

EU BUDGET 2019

Main messages ahead of the 2019 discharge

November 2020



"The European Commission upholds the highest standards of transparency and accountability and is committed to ensure that every cent is spent in line with the rules and legal provisions. The Commission also continues to uphold the highest standards with regard to performance by constantly assessing and verifying whether programmes are on track to achieve their objectives and continue to be in line with political priorities. The comprehensive approach and methodology followed by the European Commission and the implementing partners in Member States according to the principle of shared management allow us to be confident in our management and control systems and in the effectiveness of the implementation of our spending programmes. Finally, it is about the protection of taxpayers' money. We will continue to improve our risk-based approach, incorporating into our multiannual framework the recommendations by ECA while seeking to maintain the delicate balance between controls, administrative burden, costs, simplification and efficiency."

Johannes Hahn, the Commissioner for Budget and Administration

KEY FEATURES OF 2019 EU BUDGET IMPLEMENTATION

The Commission ensures a high level of **transparency and accountability** to its stakeholders. Last year, in the "EU audit in brief" related to the 2018 Annual Report of the European Court of Auditors (ECA), the ECA President Klaus-Heiner Lehne had indeed noted that *"Thanks to the improvements in its financial management, the **European Union** now **meets high standards of accountability and transparency when it comes to spending public money**. We need to build further on this success in improving the EU's financial management in order to ensure that our citizens can maintain their trust in the EU and its Member States. In particular, we should jointly focus our scrutiny on areas where particular shortcomings persist and risks are particularly high"*.

Every year the Commission reports annually on the implementation of the EU budget in the [Integrated Financial and Accountability Reporting package](#) that includes [Annual Management and Performance Report](#).

PERFORMANCE:

Adding value and achieving results

- The Commission gives the highest priority to the **performance of EU spending**.
- The EU budget has an **advanced framework for evaluating and reporting** on performance, with clear objectives, indicators and monitoring arrangements.
- The **Commission works hand in hand with Member States** and other partners and organisations along the way, collecting data and making sure every euro achieves results in areas that matter to citizens – such as jobs, growth, health, security and migration.

ANNUAL ACCOUNTS:

Reporting on what has been done

- The EU annual accounts give comprehensive information about its finances. In **full transparency**, they are publicly available online.
- The Commission prepares the EU accounts in line with **International Public Sector Accounting Standards (IPSAS)**.
- The European Court of Auditors has given a **clean opinion** on the EU accounts since 2007.

COMPLIANCE:

Spending in line with the rules

- The Commission implements the EU budget in a **complex environment**, across many countries with a wide variety of partners; Member States (75% of the EU budget), international organisations, small-and medium sized enterprises, non-governmental organisations and universities etc.
- The Commission carefully monitors the implementation of the EU budget on the ground. It has set up **multiannual control systems** to ensure that the EU budget is spent in compliance with the applicable rules. It reports annually on the results of controls and audits and actions taken to improve systems.
- If Member States, intermediaries or final beneficiaries are found to have spent EU money incorrectly, the Commission takes immediate steps to correct these errors, and recover the funds as necessary.
- The Commission's aim is to **effectively protect the EU budget** and ensure that, once a programme is closed and all controls carried out, the remaining risk of errors is below 2% – the level considered by the European Court of Auditors as material.

Errors do not mean that EU money is lost, wasted or affected by fraud –
the Commission has **zero tolerance to fraud**.

THE COMMISSION'S ASSESSMENT OF THE RISK TO THE LEGALITY AND REGULARITY OF FINANCIAL TRANSACTIONS FOR 2019

The Commission concludes that in 2019, as in previous years, internal control systems were working effectively. Whenever weaknesses are identified the Commission is taking action. This assurance is built bottom-up, first from a very large number of controls and audits by the Member States and then by the Commission's own audits.

