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# Annual Management and Performance Report for the EU Budget

## Volume II
Annexes

#EUBUDGET

FINANCIAL YEAR
2020

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**ANNEXES**

***to the***

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**TO THE EUROPEAN PARLIAMENT, THE COUNCIL AND THE COURT OF AUDITORS**

**Annual Management and Performance Report for the EU Budget - Financial Year 2020**

# Contents

# Annex 1 – Performance and results

# 1.1. A result-oriented EU budget

The Commission continues to give the highest priority to the performance of EU spending. It is fully committed to ensuring that the EU budget is implemented in accordance with the strongest financial management standards and is as effective as possible in achieving its objectives.

As it did last year, the Commission has annexed the 'Programme performance overview' to the annual management and performance report to highlight this priority. It has further strengthened the systematic assessment of the performance of the programmes in both the programme statements accompanying the draft budget and the 'Programme performance overview'.

In November 2020, the European Court of Auditors published a new report on the performance of the EU budget. The Court looked in detail at the Commission's high-level performance reports and at nine spending programmes across the budget. The report concluded that the Commission has solid procedures in place to produce performance reports and noted the many improvements that have been made, while identifying targeted areas for further improvement.

Due to the multiannual nature of the EU programmes, achievements in the field can only be assessed in a multiannual context. This report draws on the latest-known performance results. The reporting information available at the end of 2020, as presented in the 'Programme performance overview' in Annex 3, shows that **most programmes are progressing well towards the targets set at the beginning of the programming period**. For example, progress under the cohesion policy programme is accelerating quickly despite delays earlier in the period. Where there were specific issues in relation to the implementation of particular programmes, the 'Programme performance overview' provides further explanation on how this has affected performance and the mitigating measures that have been taken.

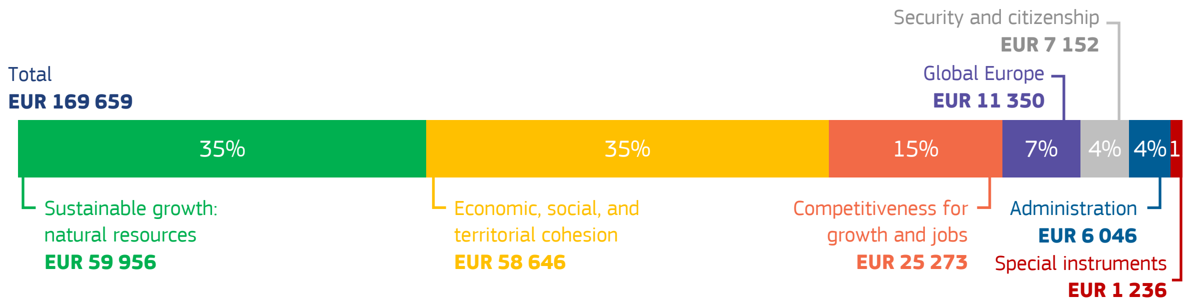
While monitoring information provides useful insights into progress, definitive conclusions on programme performance will only be possible on the basis of detailed evaluations after the closure of the current programmes. The impact of the COVID-19 pandemic and the steps taken to redirect and reprioritise EU funding to support crisis repair and recovery will need to be given due consideration in this assessment.

## 1.1.1. The EU budget for 2020 – a budget in transition

2020 was a pivotal year for the EU budget in many ways. It was the first full year of the von der Leyen Commission. The 2020 EU budget played an important role in supporting the von der Leyen Commission's ambitious headline goals. It helped, for example, with preparing the green and digital transitions and with promoting solidarity and security, not only within the EU, but also in cooperation with our international partners. 2020 was also the year of the COVID-19 outbreak, which made swift and significant modifications necessary for crisis repair and recovery (see section 1.1.2 below).

Finally, 2020 was the last year of the 2014-2020 multiannual financial framework. The new and ambitious 2021-2027 multiannual financial framework, together with the temporary recovery instrument NextGenerationEU, was adopted in December, putting the EU budget at the heart of the recovery and the transition towards a more sustainable and digital future (see section 1.3 below).

In the new long-term budget, the structure of the budgetary headings has been reviewed to provide greater transparency and to ensure close alignment with the key political priorities. **The performance analysis presented in sections 1.2 to 1.7 of this annex is structured around the new 2021-2027 budget headings.**




**The 2020 EU budget: commitment appropriations per budget heading. Administrative expenditure only reflects the Commission section, and excludes administrative expenditure in other institutions. All amounts in million EUR.**

*Source:* European Commission.

Primarily as a result of COVID-19-related measures, **the budget for 2020 evolved significantly compared to the budget initially adopted by the budgetary authority**. Amendments adopted by the European Parliament and the Council increased the EU budget for 2020 by EUR 10.2 billion ([1]) in payment appropriations and EUR 5.2 billion in commitment appropriations to address the COVID-19 crisis, in particular to cover the additional needs for payment appropriations for the Emergency Support Instrument to finance the COVID-19 vaccines strategy and the additional payment needs for cohesion following the adoption of the Coronavirus Response Investment Initiatives. Significant funding has also been reprioritised and redirected towards objectives relating to the COVID-19 crisis.

The EU's **administrative budget**, which supports both budgetary management and the full spectrum of activities of the European Union institutions, accounted for a small share of the total budget in 2020. Together with the other institutions, the Commission has taken steps to **improve the efficiency** of all of its operations, and delivered significant savings under the 2014-2020 financial framework, including by implementing a 5% staff reduction between 2013 and 2017 ([2]). The European Court of Auditors has confirmed these savings, while noting the negative consequences they have had for staff ([3]).

These savings have been made at a time when there are ever-increasing expectations on the Commission to deliver in areas such as the green and digital transitions, industrial policy, economic and social recovery, migration, the rule of law and defence cooperation. These pressures have been heightened by the workload involved in developing and deploying a comprehensive EU response to the COVID-19 pandemic and its aftermath. Despite this, the Commission has redeployed a significant number of staff to support the delivery of its flagship initiatives and a swift response to the pandemic. Budgetary constraints under the new financial framework will require even stronger prioritisation and further efficiency improvements to ensure that the EU is able to continue to deliver on its priorities.

([1]) Reflects the reinforcement provided by draft amending budgets 2, 8 and 10 to the 2020 budget.

([2]) Further details on the steps the Commission is continuing to take to improve efficiency in budgetary management are provided in Annex 2 of this report.

([3]) European Court of Auditors, *Special Report No 15/2019 – Implementation of the 2014 staff reform package at the Commission – Big savings but not without consequences for staff*.

## 1.1.2. The EU budget was mobilised quickly and flexibly in response to the COVID-19 pandemic

The onset of the COVID-19 pandemic in Europe led to human tragedy, lockdowns and an unprecedented economic slowdown ([4]). The EU moved decisively to prove its solidarity in the face of this crisis, protecting lives and livelihoods by focusing on actions that delivered an immediate and effective response. Throughout 2020, the Commission adopted over 1 350 measures to mitigate the crisis, including 598 state-aid decisions giving European companies a lifeline and thereby preserving the continuity of economic activity during and after the outbreak. By the end of 2020, around EUR 3.1 trillion ([5]), or more than 30% of the EU's gross domestic product, had been mobilised by Member States to mitigate the effects of the crisis.

**EUR 70 billion was mobilised quickly and flexibly through the EU budget as part of a coordinated European response to the COVID-19 pandemic through a variety of measures.** For that purpose, the budget for 2020 was increased by EUR 10.2 billion ([6]). The European Parliament, the Council of the European Union and the Commission changed the 2014-2020 multiannual financial framework regulation as quickly as possible to provide maximum flexibility for the implementation of the 2020 budget. Moreover, the Emergency Support Instrument allowed the Commission to coordinate and assist procurement efforts necessary to combat the crisis.

**Proactive budgetary management ensured the speedy and effective implementation of the 2020 budget.** Nine amending budgets were adopted as proposed by the Commission, more than in any other year of the 2014-2020 period and often in record time. Moreover, 28 budgetary authority transfers and hundreds of autonomous Commission transfers were made. As a result, the 2020 EU budget was spent almost entirely, in both commitments and payments.

The sections below summarise the main pillars of the EU's response to the pandemic and how the EU budget has contributed.

