development. The EIP will improve the way in which public funds are used and the way public authorities and private investors work together on investment projects. This should promote sustainable investment and tackle some of the root causes of migration. It will do so by leveraging funds from the EU, Member States, other donors, financial institutions and the private sector.

The **European Semester** remains the key vehicle for integrated economic surveillance of EU MS across policy areas. By providing economic analysis and formulating policy guidance DG ECFIN played a major role in preparing and implementing the **2016 European Semester** which kicked off in November 2015 with the Annual Growth Survey (AGS), which confirmed the Commission's jobs and growth strategy based on three pillars: re-launching investment, pursuing structural reforms to modernise our economies and responsible fiscal policies. In line with the Five Presidents' report, in November 2015 the Commission presented recommendations for the euro area together with the AGS and the **Alert Mechanism Report** (AMR), for the first time. The early adoption of euro area recommendations allowed the euro area and national dimensions of EU economic governance to be better integrated and highlighted common challenges that need to guide country-specific action. Member States (MS) have recognised these improvements.

On 26 February 2016, the Commission published 27 country reports (i.e. for all MS except Greece, which is covered by a macroeconomic adjustment programme) that analyse MS' economic and social policies and assess the progress they have made to address the issues identified in the 2015 **Country Specific Recommendations** (CSRs). For 19 MS identified in the AMR, they include in-depth reviews (IDRs) under the Macro Imbalance Procedure (MIP). These reports, prepared by DG ECFIN, underpin discussion with MS about their national policy choices ahead of their National Programmes in April, and the formulation of the Commission's 2016 CSRs.

On 18 May, the European Commission published its 2016 CSRs. These set out its economic policy guidance to individual MS for the following 12 to 18 months, along with an overarching Communication. This year’s CSRs reflect the Commission’s efforts to make the European Semester more effective and relevant; there are fewer recommendations, more focus on key economic and social priorities identified in the 2016

AGS, greater national ownership, and a greater attention to euro area challenges and the interdependence between economies.

In addition, as part of the European Semester, DG ECFIN also analyses and monitors compliance with the **Stability and Growth Pact** (SGP) for the Commission. On that basis, the Commission took several steps under the SGP on 18 May. First, it recommended that the Council close the Excessive Deficit Procedure (EDP) for Cyprus, Ireland and Slovenia as these countries brought their deficits below the 3% of GDP Treaty reference value in 2015 and each country’s correction is expected to be durable.

Second, the Commission adopted reports under the preventive arm of the Pact for Belgium, Italy and Finland under Article 126(3) TFEU, reports that reviewed their compliance with the debt criterion of the Treaty. These three reports concluded that the debt criterion should be considered as currently complied with. In the case of Italy, the Commission will review its assessment in autumn as further information on the 2017 budget became available.

Third, the Commission decided to postpone possible decisions on Spain and Portugal until early July, in line with its duty to monitor implementation of the EDP. Then, on 12 July, the Council found that Spain and Portugal had not taken effective action in response to the Council Recommendations of 21 June 2013. Effective action was to be taken by 15 October 2016, and both countries were to submit a report on action taken in response to the Council decisions by that date. This they did at the same time as they submitted their Draft Budgetary Plans (DBPs) in mid-October. DG ECFIN for the Commission assessed these documents and came to the conclusion that the Excessive Deficit Procedures of both Member States should be held in abeyance.

As regards **multilateral fiscal surveillance,** the Commission completed its assessment of whether euro area Member States' Draft Budgetary Plans (DBPs) for 2017 comply with the provisions of the SGP. Eighteen euro area Member States submitted their 2017 DBPs to the Commission by 17 October, in line with the provisions of the Two-Pack (all except Greece which is submitted under a macroeconomic adjustment programme). Two countries, Lithuania and Spain, submitted no-policy change DBPs due to caretaker governments being in place with the obligation to submit full DBPs once incoming governments would have taken office. In line with this obligation Spain and Lithuania presented a full DPB on 9 and 14 December respectively. These were assessed by the Commission on 18 January 2017.

No DBP for 2017 has been found in particularly serious non-compliance with the requirements of the Stability and Growth Pact (SGP). In several cases, however, the Commission finds that planned fiscal adjustments fall short, or risk doing so, of what is required by the SGP.

On 16 November, the European Commission presented the **European Semester Autumn package** which marks the start of the **European Semester 2017** and will be discussed with the other EU institutions and stakeholders to set the scene for the coming year. Once agreed, this guidance should be reflected in the Member States' policies, in particular in their national programmes to be presented in spring 2017.

DG ECFIN is responsible for the Commission's economic forecasts. In the Commission's **Winter forecast**, released on 4 February 2016, showed the overall growth outlook little changed over the 2015 Autumn forecast but with an increased downside risk to growth, mainly due to external factors. The **Spring** 2016 economic forecast released on 3 May concluded that economic growth in Europe would remain modest as key trading partners’ performance slowed. Then on 9 November the Commission published its **Autumn** 2016 economic forecast, in which economic growth in Europe was expected to continue at a moderate pace, as recent labour market gains and rising private consumption were counterbalanced by a number of hindrances to growth and the weakening of supportive factors, such as falling oil prices and currency depreciation.

The 2015 **Fiscal Sustainability Report** prepared by ECFIN was published in January 2016. It provides an overview of the challenges to public finance sustainability faced by MS in the short, medium and long term. Although public finances in the EU today are more sustainable than they were at the onset of the crisis, significant challenges remain over the medium and long term because of high debt levels and population ageing.

DG ECFIN's biennial **Convergence Reports** examine whether Member States with a derogation to participating in the euro area satisfy the conditions for adopting the single currency. The 2016 Convergence Report was adopted on 7 June for the seven Member States with a derogation: Bulgaria, the Czech Republic, Croatia, Hungary, Poland, Romania and Sweden. The report concluded that none of the countries examined fulfils all conditions for adopting the euro at this stage.

On 31 March, the **economic adjustment programme for Cyprus formally concluded** after three years. The programme was designed to achieve three main objectives: stabilise and reform the Cypriot financial sector, ensure sound fiscal consolidation, and implement reforms to support competitiveness and growth. With the programme at an end, Cyprus has been reintegrated into the regular cycle of Economic Policy Coordination – the European Semester – and is subject to **Post Programme Surveillance (PPS)** as foreseen by the Two-Pack Regulation. The Commission is closely monitoring the country's macroeconomic imbalances, particularly a large private, public and external debt overhang amidst high unemployment, and is helping Cyprus to implement further structural and fiscal reforms.

European Commission staff, in liaison with staff from the European Central Bank, visited Cyprus from 26-30 September to conduct the first **PPS mission**. Their visit also served as specific monitoring in the framework of the EU Macroeconomic Imbalance Procedure, and was coordinated with visits by staff from the International Monetary Fund and the European Stability Mechanism. The mission concluded that reforms undertaken by Cyprus during the programme have started to bear fruit. Regular PPS missions also took place in Portugal, Spain and Ireland.

DG ECFIN prepared the **Ex-post Evaluation of the 2012 – 2014 EU financial assistance for Spanish financial institutions**. The programme ended in January 2014 and the report was published in January 2016. DG ECFIN also prepared the **Ex-Post Evaluation of the 2011 - 2014 EU/IMF financial assistance for Portugal.** The programme ended in May 2014 and the report was published in November 2016. The aim of the ex-post evaluations of the design, implementation and outcomes of both programmes is to draw lessons for the future.

After several months of negotiations, the **first review of the third economic adjustment programme (also ESM Programme) for Greece** was completed with the signature of the supplemental Memorandum of Understanding (MoU) on 16 June 2016 and the disbursement of the second tranche of the programme. Following the disbursement of a further sub-tranche in October upon completion of milestones and good progress with arrears clearance, the second review of the programme has been launched in autumn and is ongoing. The Eurogroup reached an agreement on a three-pronged approach distinguishing debt-relief measures over the short, the medium and the long-term horizons. Short-term measures are currently being implemented under the lead of the ESM. More discussions on debt sustainability and debt relief are expected going forward. The outcome of these is expected to be crucial for the IMF participation in the programme.

DG ECFIN remains an important player in preparing the EU position and contributing to its coordination in international economic and financial institutions and fora an in delivering support to countries outside the Union, notably in the form of **Macro-Financial Assistance** (MFA). In 2016 work on a number of MFA operations was pursued, mainly on the Kyrgyz Republic, Tunisia and Jordan.

b) Key Performance Indicators (KPIs)

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

Result indicator 3: Percentage of CSRs partially or fully complied with **Source of data**: European Commission database			
Baseline (2015)	**Interim Milestone** (2016-2020)	**Target** (2020)	**Latest known results as per Annual Activity Report**
Country Specific Recommendations (CSRs)	Annual Communication of the European Semester package	To improve the implementation of CSRs	The level of implementation was about 51 % of the 2015 CSR which displayed at least "some progress" in their implementation as reported to MS in the ECOFIN Committees.

On 26 February 2016, the Commission published 27 country reports (i.e. for all MS except Greece, which is covered by a macroeconomic adjustment programme) analysing Member States' economic and social policies and assessing **their progress in addressing the issues identified in the 2015 Country Specific Recommendations (CSRs).** These reports, prepared by DG ECFIN, underpinned discussion with MS about their national policy choices ahead of the delivery of their National Programmes in April 2016, as well as the formulation of the Commission's 2016 CSRs on 18 May 2016.

The overall level of the 2015 CSRs' implementation has not changed substantially and is comparable to the results achieved in the implementation of the 2014 CSRs. This outcome is disappointing given that the streamlining of the European Semester as well as the focus of the CSRs towards the key macroeconomic and social challenges for each Member State was meant to increase ownership and hence also the implementation record.

As regards the main policy areas covered by the CSRs, most significant progress is observed with regard to recommendations in the areas of financial services and active labour market policies. In contrast, more progress could have been expected in generating a business and employment friendly and regulatory environment, increasing female labour market participation and reducing barriers in the services sector.

Specific objective 3: Promoting investment in the EU

Result indicator 1: European Fund for Strategic Investments (EFSI) – Total investment **Source of data:** EIB, KPI3 (as per the EFSI Agreement) included in the monthly update of EFSI figures provided by the EIB Group; the total investment will be also part of the KPI/KMI reporting provided on an semi-annual basis to the Commission and the annual reports submitted by the EIB to the Commission, European Parliament and Council		
Baseline (2015)	**Target** (2018 - EFSI Regulation (Preamble 8)	**Latest known results as per Annual Activity Report**
No baseline as it is the start of the activity	Mobilise a total investment of EUR 315 billion by July 2018 as per the EFSI Regulation (Preamble 8).	EUR 163.9 billion

As of end-December 2016, i.e. half of the way into its investment period, the volume of investment to be mobilised by the approved EFSI operations stood at approximately half of the target of mobilising EUR 315 billion of total investment[2], i.e. EUR 163.9 billion.