For example 5500 operations or parts of operation were audited by national audit authorities all over Europe for the European Regional and Development Fund and the Cohesion Fund. More than 500 000 beneficiaries were checked on the spot by national Paying Agencies for the Common Agricultural Policy. In the area of research, almost one thousand Horizon 2020 participations were audited ex-post by the Commission.

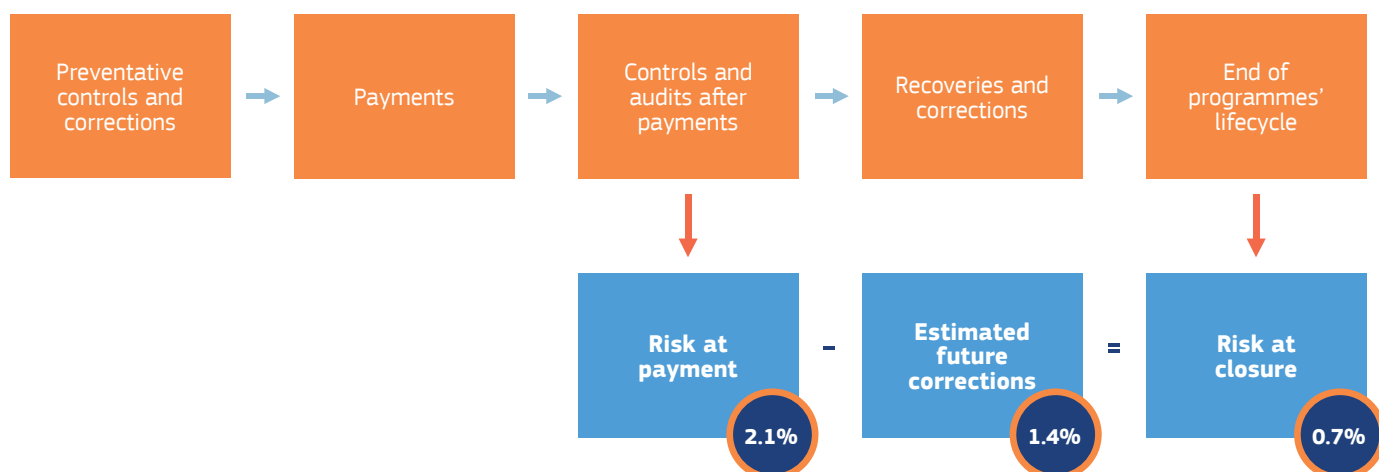
The Commission's multiannual control systems are designed to prevent errors and, if it is not possible to prevent errors, to detect and correct them, until the end of the programme's lifecycle. Therefore, every year it estimates the risk to the legality and regularity of EU spending at two stages in the multiannual control cycle, at payment and at closure:

The **risk at payment** quantifies the **errors that have not been prevented** and that might still affect the Commission payments. They are detected through controls and audits on the payments made. This is the **closest to the Court's Estimated Level of Error**.

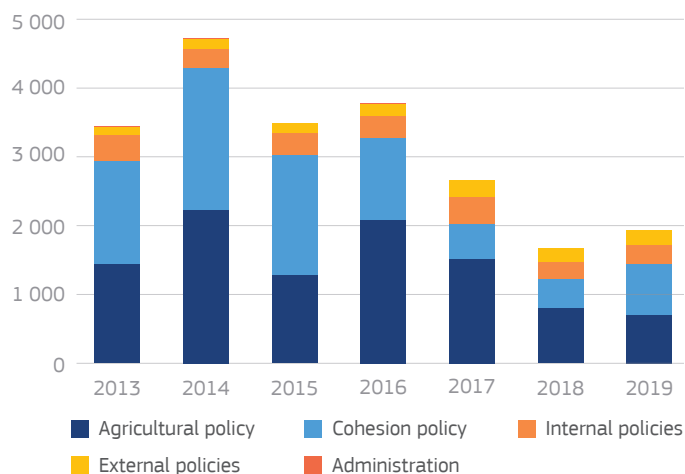
- For 2019, the risk at payment is estimated to be **2.1%** of the total relevant expenditure.