The Commission is also mobilising EU resources outside the long-term budget, for example through the European Investment Bank and other instruments. The European Union's temporary **support to mitigate unemployment risks in an emergency** programme (SURE) was created to help Member States protect jobs and workers' incomes in the context of the COVID-19 pandemic. It provides financial assistance in the form of loans from the EU to support short-term work schemes and similar measures, to help Member States protect employees and the self-employed against the risk of unemployment and loss of income. The programme is a strong expression of solidarity. To reflect this social motivation, financing is issued in the form of social bonds. Its budget is up to EUR 100 billion and by the end of 2020, EUR 40 billion ([7]) in support had already been provided to Member States.

- By early 2021, **between 25 and 30 million employees had benefited** from support under the support to mitigate unemployment risks emergency programme SURE – a significant portion of the job market in participating Member States, which saved an estimated EUR 5.8 billion in interest payments.

([4]) Communication from the Commission from the commission to the European Parliament, the European Council, the Council, the European Central Bank, the European Investment Bank and the Eurogroup – Coordinated economic response to the COVID-19 outbreak (COM(2020) 112).

([5]) The EU's economic response amounts to EUR 3.08 trillion. This includes EUR 70 billion in expenditure directly from the EU budget, EUR 524 billion in national measures taken under the flexibility of EU budgetary rules, EUR 100 billion through the support to mitigate unemployment risks in an emergency programme, EUR 2 553 billion in national liquidity measures, EUR 240 billion through the European Stability Mechanism Pandemic Crisis Support for Member States and EUR 200 billion in European Investment Bank Group financing for businesses. In addition, the European Central Bank launched a EUR 1 850 billion pandemic emergency purchase programme.

([6]) In payment appropriations.

([7]) https://ec.europa.eu/info/files/sure-taking-stock-after-six-months_en

## Coordinate European solidarity and ensure sufficient supplies through advance purchase agreements with vaccine producers

The **Emergency Support Instrument** was reactivated in April 2020 with a budget of EUR 2.7 billion to provide needs-based emergency support complementing Member States' efforts and the contributions of other EU instruments in tackling the COVID-19 pandemic and helping save lives. The reactivation allowed for the very broad use of this instrument through targeted measures deployed strategically where the scale, speed or cross-border nature of the solutions needed are best addressed through coordinated EU intervention and for novel, fast procurement mechanisms. The Emergency Support Instrument is centrally managed by the Commission and implemented largely through direct management. The instrument was also used in the procurement of healthcare-related material, assistance for medical personnel and operational support for mobile medical-response capacities. This makes medical personnel and teams available where they are most needed in Europe, and assists with transporting cargo.

In setting priorities for the actions to be funded, the Commission engaged with Member States regularly to understand their needs. Based on this, the Commission decided early on that the instrument could add the most value by supporting the **EU vaccines initiative**, in which all 27 Member States are taking part.

- The major priority in 2020 was securing 2.6 billion doses ([8]) of COVID-19 vaccines, once proven to be safe and effective, under the **advance purchase agreements** with vaccine developers. Through these agreements, the Emergency Support Instrument acquired purchase rights for EU Member States to up to 2.6 billion vaccine doses from six vaccine manufacturers (AstraZeneca, BioNTech–Pfizer, CureVac, Johnson & Johnson, Moderna and Sanofi–GlaxoSmithKline) as part of the EU's vaccine strategy. By diversifying the portfolio, the Commission maximised the chances of EU citizens having access to any successful vaccine candidate at the earliest possible opportunity, and at the scale required. As a result, the first vaccine was deployed in the EU before the end of 2020 ([9]). 86% of the available funding from the EU budget was allocated to this, and at the end of the year Member States also made contributions available for this action totalling EUR 750 million in externally assigned revenue. The coordinated EU approach ensured that Member States could share the inherent risk of investing in what was at that point unproven vaccine development, and had access to a broad portfolio of potential vaccine technologies and companies.


- Funding was provided for **training in testing and intensive care.** Additionally, a contract was signed for the purchase of disinfection robots, which are donated to hospitals. These robots use ultraviolet light and disinfect standard patient rooms in hospitals in just 15 minutes, thus helping to prevent and reduce the spread of COVID-19. The European Commission distributed approximately 200 such robots to hospitals around the EU through the Emergency Support Instrument.
- The Emergency Support Instrument was used to organise **1 500 cargo operations** involving over 1 000 flights and 500 journeys by road, rail and sea between April and September 2020, to bring essential medical supplies into the EU when cargo transport availability was seriously limited; the **transport of over 300 medical staff and patients** for care across borders; the **training of 3 500 medical staff** in testing techniques; 75 **mobile testing teams**; increased capacity in 150 local **blood or plasma collection centres**; and intensive-care training for 15 000 medical professionals across 750 hospitals.

([8]) 2 billion doses had been agreed before year-end 2020. A further 0.6 billion doses were agreed in the first half of 2021. The Commission agreed also the optional acquisition of 1.8 billion doses.

([9]) On 21 December, the European Commission granted conditional marketing authorisation for the COVID-19 vaccine developed by BioNTech–Pfizer.

The instrument also financed the **establishment of an IT platform for interoperability between national tracing apps**, to which 17 national apps ([10]) are now connected, along with a pilot system for the exchange of passenger locator forms.

- Under the instrument the Commission has procured for distribution to Member States more than **10 million masks for medical staff**; some **200 million rapid antigen tests**; and **34 000 courses of the therapeutic Remdesivir**, which was in high demand in all Member States as the only EU-approved medicine to treat COVID-19, but national contracts were unavailable.

As many Member States faced a third wave of infections and new variants in the first quarter of 2021, the Emergency Support Instrument has been reinforced in 2021 with an additional EUR 232 million ([11]) in commitment appropriations. This will support new actions such as the **interoperability of digital green certificates**, an **EU waste-water monitoring system**, the further development of the **passenger locator form exchange platform** and the purchase for donation to Member States of specialised tests for identifying variants.

The **budget of the EU Civil Protection Mechanism** was increased by EUR 415 million in 2020 and supported hospitals across the EU, many of which were treating patients from other countries. Mobile health teams were dispatched to respond to the most urgent needs.

- More than 400 flights **helped 90 000 EU citizens stranded abroad to return home**.
- Hosted in EU Member States, rescEU delivered over **3 million items of personal protective equipment (masks, gloves, etc.)** for first responders, including medical and civil protection workers.
- The Commission set up the **Clearing House for medical equipment** ([12]), the main role of which was to get an overview of the essential medical-equipment needs in Member States so as to match supply and demand at the EU level. It also provided help to industry and stakeholders faced with technical and regulatory obstacles. For example, the EU Civil Protection Mechanism sent ventilators, protective clothing and disinfectant to countries in need and deployed emergency medical teams. National medical emergency teams were deployed under the EU Civil Protection Mechanism to support Italy and Lithuania in the first wave of the COVID-19 crisis. Similarly, medical teams from the EU also supported partner countries, such as Armenia and Azerbaijan. Under the Emergency Support Instrument, the Commission also implemented a mobility package to help finance the transport of patients, medical teams and essential medical supplies.

In addition, the scope of the **EU Solidarity Fund** was extended as of 1 April 2020 to encompass major public-health emergencies. A total of almost EUR 530 million will be made available to Member States in 2021 and candidate countries seriously affected by the COVID-19 crisis to finance assistance to the population (medical, health-sector and civil-protection measures) and measures taken to contain the spread of the virus.

([10]) 16 from EU Member States, plus one from Norway.

([11]) Draft amending budget 2 for 2021, adopted by Council on 23 April 2021 and by the European Parliament on 17 May 2021.

([12]) https://ec.europa.eu/info/live-work-travel-eu/coronavirus-response/emergency-support-instrument/covid-19-clearing-house-medical-equipment_en

## Supporting research on vaccines, diagnostics and treatment

Public and private investment was mobilised to develop safe and effective vaccines for everyone across the world. The Commission has mobilised more than EUR 781 million under **Horizon 2020** since January 2020 to develop vaccines, new treatments, diagnostic tests and medical systems to prevent the spread of COVID-19 and save lives. This includes mobilising the **special fund for emergency research**, the **IMI 2 Joint Undertaking** and EUR 164 million through a call launched by the **European Innovation Council** pilot project.