In the Infrastructure and Innovation Window, the European Investment Bank approved 175 projects of around EUR 94.4 billion in investment value, with European Investment Bank financing supported by the EU guarantee under the EFSI expected to amount to EUR 22.4 billion. These projects are situated in 25 Member States. In the SME Window, 244 operations have been approved by the European Investment Fund for a total investment value of EUR 69.5 billion. More than 380,000 SMEs and mid-caps in all Member States are expected to benefit. As of end-December 2016 out of the 419 approved operations, 346 were signed. Therefore at the reporting date one can conclude that EFSI is as on track in terms of approved operations.

Specific Objective 5 improving the efficient functioning of the Economic and Monetary Union

Result Indicator 6: Completion of stage 1 of Five Presidents' Report by 2017 and progress towards completing stage 2 by 2020		
Baseline (2015)	**Target**	**Latest known results**
The Five Presidents' Report of June 2015[3] laid out the principal steps necessary to complete EMU in two stages at the latest by 2025. To that end, the Commission presented a series of initiatives implementing stage 1: • national Competitiveness Boards and an advisory European Fiscal Board • more unified representation of the euro area in international organisations • steps towards a Financial Union, notably via a European Deposit Insurance Scheme In the second stage ('completing EMU'), concrete measures of a more far-reaching nature would be agreed to complete EMU's economic and institutional architecture. Specifically, during this second stage, the convergence process would be made more binding through a set of commonly agreed benchmarks for convergence that could be given a legal nature.	1st Stage completed by 2017; stage 2 to be completed by 2020 Commission to present a White Paper assessing progress made in Stage 1 and outlining the next steps needed, including measures of a legal nature to complete EMU in Stage 2.	The Commission issued a recommendation on Productivity Boards which was adopted in September 2016. In November 2016 the Commission issued a legislative proposal on establishing European Deposit Insurance Scheme. The Commission has selected the Chair and the four Members of the European Fiscal Board.

[2] Data as per EIB EFSI Dashboard: http://www.eib.org/efsi/index.htm

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

Work on the White Paper has advanced and the Commission has issued the paper on 1 March 2017 as was originally planned.

The White paper sets out possible paths for the future of Europe. It is the start, not the end, of the debate. It offers five scenarios for the Union of 27 by 2025, depending on the choices that will be made.

The Commission will publish, by the end of June, discussion papers on the social dimension, globalisation, the Economic and Monetary Union, defence and the Union's finances.

The President will present first conclusions in September 2017 during his State of the Union speech.

c) Key conclusions on Financial management and Internal control

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

The Commission has adopted a set of internal control standards, based on international good practice, aimed to ensure the achievement of policy and operational objectives. 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 ECFIN has assessed the internal control systems during the reporting year and has concluded that the internal control standards are implemented and function as intended. Please refer to AAR section 2.1.3 for further details.

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

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

d) Information to the Commissioner

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

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

➢ **Aim**

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

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

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

ii) A deeper and fairer EMU.

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

An additive aggregation methodology was used to obtain a consolidated assessment of the operational expenditure contribution to the policy achievements.

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

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

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

European Semester

The 2016 European Semester kicked off in November 2015 with the Annual Growth Survey (AGS), which confirmed the Commission's jobs and growth strategy based on three pillars: re-launching investment, pursuing structural reforms to modernise our economies and responsible fiscal policies. In line with the Five Presidents' report[4], in

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

November 2015 the Commission[5] presented recommendations for the euro area together with the AGS and the Alert Mechanism Report (AMR), for the first time. The early adoption of euro area recommendations allowed for a better integration of the euro area and national dimensions of the EU economic governance and highlighted common challenges that need to guide country-specific action. These improvements have been recognised by Member States (MS).

The 2016 European Semester built on the streamlined approach introduced in 2015, enhancing further the quality of the analysis in the country reports, streamlining further the country specific recommendations (CSRs) which have been carefully targeted at most pertinent and pressing issues, intensifying the political dialogue with governments, national parliaments, social partners and stakeholders through high-level visits from the Commission to the capitals of the MS.

On 26 February 2016, the Commission published 27 country reports (i.e. for all MS except Greece, which is covered by a macroeconomic adjustment programme). These country reports, prepared by DG ECFIN, analyse MS' economic and social policies and assess the progress made in addressing the issues identified in the 2015 CSRs. For the 19 MS identified in the AMR they include the in-depth reviews (IDRs) under the Macro Imbalance Procedure (MIP). The main messages of the country reports are summarised in a Communication released on 8 March[6], which also provides the assessment of IDRs examining the existence and nature of possible macroeconomic imbalances. These reports serve as the basis for discussion with MS of their national policy choices ahead of their National Programmes in April, and lead to the formulation in late spring of the Commission's CSRs.

On 18 May, the European Commission published its 2016 CSRs, setting out its economic policy guidance for individual MS for the next 12 to 18 months, along with an overarching Communication. This year's CSRs reflect the Commission's efforts to make the European Semester more effective and relevant by proposing fewer recommendations with a focus on key economic and social priorities as identified in its 2016 AGS, and a greater focus on euro area challenges and the interdependence between economies.

The Commission's analysis finds that progress continues to vary significantly across countries and policy areas[7]. More should be done to implement reforms as the key tool to safeguard European recovery, foster convergence and raise the long-term growth potential of EU economies. Investment is found to still be low compared to pre-crisis levels but gaining traction, helped by the Investment Plan for Europe (IPE). Also within the European Semester, the Commission monitors compliance with the Stability and Growth Pact (SGP). In 2016, it found that all MS need to maintain responsible fiscal policies and ensure that their budgets are growth-friendly.

On 17 June, the (ECOFIN) Council approved the CSRs, a key stage in the European Semester. The European Council endorsed the Recommendations covering economic, fiscal and employment policies on 28 June, while the formal adoption by the (ECOFIN) Council was on 12 July, thus concluding the 2016 European Semester.

On 16 November, the European Commission presented the **European Semester Autumn package** which sets out economic and social priorities for the EU, the euro area

[5] In this report, reference to "the Commission" should be understood to mean "the Commission based on substantial input from DG ECFIN".

[6] An updated Communication was released on 7 April (COM(2016) 95 final/2) in view of additional information on Cyprus.

[7] The assessment of the 2015 CSRs was carried out on CeSaR, which serves as a database for all CSRs adopted since the launch of the European Semester (recorded in full version and in subparts). In addition, it allows for different CSR assessment rounds by each responsible DG and provides CSR data by horizontal topic.

and the Member States' levels for the year ahead. This package marks the start of the 2017 European Semester and will be discussed with the other EU institutions and stakeholders to set the scene for the coming year. Once agreed, this guidance should be reflected in the Member States' policies, in particular in their national programmes to be presented in spring 2017.

The package includes:

• **the 2017 Annual Growth Survey**, in which the Commission calls on the Member States to redouble their efforts along the so-called virtuous triangle of economic policy – relaunching investment, pursuing structural reforms and ensuring responsible fiscal policies. This year, emphasis is placed on the importance of ensuring social fairness as a way to stimulate a more inclusive growth, as well as on the need to strengthen competitiveness, innovation and productivity.

• **a Recommendation for a Council Recommendation on the economic policy of the euro area**, to pursue policies that support sustainable and inclusive growth, and improve adjustment capacity, rebalancing and convergence. To prioritise reforms that increase productivity, improve the institutional and business environment, remove bottlenecks to investment, and support job creation. To aim for an appropriate balance in fiscal policies between the need to ensure sustainability and the need to support investment to strengthen the recovery, thereby contributing to an appropriate aggregate fiscal stance and a more balanced policy mix. Implement reforms that promote competitiveness, job creation, job quality, resilience and economic and social convergence, underpinned by an effective social dialogue. To make progress on completing EMU, in full respect of the EU's internal market and in an open and transparent manner towards non-euro area Member States.

• a Communication "Towards a positive fiscal stance for the euro area", in which the Commission stresses the need for a significantly more positive fiscal stance and that there is now a window of opportunity to achieve it. A positive fiscal stance refers both to the supportive, i.e. expansionary, direction that fiscal policy should take overall, and to the composition of the fiscal adjustment, in terms of the distribution of efforts across countries and of the types of expenditure and/or taxes behind it. This should contribute to a balanced policy mix, to support reforms and to strengthen the recovery through a fiscal expansion of up to 0.5% of GDP in 2017.

• **the 2017 Alert Mechanism Report** which initiates the so-called Macroeconomic Imbalances Procedure - MIP that aims to prevent or address imbalances that hinder the smooth functioning of Member States' economies, of the euro area or of the EU as a whole, and to prompt the right policy responses). The Alert Mechanism Report, prepared by DG ECFIN, identifies Member States for which the Commission should undertake further in-depth reviews to assess whether they may be experiencing imbalances. It is based on the economic reading of a scoreboard of agreed indicators. For the 2017 cycle, 13 countries will be covered by an In-Depth Review (IDR).

• **the 2017 draft Joint Employment Report** which confirms that the recovery is increasingly job-intensive, also thanks to recent structural reforms in a number of Member States.

Fiscal surveillance

As regards multilateral fiscal surveillance, DG ECFIN completed its assessment of whether euro area **Member States' Draft Budgetary Plans for 2017** comply with the provisions of the Stability and Growth Pact.

Eighteen euro area Member States submitted their 2017 DBPs to the Commission by 17 October, in line with the provisions of the Two-Pack (all except Greece which is submitted under a macroeconomic adjustment programme). Two countries, Lithuania and Spain, submitted no-policy change DBPs due to caretaker governments being in place. They have the obligation to submit full DBPs once incoming governments have taken office. In line with this obligation Spain and Lithuania presented a full DPB on 9 and 14 December respectively.[8]

No DBP for 2017 has been found in particularly serious non-compliance with the requirements of the Stability and Growth Pact (SGP). In several cases, however, the Commission finds that planned fiscal adjustments fall short, or risk doing so, of what is required by the SGP.

Regarding the fifteen countries in the preventive arm of the SGP:

- for five countries (Germany, Estonia, Luxembourg, Slovakia and the Netherlands), the DBPs are found to be compliant with the requirements for 2017 under the SGP.

- for four countries (Ireland, Latvia, Malta, Austria), the DBPs are found to be broadly compliant with the requirements for 2017 under the SGP.

- for six countries (Belgium, Italy, Cyprus, Lithuania, Slovenia, Finland), the DBPs pose a risk of non-compliance with the requirements for 2017 under the SGP.

Regarding the three countries currently in the corrective arm of the SGP (i.e. in Excessive Deficit Procedure (EDP)):

- for France and Spain, the DBPs are found to be broadly compliant with the requirements for 2017 under the SGP,

- for Portugal, the DBP is found to be at risk of non-compliance with the requirements for 2017 under the SGP.