The **risk at closure** quantifies the **errors that will remain** at the end of the programmes' life cycle, once all controls and corrections have been made. Where preventive mechanisms have not been effective, it is indeed important that errors affecting EU expenditure are detected a posteriori. This risk thus reflects **all the efforts made** at Commission level, Member States level and other implementing partners **to detect and correct errors during the entire life cycle of a programme**, even for errors affecting payments made in previous years. .

- For 2019, the risk at closure is estimated to be **0.7%** of the total relevant expenditure (0.8% in 2018 and 0.6% in 2017).
- As this is **below 2%**, this shows that the Commission's multiannual control systems has ensured an **effective protection of the EU budget in 2019**.



Source: European Commission



Confirmed cumulative financial corrections and recoveries for 2013-2019 (million EUR)

Source: European Commission.

In 2019, the **financial corrections and recoveries** resulting from the Commission's controls amounted to **EUR 1.5 billion (25% higher than in 2018)**; whereof EUR 0.4 billion in the European Regional Development Fund, EUR 0.3 billion in Rural Development and EUR 0.3 billion in European Agricultural Guarantee Fund. Adding the corrections made before payments (ex-ante corrections) the total amount of financial corrections and recoveries amount to EUR 1.9 billion. The table on the left provides a complete overview of the preventive and corrective financial corrections and recoveries for the period 2013-2019.

The Commission is also very **transparent: important weaknesses are duly identified and reported** in the Annual Management and Performance Report and Annual Activity Reports as well as the **mitigating measures taken**. Reservations are made whenever necessary. This relates for example to deficiencies in managing operations with public procurement under the Cohesion Policy in a given region or weaknesses in on-the-spot controls under the Common Agricultural Policy in a given paying agency.

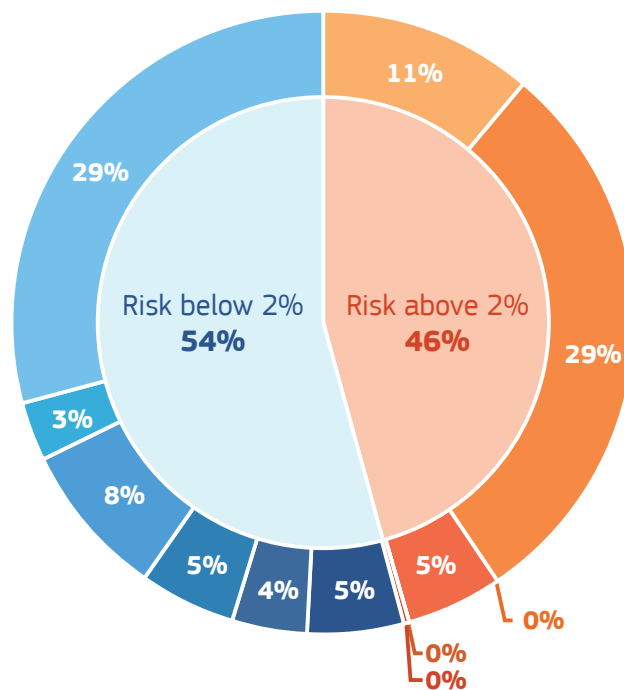
Based on its detailed assessment, the Commission considers that 54% of its expenditure in 2019 is low risk, meaning that the risk at payment is below 2%, and 46% of expenditure high risk, with risk at payment above 2%.

COMMISSION EXPENDITURE

Risk profile (2019, in %)

- Low risk** includes agriculture – direct payments; the Maritime and Fisheries Fund; Marie Skłodowska-Curie actions; Research Council grants; the European Space Agency and Global Navigation Satellite Systems Agency; the Connecting Europe Facility; Erasmus+; the Asylum, Migration and Integration Fund; budget support, subsidies, administrative expenditure.
- High risk** includes agriculture – market measures and rural development; the Regional Development Fund; the Social Fund; Horizon 2020 research grants; other complex grants.