The development of a **new generation of vaccines – mRNA** ([13]) vaccines – is supported through several Horizon 2020 grants. In the European AIDS Vaccine Initiative 2020, BioNTech made use of its mRNA technology to develop and manufacture HIV vaccine candidates. Financial support provided by the European Fund for Strategic Investments helped BioNTech to use this mRNA technology for the development of a COVID-19 vaccine. The advance purchase agreement mediated by the Commission further enabled the manufacturing of the BioNTech–Pfizer vaccine, which was the first to receive marketing authorisation in the EU.

(Picture: President Ursula von der Leyen (right) with Özlem Türeci, co-developer of the BioNTech–Pfizer vaccine. *Source:* European Commission.)

## The EU promotes a global response

The **EU, as a global actor and in collective action as Team Europe**, secured financial support for partner countries and fragile populations amounting to more than EUR 40 billion ([14]). The main contributions from Team Europe were EUR 7 billion from the European Investment Bank, EUR 4 billion from the European Bank for Reconstruction and Development, EUR 15 billion from the EU budget and EUR 14 billion from the Member States. Team Europe efforts focus on addressing the immediate health crisis and the resulting humanitarian needs; strengthening partner countries' health, water and sanitation systems and their research and preparedness capacities to deal with the pandemic; and mitigating the socioeconomic impact.

In addition, the **EU is promoting a coronavirus global response with multilateral partners**, launched by President Ursula von der Leyen. The international pledging conference collected pledges of more than EUR 15.9 billion ([15]) to ensure the collaborative development and universal deployment of diagnostics, treatments and vaccines against the coronavirus.

**COVID-19 Vaccines Global Access (COVAX)** is leading efforts to secure fair and equitable access to COVID-19 vaccines in low- and middle-income countries. Team Europe is one of the leading contributors to COVAX, with over EUR 2.2 billion. The Commission is participating in the COVAX Facility for equitable access to affordable COVID-19 vaccines and is contributing EUR 1 billion in EU grants and guarantees.

([13]) mRNA stands for messenger ribonucleic acid.

([14]) The breakdown of Team Europe efforts up to January 2021 is available online (https://ec.europa.eu/international-partnerships/system/files/20210101-team-europe-response-to-covid_en.pdf).

([15]) https://global-response.europa.eu/index_en

## Alleviating the effects of the social and economic crisis: the Coronavirus Response Investment Initiatives

The COVID-19 pandemic caused a major shock to the global and EU economies, with severe socioeconomic consequences. It led to a drop of 7.4 percentage points in the EU's gross domestic product, with a subsequent gain of 4.1 percentage points expected in 2021 ([16]). Cohesion policy programmes were also adapted and mobilised to support the crisis response through the **Coronavirus Response Investment Initiatives** ([17]). The Commission focused on increasing the flexibility of these instruments to the maximum extent to allow for the swift treatment of all requests under lighter and faster procedures. This included increasing the maximum co-financing rate to 100%, facilitating transfers between funds and regions and increasing the financing envelopes through financial instruments. Overall, this flexibility allowed the initiative to mobilise EUR 23.3 billion to date ([18]) from the European Structural and Investment Funds. These initiatives helped meet the most pressing needs for medical supplies and equipment and helped address the effects of the economic crisis through short-term work schemes aiming to keep people in employment during the pandemic, financial support for small and medium-sized enterprises and an immediate liquidity injection.

The Commission also provided guidance to the Member States on how to make use of the **European Globalisation Adjustment Fund** under the circumstances of the COVID-19 crisis to support workers who had lost their jobs as a consequence of the pandemic. Four COVID-19-related applications had been received from Member States by the end of 2020.

- **Supporting fishers and the seafood sector.** The Commission provided for specific measures to mitigate the impact of the coronavirus outbreak, such as support for fishers relating to the temporary cessation of fishing activities, support for aquaculture farmers relating to the temporary suspension of production and support for producer organisations relating to the storage of fishery and aquaculture products, along with budgetary flexibility for Member States to allocate resources at short notice.
- **Supporting farmers.** Financial instruments under the European Agricultural Fund for Rural Development may provide stand-alone working capital financing of up to EUR 200 000 to agricultural and rural small and medium-sized enterprises affected by COVID-19, under favourable conditions, including very low interest rates, fewer collateral requirements, favourable payment schedules, etc.

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([16]) Gross domestic product, volume, in the EU-27 (*Source: European Economic Forecast – Winter 2021* – https://ec.europa.eu/info/publications/european-economic-forecast-winter-2021_en).

([17]) The coronavirus response investment initiative (https://ec.europa.eu/regional_policy/en/newsroom/news/2020/03/16-03-2020-cohesion-policy-and-eu-solidarity-fund-contribute-to-the-coronavirus-response-investment-initiative) and the coronavirus response investment initiative plus (https://ec.europa.eu/regional_policy/en/newsroom/news/2020/04/04-02-2020-coronavirus-response-investment-initiative-plus-new-actions-to-mobilise-essential-investments-and-resources).

([18]) As of June 2021, the headline figures on the volume of resources mobilised were as follows: EUR 8.4 billion in EU reallocations for health actions, resulting in a net increase of EUR 8.1 billion at the EU level; EUR 12.8 billion in EU reallocations for business support, resulting in a net increase of EUR 5.2 billion at the EU level; EUR 3.9 billion in direct support for people, including workers and vulnerable groups. The overall support for people of EUR 3.9 billion includes EUR 2.1 billion of direct support to citizens as allocations reflected under the EUR 7.4 billion health and the EUR 12.8 billion enterprise reprogramming. It is therefore not double counted in the total of EUR 23.3 billion.

### 1.1.3. The European recovery plan: a revamped multiannual financial framework and NextGenerationEU

#### A modernised EU long-term budget, powered by NextGenerationEU

The Commission put forward revamped proposals in May 2020 for the EU's long-term budget for 2021-2027 (amounting to EUR 1 074 billion), to be coupled with a temporary recovery instrument, NextGenerationEU (worth EUR 750 billion). These proposals were formally adopted by the European Parliament and the Council in December 2020.

This will be the **largest stimulus package ever financed** by the EU budget. A total of EUR 1.8 trillion will help rebuild a post-COVID-19 Europe. This unprecedented response will help **repair the economic and social damage** caused by the COVID-19 pandemic and lay the foundations for a modern and more sustainable future for a **greener, more digital and more resilient Europe**.

- The EU has set a target of 50% or more of the total amount of the long-term budget, including NextGenerationEU, to be used to support the modernisation of the European Union through research and innovation; fair climate and digital transitions; preparedness, recovery and resilience.
- 32% of the long-term budget will be used to accelerate the achievement of the new and reinforced priorities, the highest share ever.
- The EU has set a target of spending at least 30% of the long term budget and NextGenerationEU on combating climate change.
- The EU will work towards the goal of spending 10% of the long-term budget in 2026 and 2027 on halting and reversing the decline in biodiversity.
- In order to contribute to the digital transformation, the EU will work to invest 20% of the Recovery and Resilience Facility funds in this area.
- 30% of NextGenerationEU financing will be raised through green bonds.

#### NextGenerationEU: EUR 750 billion for the EU's recovery

**NextGenerationEU** is a EUR 750 billion temporary recovery instrument consisting of non-repayable and loan support in addition to the EU's long-term budget, with a focus on the crucial first years of recovery. Funding from NextGenerationEU will be invested across several programmes contributing to economic recovery.

The majority of funds from NextGenerationEU (up to EUR 672.5 billion) will be invested through the **Recovery and Resilience Facility**. This facility will provide large-scale financial support for public investment and reforms in key areas such as the green and digital transition. In order to receive support from the Recovery and Resilience Facility, EU Member States will submit recovery and resilience plans to the Commission, in which they explain how the money will be used to support recovery and build resilience. These plans need to take into account the challenges identified in the European semester, along with those relating to the green and digital transitions. The Commission will assess these plans, and that assessment will then be approved by the Council. Funding will be disbursed in several instalments upon the achievement of milestones and targets to which Member States have committed themselves.

Financed by NextGenerationEU, in 2021 and 2022, the **recovery assistance for cohesion and the territories of Europe** (REACT EU) will help bridge the gap between the initial response to the crisis and the longer-term recovery. An additional EUR 50.6 billion for the ongoing 2014-2020 cohesion policy programmes will provide vital rapid and additional support to Member States and regions. The recovery assistance continues emergency support for the health sector, small and medium-sized enterprises and short-term employment schemes, while introducing the possibility to step up digital and green investments as part of crisis repair.