Economic Forecasts

Each year DG ECFIN produces various economic forecasts: The **Winter** forecast, which was released on **4 February**, shows that the overall growth outlook has changed little since the last time the exercise was undertaken, for the 2015 Autumn forecast. However there is an increase in the risk that growth could turn out worse than forecast, mainly as a result of external factors. Overall, the European economy is now entering its fourth year of recovery and growth continues at a moderate rate, driven mainly by consumption. In the euro area, growth is projected to increase to 1.7% this year from 1.6% last year, and to climb to 1.9% in 2017. EU economic growth is forecast to remain stable at 1.9% this year and rise to 2.0% next year. Factors such as low oil prices, favourable financing conditions and the euro's low exchange rate are expected to be stronger and last longer than previously assumed. At the same time, risks to the economy are becoming more pronounced and new challenges are surfacing: slower growth in China and other emerging market economies, weak global trade as well as geopolitical and policy-related uncertainty.

The **Spring** 2016 economic forecast released on **3 May** concluded that economic growth in Europe is expected to remain modest as key trading partners' performance has slowed and some of the thus far supportive factors start to wane. The Commission forecast modest euro area GDP growth of 1.6% in 2016 and 1.8% in 2017 after 1.7% in 2015. GDP growth in the EU is expected to moderate from 2.0% last year to 1.8% in 2016 before reaching 1.9% in 2017. Very accommodative monetary policy has set the scene

[8] The Commission provided an assessment of these documents on 18 January 2017.

for a pick-up in investment by making access to funding easier and cheaper, and fiscal policy in the euro area is also expected to be supportive of growth this year. Despite oil prices falling again in early 2016 which prolonged the boost to real disposable incomes, the strength of this support should gradually fade as the oil price rebounds. Similarly, although euro area exports are still benefiting somewhat from the euro’s past depreciation, the currency’s recent rise could make the euro area more susceptible to the effects of slower external growth.

On **9 November** the **Autumn** 2016 economic forecast was published: Modest growth in challenging times. Economic growth in Europe is expected to continue at a moderate pace, as recent labour market gains and rising private consumption are being counterbalanced by a number of hindrances to growth and the weakening of supportive factors. GDP growth in the euro area is expected at 1.7% in 2016, 1.5% in 2017 and 1.7% in 2018. GDP growth in the EU as a whole should follow a similar pattern and is forecast at 1.8% this year, 1.6% in 2017 and 1.8% in 2018. Private consumption is set to remain the primary engine of growth through to 2018, supported by expectations for employment to continue growing and wages to pick up slightly. Borrowing costs remain supportive to growth due to exceptionally accommodative monetary policy. The euro area aggregate budget deficit is set to continue to edge down, while the fiscal stance is projected to remain non-restrictive. Investment is set to continue increasing. However, political uncertainty, slow growth outside the EU and weak global trade weigh on growth prospects. There is also still a risk that the economy's weak performance in recent years could hold back growth, and persistent slack points to the possibility of faster growth without undue inflationary pressures. Moreover, in the coming years, the European economy will no longer be able to rely on the exceptional support it has been receiving from external factors, such as falling oil prices and currency depreciation.

DG ECFIN has also produced updates of the spring and autumn forecasts to underpin the EDP documents adopted in July 2016 and January 2017, respectively, in the context of Spain's excessive deficit procedure.

Macroeconomic imbalance procedure (MIP) 2016

The AMR 2016 (published in November 2015 alongside the AGS) selected 18 MS for an IDR with a view to assess whether imbalances or excessive imbalances exists. On the basis of the IDR analysis (integrated in the Country Reports) the European Commission identified imbalances in 13 of the MS analysed.

In line with the ambitions to improve transparency and predictability as outlined in the deepening of EMU agenda, DG ECFIN simplified and streamlined the categorisation of MIP imbalances. Also communication and transparency of the analytical basis for the MIP conclusions improved with the introduction of the MIP assessment matrices. Starting from 2016, all MS under MIP surveillance will be subject to specific monitoring on the progress with policy implementation to address imbalances. In November 2016 the MIP compendium was published, explaining in a transparent way how, and the principles used, the MIP has been implemented so far.

Policy responses to the identified imbalances were integrated in the overall set of new European semester CSRs, reflecting the country specific imbalances and their severity. As regards the implementation of 2015 MIP relevant CSRs, the Commission found that in general EU MS are making progress in addressing imbalances in their economies and in carrying out the CSRs. While they vary in degree across countries and policy areas, these efforts are key to strengthening the European recovery, fostering convergence and reducing macro stability risks.

Steps under the Stability and Growth Pact (SGP)

The Commission took several steps under the SGP on **18 May**. First, the Commission recommended to the Council to close the Excessive Deficit Procedure (EDP) for Cyprus, Ireland and Slovenia as these countries brought their deficits below the 3% of GDP

Treaty reference value in 2015 and each country's correction is expected to be durable. For Cyprus, this would mean an exit one year ahead of its 2016 deadline.

Second, the Commission adopted reports under the preventive arm of the Pact for Belgium, Italy and Finland under Article 126(3) TFEU, in which it reviews their compliance with the debt criterion of the Treaty. After the assessment of all the relevant factors, these three reports concluded that the debt criterion should be considered as currently complied with. In the case of Italy, the Commission will review its assessment of the relevant factors in autumn (November) as further information on the 2017 budget becomes available. This is linked to the specific conditions related to the granting of flexibility in 2016.

Third, the Commission decided to postpone the possible decisions for Spain and Portugal to early July, in line with its duty to monitor the implementation of the EDP. The Commission explained that Portugal had not corrected its excessive deficit by the 2015 deadline and the recommendation had expired in December 2015. Spain had exceeded its headline target for 2015 by a wide margin and did not deliver the recommended fiscal effort. Therefore, Spain is unlikely to correct its excessive deficit by the 2016 deadline.

On **17 June**, the Council closed the EDP for Cyprus, Ireland and Slovenia as these countries have corrected their excessive deficits in a durable manner. This reduces the total number of Member States in EDP to six (Croatia, France, Greece, Portugal, Spain and UK), down from 24 in spring 2011.

On **12 July**, the Council found that Spain and Portugal had not taken effective action in response to the Council Recommendations of 21 June 2013. The Council's decisions under the Excessive Deficit Procedure, on the basis of article 126(8) of the Treaty on the Functioning of the European Union (TFEU) triggered potential sanctions according to article (6) of Regulation (EU) No 1173/2011. Fines of up to 0.2% of GDP could be imposed but, following reasoned requests from Portugal and Spain, the Commission proposed on 27 July 2016 to cancel the fines. As regards potential suspension of European Structural and Investment Funds following the article 126(8) TFEU decision, the Commission informed the European Parliament in view of engaging in a structured dialogue.

On **8 August**, the Council agreed with the Commission's proposal of zero fines for Portugal and Spain and, based on a Commission recommendation, adopted a decision in accordance with Article 126(9) TFEU to set a new correction deadline (2016 for Portugal and 2018 for Spain) and give notice to both Member States to take necessary measures to correct their excessive deficits. Effective action was to be taken by 15 October 2016, and both countries were to submit a report by that date.

Portugal and Spain jointly with their DBPs submitted **by mid-October** the reports on action taken in response to the Council decisions to give notice, adopted on 8 August 2016 in accordance with Article 126(9) of the Treaty. The Commission assessed these documents and came to the conclusion that the Excessive Deficit Procedures of both Member States should be held in abeyance. Accordingly, at the end of a long structured dialogue with the European Parliament the event that required a proposal by the Commission to suspend parts of the European Structural and Investment Funds was no longer present and therefore there would be no such proposal.

Fiscal Sustainability Report 2015

DG ECFIN's 2015 Fiscal Sustainability Report was published in January 2016. It provides an overview of the challenges to public finance sustainability faced by MS in the short, medium and long term. Although public finances in the EU today are more sustainable than they were at the onset of the crisis, significant challenges remain over the medium and long term because of high debt levels and population ageing.

1.1.2 Specific objective 3: promoting investment in the EU

Investment Plan for Europe (IPE)

On **29 November 2016**[9], 2 years after President Jean-Claude Juncker launched the IPE, and almost 18 months after the launch of the European Fund for Strategic Investments (EFSI), the Commission shared the results of the IPE implementation which substantiate its September proposal[10] to extend the EFSI following its first successful year in operation. As of December 2016, EFSI operations mobilising EUR 163.9 billion have been approved across all Member States, which is expected to benefit to more than 388,000 SMEs. The EFSI is making a real difference by supporting innovative and strategic projects that contribute to job creation and growth. Managed by the European Investment Bank (EIB) Group, the EFSI is on track to deliver on mobilising at least EUR 315 billion in additional investments in the real economy by mid-2018. The Commission has scaled up the EFSI SME-Window to provide finance to SMEs through intermediary banks, and has put forward legislative proposals to make it easier to combine EFSI support with European Structural and Investment Funds (ESIF) by aligning the legislative frameworks.

The European Investment Advisory Hub (EIAH) received 314 requests as of end-December 2016 from 28 Member States of which 258 were project-related and 2/3 of them came from the private sector. None of the requests received was rejected and all of them were treated by the European Investment Advisory Hub team. However, only around 50% of the requests were for technical assistance (alongside a simultaneous request for funding support). Moreover, to develop its local network, the European Investment Advisory Hub has signed 20 memoranda of understanding as of end-December 2016 with different National Promotional Institutions across the EU.

As far as the second Pillar of the Investment Plan is concerned, the Commission has successfully launched the European Investment Project Portal (EIPP) in June 2016. Designed as a bridge between EU project promoters and investors worldwide, the EIPP offers almost 140 investment opportunities (as of end-December 2016). In the course of 2016, the efforts were oriented on defining procedures to screen the more than 200 projects received and to develop a more user-friendly interface in the course of 2017. The EIPP objective for 2017 is to continue to develop the pipeline of projects by raising awareness of the Portal among all stakeholders (private/public project promoters and investors).

Work is also ongoing on the Third Pillar of the Investment Plan. The Third pillar aims at removing bottlenecks to investment. It requires complementary measures both at EU and national level. The Commission has started to address barriers to investment at EU level (initiatives to reinforce the Single Market in the field of services and products, to create a Capital Markets Union, to establish a true Digital Single Market, to complete the Energy Union, the re-launch of the Common Consolidated Corporate Tax Base as well as the Better Regulation agenda). It is also working with MS to identify and address national barriers in the context of the European Semester. This concerns areas such as insolvency, public procurement, the efficiency and transparency of public administration or sector-specific regulations, as well as the functioning of labour and product markets.