Low risk	High risk	
29%	11%	Natural resources
3%	29%	Cohesion
8%	0%	External relations
5%	5%	Research, industry, space, energy and transport
4%	0%	Other internal policies
5%	0%	Other services



Source: European Commission.

The Commission also considers the revenue side of the EU budget to be lower risk.

The Internal Auditor of the Commission concluded in his overall opinion 2019 that the internal control systems of the Commission work, although there are areas where weaknesses still exist (as reported in the reservations and those identified by the Internal Audit Service). The Internal auditor considered that the EU budget is adequately protected in total and over time.

WHY DO THE EUROPEAN COURT OF AUDITORS AND THE COMMISSION HAVE DIFFERENT AUDIT APPROACHES?

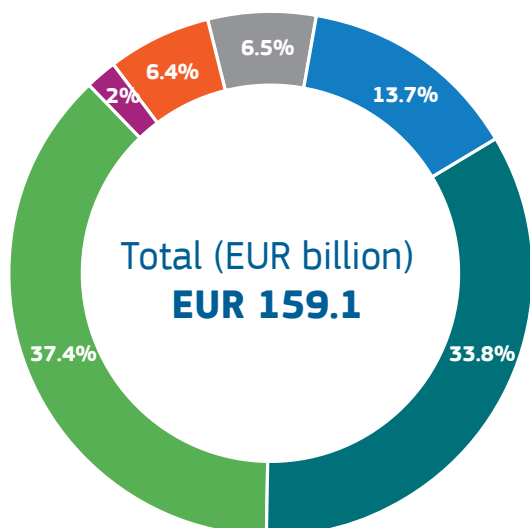
- **Two different purposes:** the European Court of Auditors provides an **annual** audit opinion for the EU budget overall while the Commission seeks to provide assurance on the functioning of its **multiannual** management and control systems.
- The Commission estimates risks at **two stages**: at payment and at closure, as the later reflects all the efforts made to correct errors.
- The European Court of Auditors estimates a level of error based on a sample. The Commission builds assurance 'bottom-up', involving the results of **hundreds of thousands of checks on EU expenditure**. This may lead to differences in the error rates but, in percentage points they remain small and the main conclusions are converging.
- **The Commission uses this detailed information** to have a risk based approach focusing on identifying weaknesses, assessing the root causes of errors and taking appropriate remedial action, e.g. improve legislation, ask a Member State to improve its management and control systems, or apply financial corrections and recoveries.

THE 2019 EU BUDGET – RESULTS AND CHALLENGES

The Commission aims at striking the right balance between a low level of errors, fast payments, reasonable costs of controls for public authorities and beneficiaries and added value of the EU budget.

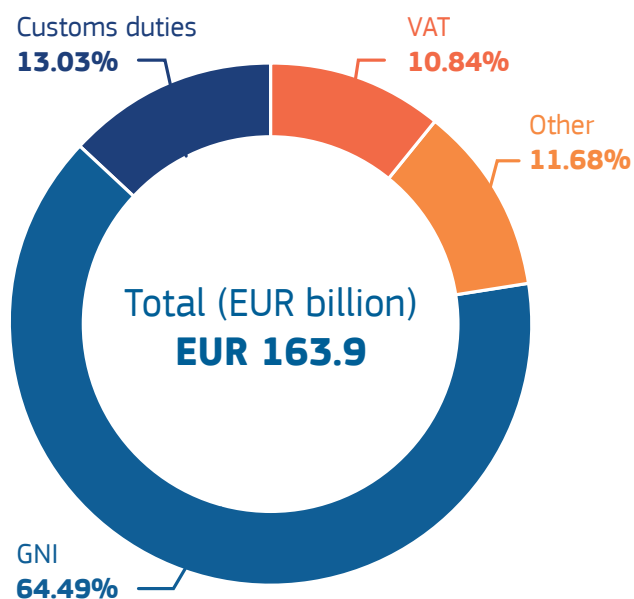
The available qualitative and quantitative performance information at the end of 2019 shows that the programmes are progressing well towards the targets set at the beginning of the programming period. Implementation is accelerating, notably for the European Structural and Investment Funds. At the same time, the Commission is taking action to address challenges.