### A strengthened performance framework

The transition to the 2021-2027 long-term budget will also represent another major step forward for the EU budget performance framework. The Commission has taken very seriously the lessons learnt from the 2014-2020 period and the recommendations from the Parliament, the Council and the Court of Auditors.

Through the new spending programmes, the Commission is introducing a more comprehensive and coherent performance framework for the EU budget ([19]). This will be based on (1) integrating performance into policy design through programme evaluations; (2) robust monitoring and reporting on the performance of individual programmes and the progress towards their objectives in the annual budgetary cycle; and (3) ensuring the contribution of the EU budget towards overarching horizontal policy objectives such as the climate, the digital sphere and economic recovery. A streamlined set of high-quality indicators will be used to monitor performance during all stages of programme implementation, with a clear methodology to estimate baselines and targets. A robust monitoring and evaluation framework will provide the evidence base for the design of future financial programmes.

## 1.1.4. The EU budget is a key driver of cross-cutting policy priorities

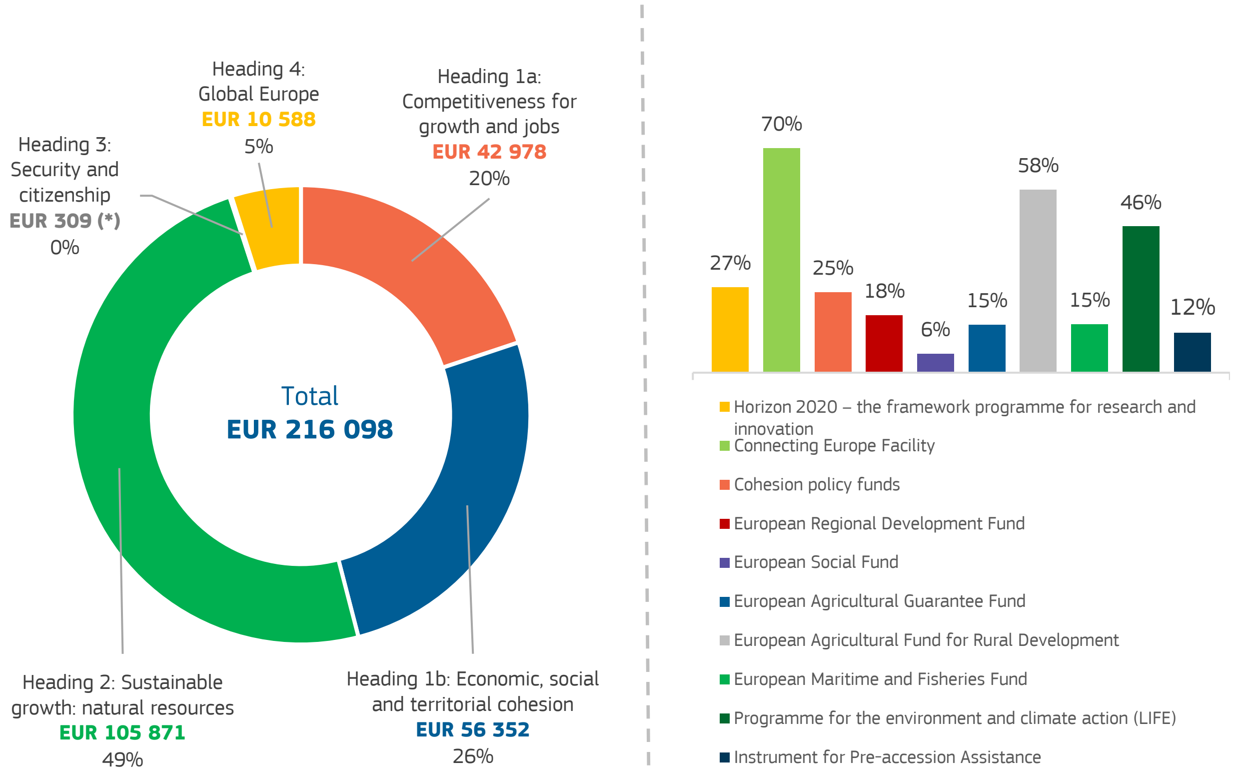
Mainstreaming is the inclusion of horizontal priorities and cross-cutting policy areas in the design, preparation, implementation and evaluation phases of programmes for both internal and external actions. Since the same action can pursue different objectives at the same time, mainstreaming in the EU budget promotes synergies in the use of funds for a limited number of cross-cutting priorities, resulting in increased consistency and cost-efficiency in spending. This section explains how the EU budget is pursuing cross-cutting policies to fight climate change, protect biodiversity, pursue the United Nations sustainable development goals and promote gender equality.

### Fighting climate change

To fight climate change ([20]) and environmental degradation and to become the world's first climate-neutral economy by 2050, the EU needs to move to a more sustainable economy. In the 2014-2020 period, the EU integrated EUR 216 billion in spending on climate action across all of its programmes, in particular cohesion policy, energy, transport, research and innovation and the common agricultural policy, along with the EU's development policy, making the EU budget a key driver of sustainability. In 2021, the Commission continued to revise and update all available information, including further consolidating existing data and applying a more granular methodology where possible. **Overall, 20.1% of the EU budget was allocated to measures to address climate change, achieving the political ambition of dedicating 20% of the 2014-2020 long-term budget to fighting climate change.**

([19]) Communication from the Commission to the European Parliament and the Council on the performance framework of the EU budget under the 2021-2027 MFF, COM(2021) 366, 8 June 2021.

([20]) https://ec.europa.eu/clima/sites/default/files/eu_climate_action_factsheet_en.pdf




(*) This includes both strands of the EU Civil Protection Mechanism.

**Left: 2014-2020 contribution of climate-related expenditure by budget heading (in million EUR).**
**Right: Climate-relevant share of the main contributing programmes in 2014-2020.**

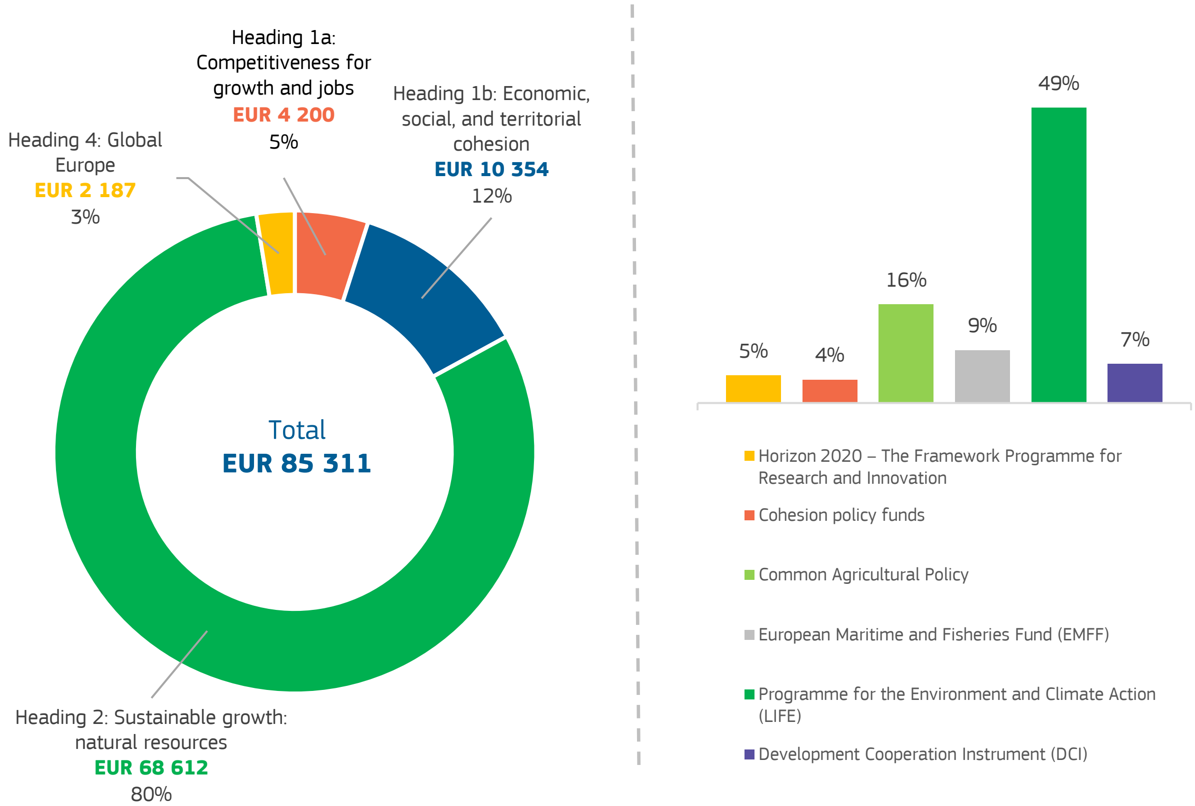
*Source:* European Commission.