Investment Plan for Europe: evaluations give evidence to support its reinforcement

Given the concrete results achieved since the Commission unveiled the Investment Plan

[9] https://ec.europa.eu/priorities/sites/beta-political/files/20161129-efsi-communication_en.pdf

[10] http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=COM:2016:581:FIN

for Europe two years ago, President Jean-Claude Juncker presented a proposal in his State of the Union address of 14 September to reinforce the European Fund for Strategic Investments (EFSI), the core of the Investment Plan for Europe, to boost investment further. Three evaluations support that proposal: the Commission published its report on 14 September; the European Investment Bank presented its evaluation on 5 October; and DG ECFIN commissioned the accounting firm EY to undertake an independent evaluation that was published on 14 November. All three reports find that the EFSI has increased access to financing as well as mobilised private capital, and identify areas in which the Investment Plan could be enhanced. The findings - summarised in a Commission Communication issued on 29 November - are broadly addressed in the Commission's legislative proposal to extend the duration of the EFSI until the end of 2020 and increasing the total investment target from EUR 315 billion to at least half a trillion euros. The Commission was also calling for the EIAH to develop its local technical assistance delivery mode and to be more proactive in its communication.

European External Investment Plan (EEIP)

Building on the experience gained with the successful Investment Plan for Europe, the European Commission proposed a new European External Investment Plan (EEIP) to encourage investment in Africa and the EU Neighbourhood to strengthen our partnerships and contribute to achieve the Sustainable Development Goals.

Some of the main challenges for developing countries remain achieving inclusive and sustainable growth and creating jobs. The investment climate and the overall policy environment in the EU Neighbourhood and in Africa are not always supportive of private sector investment. This is particularly evident in fragile, conflict- and violence-affected countries, some of which are important countries from where irregular migrants originate.

Foreign Direct Investment (FDI) and other private financial flows have declined across developing countries since the 2008 financial crisis. In 2012, only 6% (€ 34.6 billion) of total global FDI to developing countries went to countries on the fragile states list. This was an average investment of €27 per capita compared to an average of €128 per capita in other developing countries. Among those on the fragile states list, the majority of FDI is attracted by resources-rich countries, with 72% concentrated in ten countries in 2012. This clearly marks a gap in investment and shows the added-value targeted action by the European Union can have.

The EIP sets out a coherent and consistent approach and its implementation will allow the EU to lead by example in developing more effective partnerships, with partner countries and at the same time implementing international commitments on financing for development. Grants remain essential but we need to go beyond classical development assistance, using guarantees and innovative financial instruments to support investment, trade, domestic resource mobilisation and good governance and multiply the impact on the ground. The EIP will improve the way in which public funds are used and the way public authorities and private investors work together on investment projects. The EIP provides, for the first time, a coherent overall framework to improve investment in Africa and the Neighbourhood, in order to promote sustainable investment and tackle some of the root causes of migration. It will do so by leveraging funds from the EU, its Member States, other donors, financial institutions and the private sector.

Furthermore, it offers a guarantee to the private sector to invest in contexts that are politically more risky than others, and it addresses the key factors that enable crowding-in private investment where investors would not otherwise go.

Investments will mainly be targeted to improve social and economic infrastructure, for example municipal infrastructure and proximity services, and on providing support to SMEs, microfinance and job creation projects.

DG ECFIN is drawing on the experience with existing investment programmes at EU level, for example, through the current EU blending framework. Blending is the use of a limited amount of EU money (grants) to mobilise additional support, for instance in the form of loans, from financial institutions and from the private sector to strengthen the development impact of investment projects. This way, the European Union already supports investments in modern infrastructure and access to finance for Micro Small and Medium Enterprises (MSMEs) in partner countries. The EIP will draw on these lessons and enable the EU, international financial institutions, donors, public authorities and the private sector to cooperate fully in a coordinated way.

The EIB's lending operations form an integral part of the EIP. For this purpose, the Commission will expand the EU budget guarantee under the EIB External Lending Mandate (ELM) by a total of EUR 5.3 billion. In total, the EIB will thus lend up to EUR 32.3 billion under the EU guarantee between 2014 and 2020. The increase in funding was supported by the results of a DG ECFIN mid-term evaluation of the ELM that was concluded in June 2016. The evaluation concluded that the ELM has supported the EU's external policy agenda, showing sufficient flexibility and reactivity to geopolitical challenges and playing a role in the economic and political stabilisation of countries. The evaluation also concluded that the added value of the ELM financing operations is substantial.

1.1.3 Specific objective 4: promoting prosperity beyond the EU

The EU's representation in G7 and G20

The first G20 Finance Ministers and Central Bank Governors Meeting during the Chinese G20 Presidency took place in Shanghai on **26-27 February**. At the meeting, there was agreement to use all policy tools – monetary, fiscal and structural – individually and collectively to foster confidence and preserve and strengthen the economic recovery. During the first half of 2016, the European Commission has prepared and taken active part in several G20 and G7 meetings at both Deputy and Finance Ministerial level with the view of operationalising this three pronged strategy. At the G7 Finance Ministers and Central Bank Governors Meeting on **19-21 May** in Sendai, Japan G7 members also addressed major global economic and political challenges including a discussion on the quality and composition of public finances. The Commission has actively been working towards a more cooperative approach on global economic policy cooperation to ensure a higher, more sustainable, and more balanced growth outcome, to support the fragile global outlook – especially in the G20. This has become more important following a marked increase in uncertainty just after the G20 Finance and Central Bank Governors meeting on **22-23 June** in Xiamen and it has coloured the discussions in the July Ministerial meeting. The dominant issues at the **September G20 summit** were fairness/inclusiveness of the international system, overcapacity, and long-term sources of growth. The summit was followed by a Ministerial dinner in the margins of the IMF Annual meetings which focused on beneficial ownership. The G20 Meeting of Deputies on **1 December** in Berlin marked the start of the German G20 Presidency. It was combined with a high-level symposium on how to improve global resilience which is the main theme of the German Presidency. Everyone appeared acutely aware that Leaders expect some concrete answers on making globalisation work better for the average citizen and the success of the work programme of Germany will depend on the engagement of the new US administration.

Disbursement of EU EUR 15 million of Macro-Financial Assistance (MFA) for the Kyrgyz Republic

On **26 January**, the European Commission approved the release of EUR 15 million as part of the EU's MFA programme for the Kyrgyz Republic. This is the second and final tranche of a EUR 30 million MFA programme, and was disbursed in two instalments, EUR 5 million in grants on 10 February and EUR 10 million in loans on 13 April 2016. The objective of this assistance is to support the restoration of a sustainable external financial situation for the Kyrgyz Republic, alleviating its balance of payments needs and thereby supporting its economic and social development. The first EUR 15 million in this MFA programme to Kyrgyzstan were disbursed in two instalments, EUR 10 million in grants on 11 June and EUR 5 million in loans on 15 October 2015. In 2015, bilateral EU assistance to Kyrgyzstan amounted to a total of EUR 34.6 million in grants (including MFA and development assistance), the highest amount the EU has ever disbursed to the Kyrgyz Republic.

Additional MFA for Tunisia

Following a request by Tunisia, the EU will provide additional MFA to Tunisia of up to EUR 500 million, in the form of a follow-up to the pre-existing MFA programme. The assistance – proposed by the Commission on **12 February** and approved by the co-legislators on 6 July - will take the form of medium-term loans at favourable financing conditions. It is part of a wider effort by the EU to help Tunisia overcome the severe economic difficulties it has faced since its economic and political transition process began. Terrorist attacks in 2015 worsened the situation by affecting key economic sectors such as tourism and transport. This MFA programme complements the more than EUR 1 billion in EU development assistance that Tunisia has already received in the framework of the European Neighbourhood Policy (ENP) through the European Neighbourhood Instrument (ENI) and other EU external financial instruments. It will help to cover Tunisia's external financing needs in 2016 and 2017, in the context of a USD 2.9 billion IMF Extended facility fund (approved in May 2016) for the period 2016-2020, while supporting reforms designed to achieve a more sustainable balance of payments and budgetary situation, improve the investment climate, and foster economic integration and regulatory convergence with the EU.

Additional MFA for Jordan

Following a request on 3 March 2016 by the Jordanian authorities, the EU will provide additional MFA to Jordan (MFA II) of up to EUR 200 million. The assistance - proposed by the Commission on **29 June 2016** and approved by the co-legislators on 14 December 2016 - will take the form of medium-term loans at favourable financing conditions. It is part of a wider effort by the EU and other international donors, agreed at the London conference "Supporting Syria and the region" in February 2016, to help Jordan and other countries in the region mitigate the economic and social impact stemming from the regional conflicts and the presence of a large number of Syrian refugees in the country. The intensification of the regional conflicts in 2015 further worsened the economic situation as it affected key sectors such as tourism and trade as well as investment inflows. This MFA programme is part of the overall assistance of EUR 1.55 billion that the EU has made available to Jordan since the beginning of the Syrian crisis in 2011 through the ENI and other EU external financial instruments. It will help Jordan cover its external financing needs in 2016 and 2017, while supporting reform measures aimed at strengthening the balance of payments and budgetary position, improving the investment climate and fostering economic integration and regulatory convergence with the EU. This MFA operation follows the MFA-I operation of EUR 180 million in loans which was fully disbursed in 2015.

Economic governance of enlargement countries

On **25 May**, the Economic and Financial Dialogue of the EU with the Western Balkans and Turkey adopted Joint Conclusions with specific policy guidance for enlargement countries on reforms needed to foster macroeconomic stability, ensure fiscal sustainability and support long-term growth and competitiveness. The dialogue was held on the basis of enlargement countries Economic Reform Programmes (ERP) which were submitted to the Commission end-January and subsequently assessed by Commission services. The programmes and the Commission's staff assessments were discussed at experts' level in multilateral meetings held in Brussels on 22 April, 26 April, 4 May and 12 May.

1.2 General objective 5: a deeper and fairer EMU

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

Conclusion of the 2013–16 Economic Adjustment Programme for Cyprus

On **31 March**, the economic adjustment programme for Cyprus formally concluded after three years. The programme was designed to achieve three main objectives: stabilise and reform the Cypriot financial sector, ensure sound fiscal consolidation, and implement reforms to support competitiveness and growth. Thanks to the efforts of the Cypriot authorities in implementing the necessary structural reforms, confidence has returned, growth is picking up, the banking system has further healed and the fiscal outlook has improved substantially. With the programme at an end, Cyprus has been reintegrated into the regular cycle of Economic Policy Coordination – the European Semester (ES) – and is subject to Post Programme Surveillance (PPS) as foreseen by the Two-Pack Regulation. DG ECFIN is closely monitoring the country's macroeconomic imbalances, particularly a large private, public and external debt overhang amidst high unemployment, and is helping Cyprus to implement further structural and fiscal reforms.