PAYMENTS MADE IN 2019



Sustainable growth: natural resources	EUR 59.5
Economic, social and territorial cohesion	EUR 53.8
Competitiveness for growth and jobs	EUR 21.7
Administration	EUR 10.4
Global Europe	EUR 10.1
Security and citizenship	EUR 3.3

EU REVENUE IN 2019



All amounts in % and EUR billion.
Source: European Commission.

COMPETITIVENESS FOR GROWTH AND JOBS

RESULTS:

- The **European Fund for Strategic Investments** has mobilised over **EUR 458 billion** in **new investments** since 2015. This supported over 8.5 million jobs, and helped providing renewable energy to approximately 10 million households and high-speed internet to 15 million households.
- The **Galileo** programme, with 26 satellites in orbit, helps improving the accuracy and reliability of location services in the smartphones of more than 1 billion users worldwide.
- **Erasmus+** supported 900 000 students, teachers, education staff and learners to acquire new skills abroad in 2019.
- **Horizon 2020** is the largest publicly funded Research and Innovation funding programme in the world with EUR 76 billion budget over the period 2014-2020. By the end of 2019 Horizon 2020 had supported more than 23 000 organisations in accessing risk finance, along with 5 522 high-quality research projects under the European Research Council and 44 000 innovations that include prototypes and testing activities.

CHALLENGES:

- The outcome of research and innovation projects is by nature uncertain. Projects are **monitored and assessed** and appropriate action taken, if required.
- Respecting rules can be particularly challenging for new or smaller beneficiaries like SMEs – the Commission has launched communication campaigns to help newcomers **access EU funding** and will continue to simplify rules.
- The share of climate-related expenditure under Horizon 2020 remained below the expected level, at 27%, due to the difficulty of assessing in advance to what extent certain research projects will contribute to climate-related objectives. The Commission is addressing this situation with the launch of a call dedicated to the European Green Deal in 2020, with a budget of EUR 1 billion. This will considerably raise the level of climate-related expenditure.



ECONOMIC, SOCIAL AND TERRITORIAL COHESION

RESULTS:

- **27.5 million people** had benefited from improved health services financed by the **European Regional Development Fund** by the end of 2018.
- The European Regional Development Fund has supported investment in over **400 000** small and medium-sized enterprises, helping to create an additional **109 000** jobs and has made an important contribution to economic growth.
- EUR 2.4 billion were committed by the **European Social Fund** to projects targeting gender equality by the end of 2019. For example, the 'nidi gratis' project in Lombardy (Italy) has provided **30 000** low-income families with free access to nursery schools for their children.
- Through the **Youth Employment Initiative**, the EU budget has managed to significantly reduce unemployment by providing education and training to **2.7 million** young participants.

CHALLENGES:

- The implementation is accelerating to deliver the projects. The Commission **monitors** programmes with low absorption of funds and **assists** concerned Member States to improve the situation.
- The restrictions linked to the coronavirus crisis will cause additional challenges in the implementation of the **419 programmes** by national/regional authorities.
- Member States should ensure that the expenditure they declare for reimbursement to the Commission does not contain errors. The Commission audits, provides guidance, and ensures exchanges of best practices. Based on all available audit results, including those of the European Court of Auditors, the Commission interrupts/suspends payments if necessary and requests systems to be improved. It can also apply financial corrections.



SUSTAINABLE GROWTH: NATURAL RESOURCES

RESULTS:

- More than **6.2 million farms**, benefited from direct payments in 2019.
- **21.2%** of the 2019 budget was earmarked for spending on climate action across all EU programmes, including the **Common Agricultural Policy** (CAP).
- The **LIFE** programme finances projects through which **1.5 million people** benefit from improved air quality and **42%** of targeted species are progressing towards conservation status.
- To date, the **European Maritime and Fisheries Fund** has funded nearly **15 000 projects** on preserving the marine environment and ensuring better resource efficiency.
- **Climate-adaptation projects** have improved flood-protection systems, with projects being financed that cover 4 million people, and forest-fire-protection systems, with projects covering 10.8 million people.