For the 2021–2027 long-term budget, the EU has further increased its ambition with respect to fighting climate change. The budget will contribute at least 30% of the funds from the multiannual financial framework and NextGenerationEU to achieving the EU's climate objectives. To ensure the success of the EU budget in delivering on this objective, several improvements have been made through the agreed package and during the political negotiations:

- translating the increase in the overall target from 20% to 30% into specific sectoral targets in the relevant legislation;
- embedding EU budget actions into the European Green Deal policy framework, including through the adoption of the biodiversity strategy and the farm-to-fork strategy;
- enhancing the climate responsiveness of the budget for programmes that do not directly tackle the climate challenge, through reinforced climate proofing and the application of the 'do no significant harm' principle;
- changing how climate-relevant financing is identified in the EU budget from the intent-based Rio markers of the Organisation for Economic Co-operation and Development to EU climate markers that put a greater emphasis on results.

## Halting and reversing the decline in biodiversity

Halting and reversing the decline of biodiversity is a major objective for the EU, as also provided for in the political guidelines ([21]) of President von der Leyen and the European Green Deal. The EU biodiversity strategy provides orientations regarding biodiversity financing and resource mobilisation. The EU finances the protection of biodiversity by including the objectives of the EU biodiversity strategy for 2030 in the main funding instruments.




**Left: 2014-2020 contribution of biodiversity-related expenditure by budget heading (in million EUR).**

**Right: Biodiversity-relevant share of the main contributing programmes in 2014-2020.**

*Source:* European Commission.

**In the 2014-2020 period, the EU dedicated EUR 85 billion to the fight against biodiversity loss, or cumulatively an average of 8% of the multiannual financial framework.** Annex 4 contains several examples of concrete achievements funded from the EU budget that contributed to protecting biodiversity.

In line with the **European Green Deal**, the Parliament, the Council and the Commission have agreed ([22]) that biodiversity will also be mainstreamed in the EU budget, with a 7.5% annual target for 2024 ensuring that the contribution will not backslide, and with a 10% annual target for 2026 and 2027. Cumulatively, for the next long-term budget, this will translate into a higher level of ambition than was the case in the previous period. This is in line with the statement in the biodiversity strategy for 2030 that biodiversity action requirements are at least EUR 20 billion per year from 'private and public funding at national and EU level', of which the EU budget will be a key enabler.

([21]) 'A Union that strives for more – Political guidelines for the next European Commission 2019-2024'.

([22]) Interinstitutional agreement (https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.LI.2020.433.01.0028.01.ENG).

## Delivering the 2030 agenda for sustainable development

The EU, together with its Member States, is fully committed to being at the forefront of implementing the **2030 agenda for sustainable development** and achieving a transformative shift by 2030 that leaves no one behind. The 2030 agenda is the shared roadmap adopted under the auspices of the United Nations for a peaceful and prosperous world, and is of paramount importance to the values of the EU and the future of Europe. The EU has committed to implementing the sustainable development goals ([23]) in both internal and external policies. Since the adoption of the agenda in 2015, the EU has made significant progress in delivering on the sustainable development goals, and is continuing to strengthen its efforts. The COVID-19 pandemic has shown that the full implementation of the 2030 agenda is crucial in order to build back better after the crisis. The sustainable development goals provide the universal blueprint for a sustainable recovery.

The EU has embarked on a transition towards a low-carbon, climate-neutral, resource-efficient and circular economy that goes hand in hand with increased security, prosperity, equality and inclusion. In this light, the design and implementation of EU spending programmes aim at delivering on the objectives in each policy field while promoting sustainability through the actions and interventions of the relevant programmes. Through the **European consensus on development**, the EU has also aligned its approach to international cooperation and development policy with the 2030 agenda, placing the sustainable development goals and the Paris Agreement at the heart of its external action.

In the light of the interlinked nature of these goals, most of the EU's budgetary programmes are designed to address multiple sustainable development goals. Currently, almost 75% of the EU budget programmes (46 out of 61) contribute towards these goals. Those 46 programmes represented 96% of the entire EU budget. The following infographic illustrates, in a non-exhaustive manner, some of the many examples of how EU programmes contribute to the sustainable development goals. The EU's coherent approach supports a variety of initiatives in a wide range of policy fields in the EU and across the globe, with the aim of promoting sustainable development for all.

([23]) The sustainable development goals (https://www.un.org/sustainabledevelopment/sustainable-development-goals/) are a roadmap for humanity encompassing almost every aspect of human and planetary well-being. They are a key tool to reboot the EU's growth strategy towards competitive sustainability, ensuring that the economy works for everyone and that growth is sustainable. To support the central role of the sustainable development goals in economic policymaking, and in particular in the European semester, Eurostat publishes an annual monitoring report (https://ec.europa.eu/eurostat/documents/3217494/11011074/KS-02-20-202-EN-N.pdf/334a8cfe-636a-bb8a-294a-73a052882f7f).

Examples of the EU budget's contribution to the agenda for sustainable development can be found below.

1 NO POVERTY

The **Asylum, Migration and Integration Fund** contributed EUR 7.5 million in 2020 to a call under Greece's national programme to subsidise the operation of semi-independent-living apartments for unaccompanied minors above 16 years old. The current call covers 500 accommodation places.

The EU and its 27 Member States significantly increased their official development assistance for partner countries to almost EUR 67 billion ([24]) in 2020. The EU and its Member States thereby consolidate their position as the world's leading donor, and have taken a major leap forward towards meeting the target they have committed to for 2030.

10 REDUCED INEQUALITIES

Under the implementation of the **European Globalisation Adjustment Fund**'s 'Microsoft 2' case in Finland between 2017 and 2019, EUR 3.5 million in funding from the European Globalisation Adjustment Fund was mobilised to finance measures offered to 883 dismissed workers in support of labour mobility and in cooperation with the European Job Mobility Portal services (i.e. foreign job advertisements and the exchange of experience in online meetings).

2 ZERO HUNGER

Approximately EUR 4.9 million was invested between 2014 and 2020 to support the testing and eradication of animal diseases such as brucellosis in local sheep, goat and cattle herds and the training of local veterinaries through the **Instrument of Financial Support for Encouraging the Economic Development of the Turkish Cypriot Community**.

11 SUSTAINABLE CITIES AND COMMUNITIES

The **Cohesion Fund** contributed approximately EUR 39 million to Poland's largest project for developing smart electricity distribution networks in seven Polish provinces. The project offers fewer network failures, increased security of supply and better quality of life for nearly 3 million inhabitants, and it is expected to reduce primary energy consumption by 1 054 gigajoules/year, resulting in savings of 98 megawatt hours/year.

3 GOOD HEALTH AND WELL-BEING

The **LIFE** programme has contributed EUR 10 million to the Polish integrated project Małopolska, which was launched in 2013 and aims to reduce fine particle pollution ([25]).

EU interventions for improved diets and breastfeeding, household resilience, food security, healthcare and the reduction of stunting reached almost 20 million women, adolescent girls and children in 2013-2019 under the **Development Cooperation Instrument**.

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

The LIFE material match making platform enabled waste reduction amounting to about 60 000 tonnes (a 10% reduction within the context of the project) from October 2016 to December 2019, through the systematic application of eco-design techniques to facilitate the recovery and reuse of parts that would previously have become waste.

4 QUALITY EDUCATION

In Belgium, thanks to **European Social Fund** support in the amount of approximately EUR 3.6 million, since 2015 the TechnoclTé Competence Centre has helped more than 9 000 people develop new skills in the fields of information and communications technology through qualifying and continuous training in one of the 20 courses organised in these fields. The project will run until the end of 2021.