Cyprus post-programme surveillance mission finds reforms bearing fruit but reform momentum needs to be restored

European Commission staff, in liaison with staff from the European Central Bank, visited Cyprus from 26-30 September to conduct the first post-programme surveillance mission. Their visit also served as specific monitoring in the framework of the EU Macroeconomic Imbalance Procedure, and was coordinated with visits by staff from the International Monetary Fund and the European Stability Mechanism. The mission concluded that reforms undertaken by Cyprus during the programme have started to bear fruit. Economic growth in 2016 has been stronger than expected, and that has supported fiscal performance. Moreover, accelerated loan restructuring efforts and the more supportive economic environment have led to a decline in the outstanding stock of non-performing loans, while new insolvency and foreclosure frameworks have been established. The pace of structural reform has slowed considerably, however, and the mission therefore encouraged the authorities to renew their efforts on this front in order to improve Cyprus's growth potential and attract more foreign investment.

Greece - Completion of the first review of the 2015-18 European Stability Mechanism (ESM) Economic Adjustment Programme

After several months of negotiations, the first review of the third economic adjustment programme (also ESM Programme) has been completed with the signature of the supplemental Memorandum of Understanding (MoU) on 16 June 2016. The ESM Board of Governors has approved the disbursement of the second tranche of payment under the programme of EUR 10.3 bn, of which EUR 7.5 bn were disbursed on 21 June and the remaining EUR 2.8 bn was disbursed in October upon the verified completion of a set of milestones, notably in the fields of energy and privatisation (EUR 1.1 bn), and sufficient progress on arrears clearance (EUR 1.7 bn).

The 2nd review of the ESM programme was launched in autumn, focusing in particular on the implementation of measures for which primary legislation was adopted under the 1st review. Considerable progress in implementation was made by end-2016, and the Commission continues to work closely with all partners towards a swift conclusion of the review.

The Eurogroup of 24 May also discussed the sustainability of the Greek debt in line with the Eurogroup statement of 9 May. The Eurogroup reached an agreement on a three-pronged approach distinguishing debt-relief measures over the short, the medium and the long-term horizons. Short-term measures are currently being implemented under the lead of the ESM. More discussions on debt sustainability and debt relief are expected going forward. The outcome of these is expected to be crucial for the IMF participation in the programme.

DG ECFIN has been working closely with the Greek authorities on the preparation of a Growth Strategy for a sustainable recovery in Greece, alongside Commission services including Regional and Urban Policy (REGIO) and Employment, Social Affairs & Inclusion (EMPL), to ensure that the use of ESI funds are well aligned with core objectives of the programme. For the same purpose, DG ECFIN has also been working closely with international financial organisations such as EIB, European Bank for Reconstruction & Development (EBRD) and International Finance Corporation (IFC). DG ECFIN worked closely with the Commissions' Structural Reform Support Service (SRSS) to provide technical assistance to the Greek authorities on priority reform areas in the MoU of the ESM programme.

Post-programme surveillance (PPS) relating to the 2011–14 Economic Adjustment Programme for Portugal

Staff from the European Commission, in liaison with staff from the ECB, visited Portugal from **25 January to 2 February 2016,** from **15-22 June** and from **29 November to 7 December** to conduct the third, fourth and fifth PPS missions. These visits also served as specific monitoring in the framework of the EU MIP. Despite some positive developments, Portugal's moderate economic recovery – which has continued since the end of the adjustment programme in June 2014 – is being held back by elevated levels of debt in the private and public sector, high non-performing loans and rigidities in product and labour markets. Overall, the missions noted the need for a sustainable improvement of growth conditions that would imply a consolidation strategy, a comprehensive approach to reduce corporate debt and weaknesses in the financial sector, as well as a clear plan to boost potential growth and competitiveness. The latter would require further measures to increase skill levels in the economy and to tackle rigidities in product markets.

Ex-Post Evaluation of Portugal's 2011-2014 economic adjustment programme

The report, prepared by DG ECFIN, was published in November. It presents an ex-post evaluation of the three year EU/IMF financial assistance for Portugal, which ended in May 2014. The three-year Portuguese programme was designed to overcome the economic and financial crisis that led to Portugal requesting financial assistance in April 2011, when the sovereign and banking sector were cut off from market funding. The programme made available €52bn of European funding, split equally between the European Financial Stability Facility (EFSF) and the European Financial Stabilisation Mechanism (EFSM) and €26bn from the International Monetary Fund (IMF). The Portuguese programme was the third economic adjustment programme for a euro area (EA) country and made use of stabilisation instruments that were less than a year old at its inception. The aim of the ex-post evaluation of the design, implementation and outcome of the programme is to draw lessons for the future.

The evaluation found that the objectives of the economic adjustment programme were relevant and that the measures included in the programme were broadly focused on the appropriate issues. The programme enabled Portugal to avoid a sharp immediate adjustment in its economic and social situation but challenges to fiscal sustainability remain.

PPS relating to the 2012–14 Financial Assistance Programme for the Recapitalisation of Financial Institutions in Spain

A team from the European Commission, in liaison with staff from the ECB, carried out the fifth PPS visit to Spain on **11-13 April**. The ESM participated in the meetings on aspects relating to its early warning system. The mission was limited in scope, and mainly focused on financial sector issues. The mission concluded that past structural reforms, bank recapitalisation and supportive financial conditions are reflected in the further stabilisation of the financial sector, a strong economic recovery and low sovereign risk premiums. In 2015, GDP expanded by a robust 3.2%, significantly above the euro area average, while the stabilisation of the financial sector continued. Nonetheless, significant challenges remain. Additional efforts to durably reduce the general government deficit as well as strong reform efforts remain paramount to further rebalance the economy.

The sixth post-programme surveillance visit to Spain was carried out from **17-19 October** 2016. The report was also due to cover the specific monitoring of policy progress to address imbalances in the context of the Macroeconomic Imbalances Procedure (MIP). However, in the absence of a government with full legislative powers at the time of the mission, the report did not cover in-depth issues over and above financial sector issues.

Ex-Post Evaluation of Spain's 2012-2014 financial sector assistance programme

The report, prepared by DG ECFIN, was published in January 2016. It presents an ex-post evaluation of the three year EU programme for the recapitalisation of financial institutions in Spain, which ended in January 2014. The three-year Spanish programme was designed to increase the long-term resilience of the Spanish banking sector, thus restoring its market access. The programme made available up to €100bn from the EFSF for the recapitalisation of Spanish financial institutions. The aim of the ex-post evaluation of the design, implementation and outcome of the programme is to draw lessons for the future.

The evaluation found that the programme design was appropriate and the implementation of the programme measures underpinned macro-financial stability. The evaluation also concluded that there was value added in setting up an assistance programme for the recapitalisation of financial institutions. However, despite significant adjustments in Spain's financial sector and wider economy during the programme period, several important challenges remain.

Post-programme surveillance (PPS) relating to the 2010–13 Economic Adjustment Programme for Ireland

Staff from the European Commission, in liaison with staff from the European Central Bank, visited Dublin from 7 to 10 June and from 29 November to 2 December 2016 to conduct, respectively, the fifth and sixth post-programme surveillance review for Ireland. These visits also served as specific monitoring in the framework of the Macroeconomic Imbalances Procedure in the European Semester. Ireland's economic prospects remain bright, but some clouds are on the horizon. While GDP is expected to continue to grow at robust rates, the future evolution of the activities of multinational enterprises remains uncertain and the external environment has become increasingly unpredictable, especially after the UK 'leave' vote. Ireland's fiscal adjustment has been remarkable but slowed in 2016. Meanwhile, increased external uncertainty puts an even greater premium on prudent fiscal policy and a reorientation of public spending toward investment. Moreover, despite significant progress in recent years, there is ample scope for further vigilance in the banking sector.

Publication of Convergence Reports for countries outside the euro area

DG ECFIN produces biennial Convergence Reports which examine whether Member States with a derogation to participating in the euro area satisfy the conditions for adopting the single currency. The 2016 Convergence Report was adopted on **7 June for** the seven Member States with a derogation: Bulgaria, the Czech Republic, Croatia, Hungary, Poland, Romania and Sweden. The report concluded that none of the countries examined fulfils all conditions for adopting the euro at this stage.

2. ORGANISATIONAL MANAGEMENT AND INTERNAL CONTROL

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

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

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

2.1 Financial management and internal control

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

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

- the reports by AOSDs;

- the contribution of the Internal Control Coordinator, including the results of internal control monitoring at the DG level;

- the reports of the ex-post supervision or audit;

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

- the observations and the recommendations reported by the European Court of Auditors (ECA).

- 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 ECFIN.

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

2.1.1 Control results

This section reports and assesses the elements identified by management that support the assurance on the achievement of the internal control objectives[11]. The DG's

[11] Effectiveness, efficiency and economy of operations; reliability of reporting; safeguarding of assets

assurance building and materiality criteria are outlined in the AAR Annex 4. Annex 5 outlines the main risks together with the control processes aimed to mitigate them and the indicators used to measure the performance of the control systems.

The **scope of the assurance** provided by the Director-General extends to all elements showing under Annex 3: budget expenditure and income; financial assets; off-balance sheet disclosures. This assurance is a mix of direct assurance and third party assurance due to the various management modes and operations.

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

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).

Overview table

In EUR million	Expense – Table 2 in Annex 3	Revenue – Table 7 in Annex 3	Financial assets & cash – Table 4 in Annex 3 (AI3 AI4 AII1 AII6)	Financial income (-) and costs (+) – Table 5 in Annex 3 (II121 II28 II29)	Guarantees received (+) or given (-) – Table 5bis in Annex 3 (OB1 OB2)
Guarantee Fund for external actions (ICT 4)	257.1 (provisioning)		2,265.5	-39.9 +114.6	-21,145.3
European Fund for Strategic Investments (EFSI (ICT 5))	1,016.7 (provisioning and fees)	6.3	1,020.0	-17.7 +1.0	-4,391.5
Financial instruments and Pre-accession Technical Assistance (ICT 3)	98.7	86.4 (CIP MAP MFF SMEFF)	788.6	-12.0 +20.9	-
Assets under treasury management (ICT 1)		0.1 (IT fees)	3,948.1 (BUFI, ECSC, EFSM, ATOM, BOP, MFA)	-22.4 +12.4 (BUFI, ECSC)	-
Outstanding loans (incl. ECSC loans) (ICT 1)		1.4 (BOP MFA EURATOM EFSM)	55,141.4 (EFSM, ATOM, BOP, MFA, ECSC)	-1,542.9 +1,546.4 (EFSM, ATOM, BOP, MFA, ECSC)	252.3
Equity Investments (EBRD, Marguerite Fund)			241.7	-	-
EIF capital and dividends	41.0	6.2	528.2	-2.2	-
Macro-financial assistance (MFA (ICT 6))	5.1		-	-	--
Grants, purchases and administrative expenses	31.3		-	-	--
Total	**1,449.9**	**100.4**	**63,933.5**	**-1,637.1** **+1,695.3**	**-25,536.8** **+252.3**

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

Residual Error Rate: *below 2%*

Cost-Effectiveness: ratios do not increase versus 2015

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

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

Reliability of Reporting: no material error and no reservations.