CHALLENGES:

- Measuring results of the CAP is essential. That is why the Commission has proposed a **performance-based delivery model** for the CAP post-2020.
- In spite of progress made, substantial challenges remain in relation to the environmental performance of the EU's agricultural sector, in particular in the context of the European Green Deal, where the EU has committed itself to **further deep cuts in greenhouse gas emissions**.
- Agricultural income still lags behind salaries in the economy as a whole, and remains dependent on direct support.
- Progress in audit results has been made in many Member States. Some challenges remain, particularly in the field of rural development. The Commission **actively monitors the implementation** of Member States' action plans.



SECURITY AND CITIZENSHIP

RESULTS:

- With the help of the **Asylum, Migration and Integration Fund**, since 2015 over **2 million** people received asylum or accommodation support, **30 000** accommodation places have been funded, nearly **6 million** people received integration assistance and more than **62 000** people in need of international protection have been offered safe and legal pathways to the EU via resettlement schemes.
- The **justice programme** supported the participation of **1 358** participants in judicial training programmes in 2018, thereby fostering a common legal and judicial culture.
- The **EU Civil Protection mechanism** was activated in response to 3 emergencies (such as forest fires and marine pollution) in the EU territory, and 17 emergencies outside the EU in 2019.

CHALLENGES:

- The new mandate of **Frontex** (10 000 border guards) requires a **major recruitment effort**, for which the Commission will **provide support** to the agency.
- **AMIF** provides support to frontline countries, in particular Greece, in a volatile **migration context**. With this context in mind, the Commission has **proposed a new Pact on migration and asylum**.
- Weaknesses have been found in Member States' checks of public procurement procedures. The Commission is following up with Member States to **help them improve their management and control systems**.

RESULTS:

- The EU continued to be the world's **leading provider** of Official Development Aid.
- In 2019 the EU provided **EUR 2 billion** in **humanitarian aid** to the most vulnerable across more than 8 countries. In total, 177 million people received humanitarian aid in 2019.
- The disaster-preparedness actions benefited **38** million people in disaster-prone regions.
- With financing from the **Development Cooperation Instrument**, Switch Africa Green provides funding to green business projects in Africa. In its first phase, it supported **3 000** micro, small and medium-sized enterprises and contributed to creating or securing **10 000 green jobs**.

CHALLENGES:

- The **implementation of development and humanitarian funds is complex**, as it is often carried out with external partners, and at times in high-risk areas. Crisis situations, political volatility and economic instability can jeopardise programme implementation. The Commission is in dialogue with its partners and in this context follows up on the findings of the European Court of Auditors.

ONGOING CORONAVIRUS CRISIS RESPONSE

- The Commission has taken a range of measures to respond to the crisis caused by the COVID-19 outbreak, such as **adjustments to the control procedures** and **more flexibility in the management of funds**, to swiftly use them where and when they are needed most.
- **New** and **strengthened programmes** under the future multiannual financial framework will also play a vital role in supporting a sustainable recovery.
- The pandemic potentially poses significant challenges for the management and performance of the EU budget. The Commission is fully committed to ensuring that future programmes are subject to the **highest standards** of sound financial management, even during these unprecedented times.
- The Commission has therefore assessed risks to the EU budget **proactively** and taken the necessary steps to mitigate them. This is a dynamic assessment that will be kept under **constant review**.

This publication covers selected messages from the Commission replies to the 2019 Annual Report of the European Court of Auditors as well as from the Commission's 2019 Integrated Financial and Accountability Reporting. **The detailed replies of the Commission are included at the end of the European Court of Auditors' report** (www.eca.europa.eu).