13 CLIMATE ACTION

Under the **Connecting Europe Facility action**, a maximum contribution of approximately EUR 14 million was allocated to the 'AMBRA-Electrify Europe' action to support the deployment between 2018 and 2022 of 6 458 electrical supply points at 3 169 electric charging stations for electric vehicles on six trans-European transport network core network corridors in Spain, Italy and Romania.

([24]) This is a 15% increase in nominal terms and equivalent to 0.5% of the collective gross national income, up from 0.4% in 2019, according to preliminary figures published by the Organisation for Economic Co-operation and Development's Development Assistance Committee. The commitment for 2030 is 0.7%.

([25]) The reduction in fine particle emissions targeted by 2023 is about 25 000 kilograms per day for particles smaller than 2½ microns and 21 000 kilograms per day for particles smaller than 10 microns.

5 GENDER EQUALITY

The **Erasmus** Mundus master's degree in women's and gender studies was funded in 2019 with a total budget of EUR 4.5 million for the following 5 years. Its mission is to produce gender experts able to contribute to greater equality between men and women, and the consortium consists of six universities in four Member States and the United Kingdom.

6 CLEAN WATER AND SANITATION

In 2020, the **Copernicus** Land Monitoring Service systematically provided near-real-time information on global inland water bodies and their seasonal replenishment, lake and river water levels, temperature, turbidity and trophic state, including potential water availability from snow and ice cover.

7 AFFORDABLE AND CLEAN ENERGY

The **European Fund for Strategic Investments** helped provide renewable energy to approximately 14.5 million households and save over 7 150 gigawatt hours of energy per year.

8 DECENT WORK AND ECONOMIC GROWTH

The **European Regional Development Fund** contributed EUR 1.2 million to the 'house of digitalisation' project in Lower Austria. The project supported regional companies in strengthening their online trading opportunities in the midst of the COVID-19 crisis through the development of a mobile application allowing small enterprises to quickly and easily become involved in online retailing.

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

**Galileo**'s search-and-rescue service allows the time required to detect emergency distress beacons to be reduced to less than 10 minutes. As from 2020, a response is sent to the distress beacon in less than 15 minutes, acknowledging that the request has been received and that help is on the way, a unique new feature offered only by Galileo.

14 LIFE BELOW WATER

To date, the **European Maritime and Fisheries Fund** has funded nearly 15 000 projects on preserving the marine environment and ensuring better resource efficiency.

15 LIFE ON LAND

In the 2014-2020 period, the **common agricultural policy**'s rural development support planned for organic farming amounted to EUR 11.2 billion. Furthermore, the share of the EU's agricultural area used for organic farming increased from 5.9% in 2012 to 8.5% in 2019, corresponding to an increase from 9.46 to 13.79 million hectares.

16 PEACE, JUSTICE AND STRONG INSTITUTIONS

At the end of 2020, actions worth EUR 501 million to counter terrorism and prevent and counter violent extremism outside of the EU were ongoing. This represents an 8% increase compared to the previous year.

17 PARTNERSHIPS FOR THE GOALS

In 2014-2020, **creative Europe – MEDIA** supported 114 co-productions and 83 distribution deals between EU and developing-country partners.

## Promoting gender equality

The Commission's long-standing commitment to gender equality has been reaffirmed with the adoption of the 2020-2025 gender equality strategy ([26]), which states the Commission's strengthened commitment to achieving a Union of equality. The Commission has embedded gender mainstreaming into the strategy and has established gender equality and equal opportunities for all as cross-cutting objectives for all policy areas. The strategy sets out policy objectives and actions to achieve significant progress towards a gender-equal Europe by 2025.

([26]) https://europa.eu/!QR89gN

On 25 November 2020, the College of Commissioners adopted the joint communication on the gender action plan III (2021-2025) ([27]) to contribute to achieving a world of equality. In line with its commitment under the gender equality strategy, and as reaffirmed in the interinstitutional agreement accompanying the 2021-2027 multiannual financial framework, the Commission is working on developing a methodology to measure expenditure relating to gender equality in the 2021-2027 long-term budget, with a view to further reinforcing gender mainstreaming in the post-2020 programming period.

The following infographic presents examples of the EU budget's multifaceted contribution to the promotion of gender equality in the 2014-2020 programming period.

Under priority 6 of the **rural development policy**, the European Agricultural Fund for Rural Development supports the development of basic services in rural areas and for local initiatives. This helps to address the particular challenges that women may face in some rural areas and in the agricultural sector, such as the lack of good-quality basic services (e.g. childcare, broadband and transport).

The **programme for the competitiveness of enterprises and small and medium-sized enterprises** supports the WeGate platform, with more than 2 000 members, which creates a network where women entrepreneurs and would-be entrepreneurs can do business together and can benefit from services that can help their businesses grow, such as access to finance, mentoring and coaching, including on financial literacy.

The 'nidi gratis' ('free kindergarten') initiative in the Lombardy region of Italy, with a total budget of about EUR 70 million, was supported by the **European Social Fund** with the aim of reducing gender gaps in employment. So far, it has provided 30 000 low-income families with free access to kindergartens for their 0-3-year-old children.

Under the Horizon 2020 'science with and for society' work programme, over EUR 83 million has been allocated to more than 40 collaborative projects and other actions on gender equality in **research and innovation**, benefiting around 300 organisations.

The 'Police' strand of the **Internal Security Fund** supported the activities of the European Multidisciplinary Platform Against Criminal Threats, the results from which in 2019 in the field of trafficking in human beings included 825 arrests and 1 307 potential victims.

In 2019 and 2020, the Commission allocated approximately EUR 56 million to preventing and responding to sexual and gender-based violence and approximately EUR 45 million to reproductive health from its humanitarian health programmes.

With the support of the **Development Cooperation Instrument**, and in the light of the upsurge in domestic violence against women and children triggered by the COVID-19 crisis, in 2020 the EU–United Nations Spotlight initiative redirected over EUR 20 million to boost prevention and to increase support for victims and for women's grassroots organisations that provide essential services.

The **European Regional Development Fund** has provided EUR 573 000 to support the 'Gendered landscape – gender + equal + cities' project, which creates awareness among urban planners and decision-makers in seven EU cities about how gendered power structures are perpetuated in cities and how to use this knowledge to make their policies and services gender equal.

([27]) Joint communication to the European Parliament and the Council – EU gender action plan (GAP) III – an ambitious agenda for gender equality and women's empowerment in EU external action (JOIN(2020) 17) (https://ec.europa.eu/international-partnerships/system/files/join-2020-17-final_en.pdf).
For further information: https://ec.europa.eu/commission/presscorner/detail/en/IP_20_2184

# 1.2. Single market, innovation and digital

The EU budget contributes to research and innovation investment intended not only to keep the EU at the competitive edge of today's global markets, but also to strengthen its leadership in future. It provides research and innovation funding, including targeted support for small and medium-sized enterprises, which represent 99% of businesses in the EU. These programmes and initiatives also contribute to all the political priorities of the von der Leyen Commission, with an emphasis on the European Green Deal, a Europe fit for the digital age and an economy that works for people. **In the 2021-2027 long-term budget, the initiatives in this domain are grouped together under the heading 'Single market, innovation and digital'.**

## 1.2.1. Research and infrastructure investments support the European Green Deal

More than ever, the EU budget is a catalyst for the transformation of Europe into a climate-neutral continent by 2050. For that to happen, investment needs to be focused on the dual green and digital transitions, to sustain economic growth. Hence the importance of investing in research and innovation, through programmes like **Horizon 2020**. This programme aids the green transition and climate action by supporting research projects and helping energy-intensive industries reduce their carbon footprint. These activities are key to adapting to the circular economy ([28]), and to exploring new forms of sustainable consumption by reducing single-use plastics ([29]).

**S2S4E** is a Horizon 2020 project that is active across the EU ([30]) and contributes to developing a clean and resilient energy system. The project has developed a decision-support tool combining climate forecasts and key energy indicators, with the objective of making the energy sector more resilient to climate variability and change. The tool supports energy operators in optimising energy production from renewable sources and favouring the wider integration of renewable energy into the grid, and also contributes to decarbonising the energy system.