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

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

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

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

Conclusion table

In EUR Million	Expenditures under direct management	Expenditures under indirect management	Financial assets and cash (managed and supervised)	Revenue
Grants (Business Consumer Surveys (BCS), Pericles, European Investment Advisory Hub (EIAH)), purchase and administrative expenses	31.3			
MFA	5.1			
Guarantee Fund for External actions	257.1		2,265.5	
EFSI Guarantee Fund	1,016.7		1,020.0	6.3
Financial Instruments and Pre-Accession Technical Assistance		98.7	788.6	86.4
EIF capital and dividends		41.0	528.2	6.2
Equity investments (EBRD, Marguerite Fund)			241.7	
Off-budget management (loans and assets under financial management)			59,089.5	1.5
Total	**1,310.2**	**139.7**	**63,933.5**	**100.4**
Internal Control Objectives- Indicators	Residual Error Rate/Cost effectiveness/Anti-Fraud Strategy	Residual Error Rate/Cost effectiveness/Anti-Fraud Strategy	Safeguarding of assets/Reliability of Reporting	Residual Error Rate/Cost effectiveness/Anti-Fraud Strategy
Internal Control Objectives – conclusions	Positive	Positive	Positive	Positive
Negative opinion from auditors	No	No	No	No
Reservation	No	No	No	No

Coverage of the Internal Control Objectives and their related main indicators

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

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

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

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

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

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

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

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

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

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

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

The internal control strategy at DG ECFIN foresees the implementation of further controls during subsequent years aimed at detecting and correcting errors only if such a procedure is cost-effective. Because the error rate has been consistently low and therefore financial corrections resulting from large scale audit missions would also be low, management has decided not to invest significantly in ex post controls. This is why an adequate, reliable and prudent approach is to consider that there is no adjusted corrective capacity for 2015 payments.

In the context of a DAS audit for the accounts of the FY 2015 the ECA identified one transaction which revealed an error rate of 1.63%, i.e. below the threshold. The entrusted entity concerned has undertaken to take into account the Court's observation in its future monitoring of the intermediary concerned.

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

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.

DG ECFIN's estimated overall amount at risk[12] on an annual basis at 31st of December for the 2016 payments is within a range of EUR 0 million and EUR 2.9 million. This is the AOD's best, conservative estimation of the amount of expenditure authorised during the year (EUR 1449,9 million) not in conformity with the applicable contractual and regulatory provisions at the time the payment (to the final beneficiary for financial instruments) is made.

This expenditure will be subsequently subject to ex-post controls and a sizeable proportion of the underlying error will be detected and corrected in successive years. The conservatively estimated future corrections for those 2015 payments made are EUR 0. Such an approach is reflected in the historical data available. While historical data provided by DG BUDG shows an overall corrective capacity of 0.28% which is already meagre the ex post corrective capacity i.e. the corrections brought after the final payment[13] is down to 0.14%. Furthermore, this is due almost exclusively to data from 2009; over the past six years corrections brought amount to less than 0.02%.

The difference between those two amounts leads to the estimated overall amount at risk *at closure*[14] of 2.9 M€ at most. More detail can be found in table X below.

[12] 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.

[13] The data from DG BUDG includes items such as credit notes for invoices which are corrections before the payments.

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

Table X - Estimated overall amount at risk at closure

DG ECFIN	"payments made" (FY; m€)	*minus* new[a] prefinancing [*plus* retentions made[b]] (in FY; m€)	*plus* cleared[c] prefinancing [*minus* retentions (partially) released[b] and deductions of expenditure made by MS] (in FY; m€)	**= "relevant expenditure"[d] (for the FY; m€)**	Average Error Rate (*weighted* **AER**; %)	estimated overall amount at risk *at payment* (FY; €)	Average Recoveries and Corrections (*adjusted* **ARC**; %)	estimated future corrections [and deductions] (for FY; €)	**estimated overall amount at risk *at closure*[e] (€)**
(1)	*(2)*	*(3)*	*(4)*	*(5)*	*(6)*	*(7)*	*(8)*	*(9)*	*(10)*
Per internal control system	as per AAR annex 3, table 2	as per ABAC DWH BO report on prefinancing [f]	as per ABAC DWH BO report on prefinancing [f]	= (2) – (3) + (4)	Detected error rates, or equivalent[g] estimates	= (5) x (6)	*based* on 7Y-avg historic ARC (as per ABAC DWH BO report on corrective capacity)[f]: (X,X%), but *[to be] adjusted*[h] to be the *best but conservative* estimate for the current MFF	= (5) x (8)	= (7) – (9)
MFA	5,1	0,0	0,0	5,1	0%	0	0%	0	0
BCS PERICLES EIAH grants	13,3*	10,8**	2,4***	4,9	0%-2%	0-0.1	0%	0	0-0.1
Procurement and other administrative expenses	18,0	0,4	0,1	17,7	0%	0	0%	0	0
Guarantee Fund for external actions	257,1	0,0	0,0	257,1	0%	0	0%	0	0
EFSI Guarantee Fund	1016,7	0,0	0,0	1016,7	0%	0	0%	0	0
Entrusted entities for financial instruments (including EIF capital increase)	139,7	0,0	0,0	139,7	0%-2%	0-2.8	0%	0	0-2.8
Overall, total	1449,9 mEUR	11,2 mEUR	2,5 mEUR	1441,2 mEUR	0%	= 0-2.9 mEUR; and 0%-0.2% of (5)	0%	= 0 mEUR; and 0% of (5)	= 0-2.9 mEUR; and 0%-0.2% of (5)

** BCS (4,8) PERICLES (0,5) EIAH (8,0)*

*** BCS (2,4) PERICLES (0,4) EIAH (8,0)*

**** BCS (2,0) PERICLES (0,4) EIAH (0)*

PS: When the DG uses ranges of 'min-avg-max' values for its estimates, then the columns above can be "split" accordingly.

***Executive Agencies** are requested to have first a sub-total for their operational budget (only), before adding another row for their operating budget, and then arriving at their overall total for the EA as a whole.*

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

[b] In Cohesion, the (10%) retention made/released by the Commission

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

[d] For the purpose of equivalence with the ECA's scope of the EC funds with potential exposure to L&R errors (*see the ECA's AR methodological Annex 1.1 point 7*), also our concept of "relevant exposure" includes the payments made, subtracts the new pre-financing paid out *[& adds the retentions made*], and adds the previous pre-financing actually cleared *[& subtracts the retentions (partially) released and any deductions of expenditure made by MS in the annual accounts*] during the FY. This is a separate and 'hybrid' concept, intentionally combining elements from the budgetary accounting and from the general ledger accounting.

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

[f] [*preferably to be*] differentiated at a level lower than the DG total

[g] In Shared Management, e.g.: "validated/adjusted error rates", "residual error rates at MS-level, as reported by the MS Audit Authorities and applied/adjusted/projected by the DG", etc.

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

Cost-effectiveness and efficiency

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

The overall cost-effectiveness of controls in 2016 on grants, procurement and expenses of an administrative nature as measured by the proportion of overall cost of control over related expenses leads us to consider that the controls are sufficiently efficient and cost-effective. In 2016, the average cost ratio has remained stable at around 8% compared to 7% in 2015. In addition, the full spectrum of amounts paid includes also funds remitted to guarantee funds and trust accounts. This results in an average cost-effectiveness ratio for the whole ECFIN budget of 0.2%.

The overall cost-effectiveness of controls in 2016 on Financial Instruments managed via international financial institutions, as measured by the proportion of overall cost of control over the total of the spending programmes, leads us to consider that our controls are sufficiently efficient and cost-effective. The cost ratio improved from EUR 709 per EUR 1 million in 2015 to EUR 623 per EUR 1 million in 2016.

With respect to efficiency, three main indicators are used: time to pay; time to inform; and time to grant.

In 2016 the average time-to-pay with suspension was 17 days[15] (15 days in 2015). The periods specified in article 92.1 of the Financial Regulation were complied with and less than 2,8% of the transactions were in excess of the time-limits.

The average time-to-inform with the time period starting from receiving the estimated budget and ending with sending the draft grant agreement for signature was 38 days for specific grant agreements (SGA). The average time-to-sign with the time period starting from sending the draft grant agreement for signature and ending with signing the grant agreement at Commission level was 13 days for SGA. The periods specified in article 128.2 of the Financial Regulation (a maximum of six months for informing all applicants and a maximum of three months for signing grant agreements with applicants) were therefore fully complied with.

[15] This is an adjusted figure, for more info see Annex 3: Table 6 - Average Payment Times

COSTS-BASED EFFECTIVENESS INDICATORS FOR EXPENDITURES – DIRECT MANAGEMENT(including provisioning of funds) and INDIRECT MANAGEMENT (provisioning of entrusted entities)				
Nº	**Type of expenditure or management mode or ICS**	**Indicator (all stages combined)**	**Cost-Effectiveness Ratio**	**Description**
	Internal Control System	**Overall cost of control[16]**	**Overall cost of control /Expenses (%)**	**Total cost of controls of process / total expenditure executed during the year (payments made)**
1	MFA grants	Full cost with 7% overhead	4%	EUR 0.2 million (/EUR 5.0 million
2	BCS PERICLES and EIAH grants	Full cost with 7% overhead	7%	EUR 0.98 million/EUR 13.88 million[17]
3	Other direct management expenditures	Full cost with 7% overhead	11%	EUR 1.92 million/EUR 18.0 million[18]
4	Provisioning of funds	Full cost with 7% overhead	0%	EUR 0.0 million/EUR 1273.8 million
5	Provisioning of entrusted entities	Full cost with 7% overhead	0%	EUR 0.0 million/EUR 139.7 million

COSTS-BASED EFFECTIVENESS INDICATORS for spending programmes managed by entrusted entities – INDIRECT MANAGEMENT				
Nº	**Type of expenditure or management mode or ICS**	**Stage**	**Annual Cost-Effectiveness Indicators**	**Description**
1	Financial instruments	overall indicator	overall supervision costs/total budget of managed programmes 0,06% or EUR 623 per EUR 1M	staff FTE * standard staff cost + other outsourced supervision costs (possibly outsourced audits and monitoring missions by EC)+ management or administrative fees paid / total budget of managed programmes EUR 794.903/EUR 1.275.084.491

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

17 FTE's (Financial initiating agent(FIA)/ Operational initiating agent (OIA)/ Verifying agent (VA)

18 13 FTE's (FIA/OIA/VA)

TIME-BASED EFFICIENCY INDICATORS				
N°	Type of expenditure or management mode or ICS	Stage	Efficiency indicators[19]	Description
1	all management mode and type of expenditure taken together	up to payment	time to pay (Art. 92.1FR) 17,0 days	one indicator for all management modes taken together (as per annex 3)
2	BCS PERICLES EIAH grants[20]	up to legal commitment	average time to inform applicants of the outcome of the evaluation of the application (Art. 128.2FR) SGA's 38 days[21] FPA's N/A	average time to inform applicants of the outcome of the evaluation of the application (Art. 128.2 FR)
2	BCS PERICLES EIAH grants[22]	up to legal commitment	Average time to sign (Art. 128.2FR) SGA's 13 days[23] FPA's N/A GA's N/A	average time to sign agreements or to notify grant decisions (Art. 128.2FR)

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

Fraud prevention and detection

DG ECFIN has elaborated its anti-fraud strategy since January 2014, based on the methodology provided by OLAF and it is reviewed every second year. Our anti-fraud strategy includes the following action categories:

- *1) measures to promote fraud awareness,*
- *2) ethics and integrity, and*
- *3) measures to improve cooperation with implementing partners in the areas of fraud prevention and detection.*

[19] Special Grant Agreement (SGA); Framework Partnership Agreement (FPA); Grant Agreement (GA)
[20] There is no such procedure for MFA grants
[21] BCS 16 days PERICLES 49.5 days EIAH 47 days
[22] No MFA grant was awarded in 2016
[23] BCS 5 days PERICLES 30.25 days EIAH 3 days

In 2016, we implemented several actions, conducted a fraud-risk assessment, and started a review of our anti-fraud strategy.