The green transition is a journey that includes many different areas, from improving transport infrastructure to finding new ways of creating energy. For advancing the latter, the EU's collaboration in the **ITER project**, which aims to demonstrate the feasibility of fusion as a sustainable energy source, is key. The manufacturing of the main components has begun and is progressing well, the construction of the main buildings has been completed and the assembly of the experimental device has commenced. In July 2020, the ITER Organization officially launched the assembly phase of the device's reactor, under the patronage of French President Emmanuel Macron. (Photo © ITER organization, http://www.iter.org/)

([28]) See Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions – A new circular economy action plan for a cleaner and more competitive Europe (COM(2020) 98).

([29]) Following the directive on single-use plastics, such products will be banned from 3 July 2021 (Directive (EU) 2019/904).

([30]) Twelve partner organisations are cooperating on this project, from France, Germany, Italy, Norway, Spain, Sweden and the United Kingdom.

The **Connecting Europe Facility** has funded projects for safer, smarter and greener transport infrastructure, such as better cross-border rail links, inland waterway transport infrastructure, improved urban infrastructure and multimodal logistics platforms, contributing more than EUR 2 billion in co-funding and triggering an overall investment of more than EUR 4.5 billion. Investment to boost the sustainability and security of energy supplies included EUR 800 million for priority infrastructure, EUR 750 million for projects with cross-border benefits and EUR 215 million for Baltic gas infrastructure connecting Denmark and Poland with Norway.

Furthermore, the European Union launched **Copernicus** Sentinel-6 ([31]), an Earth observation satellite, on 21 November 2020. It uses the latest radar technology to gather data on the topography of the oceans, including vital measurements on rising sea levels. These data are essential for climate science and policymaking and to protect the lives of millions of people at risk from a rise in sea levels. Copernicus currently has eight satellites in orbit, producing and providing high-quality, free and open observation data every day, followed by more than 400 000 registered users on the European data-access points.

The **Copernicus climate change service** works together with businesses across the globe to turn raw climate data into sector-specific information aimed at users within the field, such as businesses, researchers and policymakers. One of these projects is the **global biodiversity service**, which aims to support those working to preserve species, to protect the areas that are most climate sensitive, to increase the resilience of ecosystems and to reduce biodiversity loss around the world by providing the information needed to create plans to sustain ecosystems under present and future climate conditions.(Photo © ESA/ATG medialab)

## 1.2.2. The EU budget invests in Europe's digital future

The von der Leyen Commission presented an ambitious strategy in its digital package of 19 February 2020 ([32]). The **Connecting Europe Facility** deployed **digital service infrastructures** that ensure the cross-border interoperability of online services for citizens, businesses and public administrations in the EU. For instance, almost EUR 630 million has been invested in the EU-wide interoperability of specific digital services such as eHealth, public open data, electronic identification and cybersecurity. Another important building block of the EU's autonomous digital future is having the capability of processing vast amounts of data for a wide range of purposes and applications. The investments undertaken in 2020 for the acquisition of **high-performance computers** (amounting to EUR 158 million) via the European High-Performance Computing Joint Undertaking pave the way for this goal to be achieved in the near future.

Projects to build new capabilities in the areas of artificial intelligence and robotics, advanced computing, microelectronics, photonics, future internet, content technologies and cybersecurity were among the initiatives funded under **Horizon 2020**. The protection of consumers is also fundamental in shaping our digital future. Under the **rights, equality and citizenship** programme, the Commission supported an expert group that helped it analyse the safety and liability implications of artificial intelligence, the internet of things, robotics and other emerging digital technologies.

([31]) More information on the Sentinel-6 satellite is available online (http://www.esa.int/Applications/Observing_the_Earth/Copernicus/Sentinel-6).

([32]) European Commission, *Shaping Europe's Digital Future*, Publications Office of the European Union, Luxembourg, 2020 (https://ec.europa.eu/info/files/communication-shaping-europes-digital-future_en).This ambition was confirmed by the Council conclusions on shaping Europe's digital future, adopted on 9 June 2020 (https://www.consilium.europa.eu/media/44389/st08711-en20.pdf).

The Horizon 2020 project **cost-effective neural technique to alleviate urban flood risk** (33) developed a new approach to the real-time control of sewer networks to reduce local flood risks in urban areas. These projects support the digital transformation as a critical enabler in attaining the sustainability goals of the European Green Deal by contributing to the EU's climate ambition and the zero-pollution ambition, as well as mobilising industry for a clean and circular economy.

**Space technologies, data and services** can strengthen the EU's industrial base by supporting the development of innovative products and services, including the emergence of cutting-edge innovative technologies. To give just one example, Galileo, the satellite navigation component of the EU space programme, strengthened its presence on the market in 2020 by reaching more than 2 billion Galileo-enabled smartphones. With Galileo, the positioning information provided by mobile devices is more accurate and reliable, particularly in urban areas.

On 5 June 2020, the Commission launched the rapid action coronavirus Earth observation tool in collaboration with the European Space Agency. It uses satellite data to measure the impact of lockdowns and monitor post-lockdown recovery through 185 dashboard economic indicators.

## 1.2.3. The EU budget provides support to and promotes small businesses and entrepreneurs for an economy that works for people

Small businesses and entrepreneurs are among the strongest drivers of change in the EU economy. Even before the pandemic, the EU had created a set of investment tools to sustain long-term growth in the face of technological change and global competitiveness, in order to address societal challenges and improve innovation, upskilling and improvement of infrastructure, among other aims. Among these tools, **the European Fund for Strategic Investments** had mobilised EUR 547 billion as of December 2020, boosting the EU economy in a sustainable way. It has also contributed significantly to job creation and growth, contributing to the creation of more than 1.1 million jobs under the infrastructure and innovation window and helping to preserve more than 9 million more. Moreover, economic estimates suggest that by 2022, investment under the European Fund for Strategic Investments will increase gross domestic product by 1.9% and add 1.8 million jobs. In June 2020, the Commission set up the **European Innovation Council** as a pilot initiative under Horizon 2020. Its aim is to make direct equity and quasi-equity investments (between EUR 0.5 million and EUR 15 million) in the capital of start-ups and small and medium-sized enterprises. In this pilot phase, 36 such companies have already received funds from Horizon 2020 through the European Innovation Council (nearly EUR 166 million). By May 2020, the companies included in the European Innovation Council Accelerator portfolio had attracted over EUR 5.3 billion in private funding. Moreover, 66% of the companies supported saw an increase in their workforce of 108% over 2 years.

Small and medium-sized enterprises represent 99% of businesses in the EU. For them, the COVID-19 pandemic in 2020 brought to an abrupt halt or even reversed the gains made over the previous decade. Despite the necessary adjustments made, some specific projects showed a growth trend. This was possible due to the financial instruments of the **programme for the competitiveness of enterprises and small and medium-sized enterprises**. By 2020, the **Loan Guarantee Facility** had allowed more than 600 000 small and medium-sized enterprises to receive more than EUR 35 billion in financial support (34).

(33) For more information on the project, see: https://www.sheffield.ac.uk/centaur

(34) European Investment Fund, 'Competitiveness of Enterprises and SMEs – Loan Guarantee Facility – Implementation update', 2020

The **employment and social innovation programme** provided access to microfinance for vulnerable groups and microenterprises, and supported social entrepreneurship. Between 2014 and 2020, EUR 223 million was used in guarantees for loans providing support to 97 271 microenterprises, mobilising an amount of over EUR 1.2 billion in loans. Overall, the instrument is expected to unlock over EUR 4 billion in financing for microenterprises and social enterprises by the end of the borrowing period thanks to the 141 contracts under the programme's microfinance and social entrepreneurship axis.

Moreover, and due to the pandemic, EUR 714 million from the European Fund for Strategic Investments was redirected to the Loan Guarantee Facility, allowing the European Investment Fund to incentivise banks to provide liquidity to small and medium-sized enterprises affected by the COVID-19 crisis.

Supporting research is one of the key features of Horizon 2020, which through its **Marie Skłodowska-Curie actions** initiative contributed to excellent research, boosting jobs, growth and investment by equipping researchers with the necessary knowledge, skills and international and intersectoral exposure to fill the top positions of tomorrow, thus solving current and future societal challenges. In 2020, it funded 600 research projects relating to climate change. Since 2014, the programme has supported over 11 780 projects with an associated budget of around EUR 6.2 billion.