Anti-fraud measures implemented in 2016:

• We nominated an ECFIN Anti-fraud Officer on 1 September 2016 against the context of the 1 March 2016 re-organisation of DG ECFIN and the centralisation of HR-functions. This person supports the Internal Control Coordinator by providing an overview of the effectiveness of the internal control system, including anti-fraud, promoting anti-fraud training and cooperating to deliver awareness-raising, including on ethics and integrity.

• An updated ECFIN Anti-Fraud Strategy has been drafted and will be finalised shortly. It takes account of the 1 March 2016 reorganisation and its changes relevant to the anti-fraud function. The strategy revolves around developing greater fraud awareness within a wider context of continuing ethics and integrity promotion in the DG. There has also been deliberate integration of the risk of fraud in the implementation of Internal Control 15. Also important to the strategy is the forging of enhanced cooperation with stakeholders such as OLAF.

• Directorate L, the directorate in DG ECFIN that manages the most complex activities involving considerable sums of money has well-established and clear procedures which continue to be very firmly and actively controlled;

• On 26 September DG ECFIN held an all-management meeting on "ethics in practice" which included contributions from colleagues in IDOC[24] (DG HR). The importance of fraud detection and prevention was raised in the course of the presentations.

Our revised anti-fraud strategy has not been completed on time owing to significant organisational changes affecting staff working on it; in particular, there was both a change in staff associated to the strategy together with changes to the corresponding line manager and senior manager in the course of 2016. This had an inevitable impact on delivery of the anti-fraud strategy. Nonetheless, it is very close to completion now. In addition, considering the low estimated residual fraud risk in DG ECFIN thanks to rigorous ex ante and ex post controls as well as ongoing activities under the existing strategy, we conclude that current anti-fraud controls and actions are adequate.

Overall, we assessed residual fraud risk to be low in 2016.

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

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

The general aim is to generate the highest return available, while maintaining a high degree of stability and security over the long-term and after having ensured there is sufficient liquidity to meet the obligations payable out of these funds. The control system relies on comprehensive rules and detailed manuals of procedures with respect to the investment policy. The Treasury Management Committee exercises supervisory duties on the implementation of the investment policy and there is adequate segregation of duties between front-office and back-office. Furthermore, the risk management team is independent from the processing of transactions and annual financial audits are performed by external audit firms on the financial statements on the assets managed by us.

To finance the lending activities decided by the Council or by Council and Parliament, the Commission is empowered to borrow funds on the capital markets, on behalf of both the

[24] Investigation and Disciplinary Office (IDOC)

European Union and Euratom, with the guarantee of the EU budget. The aim is to obtain funds from the market at the best available rates due to the top credit status (AAA-rated by Fitch, Moody's and DBRS, AA by S&P, all with stable outlook) of the EU/Euratom and then on-lend them to eligible borrowers in the context of lending under the EFSM, BoP, MFA and to Euratom projects. Borrowing and lending is conducted as a back to back operation, which ensures that the EU budget does not take any interest rate or foreign exchange risk. Likewise, the aim to obtain funds at the best available rates for the borrowing and lending activities has also been achieved since those rates are in line with the peer institutions (EIB, EFSM, and ESM).

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

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

The positive control cost-effectiveness of the non-expenditure items is shown below with the cost indicator for assets managed slightly up from EUR 55,4 per EUR 1 million in 2015 to EUR 67,6 per EUR 1 million in 2016. The cost-effectiveness of controls on the assets managed by the EIB is also positive with the remuneration fees kept within the contractual boundaries and the cost indicator which has slightly increased from EUR 197 per EUR 1 million in 2015 to EUR 229 per EUR 1 million in 2016.

COST-BASED EFFECTIVENESS INDICATORS – OFF BUDGET MANAGEMENT			
Type of expenditure or management mode or ICS	**Stage**	**Indicators (annual indicators)**	**Description**
Treasury and assets management & Borrowing and lending operations	All	Overall costs (selection, protection, assurance, financial management)/ total of assets and outstanding loans and borrowings 0,006% or EUR 67,6 per EUR 1M	staff FTE * standard staff cost/total assets managed and total Borrowing and Lending operations EUR 4.137.433/EUR 61.201.800.000
Guarantee Fund for external actions	overall indicator	Overall internal and supervision costs (including 7% overhead)/total assets of the fund 0,02% or EUR 229 per EUR 1M	staff FTE * standard staff cost + other outsourced supervision costs (outsourced audits and monitoring missions by EC)+ management or administrative fees paid /total assets managed under supervision EUR 520.255 /EUR 2,265,512,803
Guarantee Fund for external actions	overall indicator	Remuneration fees paid to the entrusted entity/total assets of the fund 0.04% or EUR 394 per EUR 1M	all types of remuneration fees paid to entrusted entities during the year / total assets managed under supervision EUR 891,975/ EUR 2,265,512,803

Contingent assets and liabilities (off budget management) are guarantees received or given in the framework of various financial instruments. This implies that these operations are essentially accounting bookings to reflect the maximum exposure to defaulting risks and in that respect the control objectives of the true and fair view and of the legality and regularity with a material threshold are complied with. These achievements are the result of the accounting control systems in place with further monitoring by the Commission Accounting Officer.

2.1.2 Audit observations and recommendations

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

DG ECFIN is audited by both internal and external independent auditors: the IAS and the ECA. Following the Commission's decision to centralise the audit function since March 2015, the IAS was solely responsible for conducting internal audits in the Commission (and Executive agencies).

Based on all work undertaken by the IAS in the period 2014-2016, as well as all work undertaken by the former IAC of DG ECFIN over the same period[25], and taking into account that follow-up work to tackle recommendations made by the IAS and IACs over 2014-2016 is demonstrably taken seriously in DG ECFIN, the IAS has concluded that those DG ECFIN internal control systems which have been audited are working satisfactorily.

In 2016, the IAS closed 5 audits leaving 9 open. The 5 audits closed were:

- One long overdue *Very Important* recommendation on HR Annual Planning. With its closure, ECFIN has no outstanding *Very Important* recommendations from the IAS;
- One overdue *Important* recommendation on IT Security;
- And 3 *Important* recommendations on Document Management initiated by the IAC, which the IAS considered to be adequately and effectively implemented without delay.

Of the 9 open audit recommendations, DG ECFIN has notified 2 to the IAS as ready for their review with a view to closure of the recommendations because, in the view of ECFIN, the recommendations have been accepted and fully implemented:

- One relates to the *Important* recommendation on the appropriateness of the benchmark used to assess the performance and credit risk of the Participant Guarantee Fund for FP7 and H2020;
- The second concerns DG ECFIN's management plan objectives and their alignment with operational planning and management in the DG.

Concerning the 7 so far not yet implemented recommendations, there is good progress being made with 6 of them covering:

- 1 remaining recommendation on document management
- 2 recommendations on financial management;

[25] As from 1 January 2015, the IAS became the sole provider of internal audit services following the Commission's decision to centralise the internal audit function. As part of this process, the IAS took over a certain number of recommendations issued by the former IAC. The audits related to these recommendations form the basis for the conclusion on the state of internal control.

- 1 recommendation on risk management and planning processes;
- 2 recommendations on IT security.

The final recommendation not yet implemented concerns the *Important* recommendation on DG ECFIN's HRM Strategy; here progress was complicated by HR centralisation to be implemented from mid-February 2017 as the distribution of competencies between the future local HR cell and central HR services was unclear during 2016.

<u>Conclusion regarding IAS audits:</u> The one stuck recommendation notwithstanding, no material impact on the internal control objectives exists, and the current state-of-play does not qualify the Declaration of Assurance.

The ECA's special reports on 'The Financial Assistance provided to Countries in difficulties' (adopted in 2015) and on 'Further improvements needed to ensure effective implementation of the excessive deficit procedure' (adopted in 2016), for which DG ECFIN was in the lead, were discussed by the European Parliament and the Council, both of which produced their respective conclusions and recommendations. DG ECFIN was also closely associated to other reports adopted in the course of the year, in particular on EU assistance to Moldova and to Ukraine, on the implementation of the EU budget through financial instruments and on maritime transport in the EU.

The performance audit on the Greek adjustment programme continued more or less throughout the year, while the Court moreover started up three additional audits of direct relevance for DG ECFIN: the Macro-economic Imbalance Procedure (MIP), the European Semester and the SME loan portfolio guarantees. All these ongoing audits are expected to be completed in the course of 2017.

<u>Conclusion regarding ECA audits:</u> As a result of the assessment of the risks underlying the auditors' observations, including the availability of the ECA's preliminary findings of the on-going ECA audits, at the time of drafting the 2016 Annual Activity Report together with the management measures taken in response we believe that the recommendations issued do not qualify the Declaration of Assurance and are being implemented as part of the on-going continuous efforts in terms of further improvements.

2.1.3 Assessment of the effectiveness of the internal control systems

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

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

This reflects DG ECFIN's regular assessment of the effectiveness of its key internal control systems in accordance with applicable Commission guidance. The assessment relies on a number of monitoring measures and sources of information including workshops dedicated to ICS15 with Heads of Units; reported instances of exceptions and non-compliance events and internal control weaknesses, the internal Annual Financial Management Report based on the Annual reports from individual Authorising Officers by sub-delegation (AOSDs) to describe the main facts and developments in the budgetary and financial sphere; relevant audit findings; the risk assessment process, including the mid-term review of the risk register, results of work by the management steering

Committees or Boards (such as Treasury Management, Internal Control (ICMG), Human Resources (HRMB), Advisory Committee on the Use of Resources (ACUR)) and results of the ex-post control work. Finally, the IAS opinion on the state of internal control has been taken into account as well. This analysis has enabled the Internal Control Coordinator to report the state of internal control and his recommendations to the Director General.

Overall, management feedback in the 2 ICS15 meetings dedicated to exploring the state of knowledge of internal control in the DG suggests that the principles for internal control are implemented and functioning in DG ECFIN.

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

Draft results of the latest round of the annual Risk Management exercise based on and linked to Strategic Plan 2016-2020 and the 2017 Management plan are being finalised in parallel to the drafting of the 2016 Annual Activity Report. The exercise was successfully conducted using a DG BUDG EUSurvey circulated to all DG ECFIN units. One critical risk has been identified related to the forecast process as well as 12 highly significant risks, most related to HR constraints. The critical risk pertains to possible problems with the external provider of the Forecast Data Management System FDMS+; the problems could disrupt maintenance and further development of the tool and, even possibly disrupt the forecast. Within the Commission, this is a very ECFIN-specific risk, but one shared with a number of international institutions that also use FDMS+. Mitigating controls have been introduced and will be reviewed by senior managers.

DG ECFIN has assessed the internal control systems during the reporting year and has concluded that the internal control standards are implemented and functioning as intended

2.1.4 Conclusions as regards assurance

This section reviews the assessment of the elements reported above in chapter 2 on *Organisational Management and Internal Control* and draws conclusions supporting the declaration of assurance and whether it should be qualified with reservations.

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

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

The available audit results and observations did not highlight critical or very high risks that would qualify the Declaration of Assurance, as shown in section 2.2.

Similarly, management assessments of the implementation of internal control principles and standard did not identify deficiencies with a negative impact on the declaration as shown in section 2.3.

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

Overall Conclusion

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

2.1.5 Declaration of Assurance

DECLARATION OF ASSURANCE

I, the undersigned,

Director-General of Economic and Financial Affairs

In my capacity as authorising officer by delegation

Declare that the information contained in this report gives a true and fair view[26].

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

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

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

Brussels, 29 March 2017

(e-signed)

MARCO BUTI

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

2.2 Other organisational management dimensions

2.2.1 Human resource management

Ensuring alignment between resources and priorities

In 2016, ECFIN.R1 rolled out an ECFIN-specific training programme for staff and managers to support the further development of skills for working in teams. The programme was designed to underpin the Teams for Themes initiative launched in 2015 and to promote a more collaborative and project-oriented way of working across units and Directorates, and with other Commission services.

Following a Very Important recommendation from the IAS to DG ECFIN in an audit from 2013, after a false start, DG ECFIN has now rolled out a workload management tool which mixes information on time management in sysper with information provided by all units in ECFIN about the share of unit resources dedicated to activities identified in DG ECFIN's Strategic Plan 2016-2020 and its Management Plans. This also allows DG ECFIN to identify where workload is highest in the DG as well as quantify how the DG is allocating its resources to meet its general and specific objectives. This information will feed into future resourcing discussions. The work done to put this tool in place has been recognised by the IAS and the recommendation closed.

Matching talent with business needs

With a view more systematically developing staff talents in accordance with business needs, a Learning and Development Advisory Group was established in March 2016 comprising representatives from across the DG. Its specific mandate is to advise on learning needs and training solutions essentially in the areas of economic, finance and statistics. A completely revised training offer was thus established in 2016.

In addition, ECFIN.R1 continued to address specific development needs and competence gaps, with targeted training initiatives:

For colleagues aspiring to a first pre-management position, ECFIN's Career Development Programme for AD women was run for the third time in 2016, allowing an additional 12 colleagues to participate. DG ECFIN has recently reached its target of 30% for the proportion of female colleagues in DHoU and HoS posts (with two current vacancies – January 2017).

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

In addition, several sessions of the workshop on "Interviewing for management positions" were organised both specifically for the career development programme participants and also for mixed groups including colleagues currently in pre-management positions.

For middle managers, support continued to be provided through individual and team coaching, as well as team events, in order to facilitate the smooth implementation of changes relating to the reorganisation in March 2016. This also included workshops on "Key conversations for managers".

The need to develop networking skills was identified as a learning need across the DG, notably in terms of helping to match talents with needs and thus contribute to internal mobility. In this context, two interactive sessions of an ECFIN-specific workshop on "Networking skills" were run in 2016.

In 2016, ECFIN.R1 continued to proactively provide general career guidance and assistance to staff and managers. A multi-faceted Career Management Promotion Campaign continued during the first months of 2016, covering: appraisal, career planning and mobility, promotion and profile management. This has included specific information briefings for staff, a poster campaign and articles on MyECFINnet. As from April 2016, individual profile assessment (PerformanSe) has been offered to staff, accompanied by specialised career guidance.

Staff Engagement

The Staff Survey results for 2016 are encouraging overall. DG ECFIN's employee engagement score increased to 67% (just below the target of 68%) and is above the Commission average. The overall score for wellbeing stands at 60% and the scores for all individual questions relating to wellbeing have increased, with the exception of one.

ECFIN.R1 continued to offer an extensive range of sports and wellbeing activities over lunchtime in line with the Commission's fit@work initiative and coordinated social events for ECFIN staff. In addition, a specific workshop on "Creating healthy relationships at work" was run for ECFIN staff and managers in 2016.

On 8 March 2016, more than 90 women working in ECFIN took part in a panel discussion "Getting the career that you want: harnessing your individual potential", the focus of which was on how to achieve aspirations for a fulfilling career at AST or AD level.

Workshops on "Giving and Receiving Feedback" for staff and managers, which are designed to help promote an open and supportive working culture within the DG, continued on a regular basis throughout 2016 and are recommended to ECFIN newcomers.

Objective 1: The DG deploys effectively its resources in support of the delivery of the Commission's priorities and core business, has a competent and engaged workforce, which is driven by an effective and gender-balanced management and which can deploy its full potential within supportive and healthy working conditions		
Main outputs in 2016:		
Description	Indicator	Target
Offer development opportunities for Deputy Heads of Unit and Heads of sector	Specific training, workshops and individual coaching offered to Deputy Heads of Unit and Heads of Sector (this will be tailored on the basis of the outcome of ECFIN's next 360° exercise, which is on hold pending the DG's significant reorganisation which is still in the pipeline)	Women as a percentage of DHoU/HoS workforce: 27.1 % (situation December 2015). ECFIN aims to increase this proportion to 30% in 2016 (2 recruitments at DHoU or HoS level) in order to extend the pool of women who are suitably qualified for middle management positions
Add to ECFIN's programme of well-being initiatives for staff and managers as well as further address work organisation and work-private life balance in DG ECFIN whilst respecting the need for business continuity	Consultation on work organisation and work-private life balance as well as sessions on stress management and emotional resilience Reviewed policies on flexible working increasing flexibility and staff accountability as well as guidelines for staff and managers on flexible working	Increased staff well-being (45% for the next staff survey results)

Identify, develop and promote non-management career paths in the DG and launch a reflection at middle and senior management level on talent management and succession planning	Meetings with specific target groups to discuss career opportunities and possible actions as well as an extended and widely advertised L&D offer. Meetings and discussion with senior management followed by a list of possible actions to support talent management in ECFIN.	Increase the staff engagement index to at least 68% in the next staff survey. Career development of non-management AD staff and AST staff to foster increased retention and engagement of non-management staff. Further development of talent management and succession planning in DG ECFIN including appropriate actions tailored to ECFIN needs

2.2.2 Better regulation (only for DGs managing regulatory acquis)

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

The ECFIN multi-annual evaluation plan is prepared in line with the DG's strategic objectives and priorities to ensure activities are regularly evaluated. In 2016 76% of the primary Directives and Regulations managed by ECFIN had been subject to an evaluation in the last five years.

2.2.3 Information management aspects

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

In the area of document management, ECFIN improved its overall performance compared to previous years. In particular, the number of unfiled documents were reduced and the use of country master files remained stable. Moreover, ECFIN started a project to promote the use of the Ares e-Signatory (electronic validation module for documents). In 2016, a pilot was successfully launched and completed in the Resources Directorate. It served as the basis to carry the project forward in the entire DG.

The number of files shared with other DGs will need to be considered carefully, taking into consideration the corporate objective to overcome silo mentalities.

2.2.4 External communication activities

External communication activities proactively and strategically supported the policy work of DG ECFIN and the Commission. Using communication as a strategic tool which has been closely integrated into the annual policy-making cycle, the DG ECFIN stakeholder and journalist seminar programme, which aims to reach out to key stakeholders and the public, was refocused. The programme was adjusted in its design to support priority 1 on jobs, growth and investment and priority 5 on a deeper and fairer Economic and Monetary Union. In line with the new communication strategy, communication activities reached out to a wide range of key target groups and multipliers and the public to inform, listen and explain. In engaging effectively with the audiences, the focus was put on highlighting concretely how the economic policies of the Commission contribute to jobs, growth and investment and how progress was made towards a deeper and fairer EMU. These efforts aimed to shape a better-informed policy debate. The Brussels Economic Forum, the flagship annual economic event, was completely redesigned and attracted a prominent and even larger audience, including ECB President Draghi.

With the same aim, DG ECFIN Communication assisted the network of European Semester officials (ESOs) financially and logistically in close cooperation with the expert units, providing speakers and specific information material, as well as a weekly information package. DG ECFIN Communication developed specific communication plans for milestones in the annual policy-making, such as for the Country reports, SGP steps, CSRs, Draft budgetary plans, the forecasts and other key publications. Promotion actions included tailoring material for best uptake in social media, the regular creation of infographics and up-to-date web presentations. In addition, DG ECFIN Communication assisted the daily work of press activities in coordination with the SPP, the Cabinet communication adviser, DG COMM, SG and partner DGs. Moreover, DG ECFIN Communication managed the streamlined priority-based economic publication programme to enhance DG ECFIN's reputation as an authoritative and credible source of economic policy proposals based on high-quality research and analysis. This was achieved by efficiently disseminating and promoting the various publications as well as inviting external speakers to information events. A bi-weekly e-newsletter supported promoting DG ECFIN publications and summarised the most relevant news on key economic policy developments.

Last but certainly not least, DG ECFIN Communication also reached out to the interested non-expert citizens with a video series "European Economy explained" rendering complex EU economic issues more accessible and understandable. In cooperation with some partner DGs, DG ECFIN financed and oversaw the production of a series of journalistic, short "Real Economy" videos by Euronews to bring the complexities of economic matters in the EU closer to a daily audience of TV and online viewers. Infographics for the web and social media catered for a wider audience to join and influence the debate, make our voice heard, and win over new endorsers.