The EU pledged over EUR 1 billion from Horizon 2020 to tackle the pandemic, of which EUR 781 million has already been mobilised, including at least EUR 350 million to support COVID-19 vaccine development.

With the aim of contributing to the health industry, under the Horizon 2020 innovative medicine initiative eight large-scale projects on treatments and diagnostics have been selected, and a partnership with the pharmaceutical industry has been established (EUR 117 million).

(https://www.eif.org/what_we_do/guarantees/single_eu_debt_instrument/cosme-loan-facility-growth/implementation_status.pdf).

# 1.3. Cohesion, resilience and values

One important objective of the EU budget is to contribute to the creation of a cohesive and resilient European Union based on common values. This touches upon virtually all policy fields, from the environment and the green transition to digitalisation and innovation or socioeconomic cohesion. The programmes under this heading all support the continued convergence of EU Member States and regions, both through physical infrastructure and socioeconomic measures and by strengthening the EU's resilience against disruptive factors. These programmes work in concert to achieve a safe, prosperous and connected EU.

The budget contributed to **regional development and cohesion** through the European Regional Development Fund and the Cohesion Fund. Both aim at strengthening economic, social, digital and territorial cohesion in the EU, which are all important and visible expressions of solidarity in all Member States.

Based on core EU values, the budget **invests in people** to create and strengthen the EU's economic, social and territorial cohesion [35], for example through the European Social Fund, Erasmus+ and the Fund for European Aid to the Most Deprived. They work to improve life for EU citizens by providing training and employment opportunities, investing in the EU's young people and reducing inequalities.

**The EU budget also protects and builds resilience.** Numerous programmes address disasters and emergencies, including the COVID-19 health and economic crisis. rescEU works to prevent and respond to natural and human-made disasters, while the European Solidarity Corps brings help from young Europeans to those most in need. The EU has mounted an unprecedented response to alleviate the effects of the COVID-19 crisis through a multitude of operations.

**In the 2021-2027 long-term budget, these programmes are grouped together under the heading 'Cohesion, resilience and values'.** Most are implemented through shared management with the Member States. The performance framework is organised around a number of performance indicators agreed with the Member States and consolidated in July for the previous year. Therefore, 2020 data were not yet available at the time this report was adopted. The Cohesion Data Platform [36] provides up-to-date data on investment financing and achievements under the European Structural and Investment Funds.

Funding from the European Regional Development Fund, the Cohesion Fund and the European Social Fund has played a central role in mitigating the impact of the COVID-19 crisis. Exceptional flexibility was offered under the Coronavirus Response Investment Initiatives, allowing EUR 23.3 billion to be mobilised to date.

## 1.3.1. The EU budget builds a more connected and innovative Europe

Cohesion policy contributes to delivering the EU's key priorities, supporting a smarter and more connected Europe by enhancing mobility, along with innovative and smart economic and digital transformation. Neither physical nor digital connections can be seen separately in this regard, as both serve to bring EU citizens, goods, services and businesses together. A more connected Europe further serves as a stimulating ground for cutting-edge research, as innovation thrives from cooperation. Innovation is crucial to furthering the EU's digital and green transitions.

(35) In accordance with Article 174 of the Treaty on the Functioning of the European Union.
(36) https://cohesiondata.ec.europa.eu

## EU spending connects the European Union physically and digitally

Connecting the Member States through rail, road and waterways is vital to an integrated EU, enabling the further development of supported regions by increasing their participation in the internal market. At the same time, the cohesion policy is the largest EU source for modernising network infrastructure in Europe, with over EUR 67 billion allocated under the 2014-2020 programmes.

The European Regional Development Fund is also the main investment tool for the **digitalisation of industry and small and medium-sized enterprises, along with the public sector, and for rolling out broadband**. The cohesion policy furthermore helps to enhance access to, the use of and the quality of information and communications technology. By 2023, investment in the digital economy from the 2014-2020 programme should reach more than EUR 16 billion ([37]).

Within the framework of its own evaluation activities, the Commission published two staff working documents ([38]) in 2020 that present the *ex post* evaluation of major projects supported by the European Regional Development Fund and the Cohesion Fund between 2000 and 2013. The first focused on transport and the second on environmental infrastructure projects. These evaluations have confirmed the importance of EU support for these projects in achieving EU objectives.

With support from regional funds ([39]):

- 1 200 km of railway lines were reconstructed or upgraded;
- 4.6 million households obtained broadband access of at least 30 megabits per second.

The digital transformation strengthens the potential of businesses and can foster innovation. For the workforce, this is only possible if citizens are fully equipped with the skills they need to thrive in the competitive environment that stems from technological advancement. The European Social Fund investments help ensure inclusive and equitable high-quality education and promote lifelong learning opportunities for all, including upskilling in the digital sphere. Moreover, it also supports the digitalisation of public administrations to improve institutional capacity building and enable them to assist citizens swiftly and efficiently ([40]).

## Research support and economic transformation create an innovative EU

Improving access to research, establishing innovative small and medium-sized enterprises and creating a productive work environment for researchers are essential for the EU to maintain its position as a **leading**

([37]) Over EUR 3.5 billion of the investments flowing to the digital economy are channelled to e-government services and applications. EUR 3.8 billion are dedicated to investments in high-speed or very high-speed broadband. Other digital investments include information and communications technology services and applications for small and medium-sized enterprises, intelligent transport systems, e-inclusion, etc.

([38]) Commission staff working document – *Ex post* evaluation of major projects in transport financed by the European Regional Development Fund and the Cohesion Fund between 2000 and 2013 (SWD(2020) 41); Commission staff working document – *Ex post* evaluation of major projects in environment financed by the European Regional Development Fund and the Cohesion Fund between 2000 and 2013 (SWD(2020) 43).

([39]) These and all following figures in the boxes are cumulative achievements of 2014-2020 programmes up to the end of 2019.

([40]) The European Social Fund+ for the 2021-2027 period will incorporate three 2014-2020 programmes, namely the European Social Fund, the Fund for European Aid to the Most Deprived and the Employment and Social Innovation programme.

**centre of research and innovation**. Cohesion policy supports this, with the European Regional Development Fund being one of the main vehicles of research support from the EU budget, along with Horizon 2020. Through the cohesion programmes, EUR 62 billion has been allocated to strengthening research, technological development and innovation, to be invested by 2023.

- 8 200 researchers were employed in entities supported by the European Regional Development Fund.
- More than 34 000 companies were able to cooperate with research institutions thanks to regional funding.
- Roughly 17 500 new products were introduced to the market by enterprises supported by the European Regional Development Fund and the Cohesion Fund.

## 1.3.2. Cohesion spending is key to delivering the green transition

The **transition towards a sustainable future** is a key priority for the EU. A more sustainable future encompasses addressing climate change through both **climate change mitigation actions** (projects that address the underlying causes of climate change to slow it down or halt it) and **climate change adaptation actions** (projects that make the EU's economy and infrastructure resilient against the expected or actual impacts on the climate and enhance preparedness). It also includes investment in biodiversity, water, waste and other environmental priorities. The shift towards a low-carbon economy in all sectors must ensure that the transition is socially just and leaves no one behind.

The European Regional Development Fund and the Cohesion Fund are the important vehicles through which environmental investments are made. The accumulated delays from the beginning of the period, combined with the difficult situation in 2020, resulted in a delay in achieving the results. However, recent trends on the ground lead the Commission to remain confident that these programmes will make a strong contribution to the overall achievement of its green ambitions. The reskilling interventions under the European Social Fund supported citizens in mining regions to gain a greater variety of skills and so to fit for work in non-mining industries. In parallel, more businesses were structurally attracted to the coal-transition areas to diversify the spectrum of opportunities for the local population.

### EU funds support the 2050 climate-neutrality target and the just transition

Cohesion funds provide the main investment support for the EU's ambitious climate and energy policies under the European Green Deal, supporting regions and cities on their path to reach the targets of climate neutrality and circular economy by 2050 and contributing to a just transition, in line with the objectives of the EU's recovery plan.

Investments in climate action were set to represent EUR 51 billion ([41]) of the funding in the 2014-2020 period. Support for the renovation of buildings remains a key priority, in particular within the framework of the Commission communication on a renovation wave ([42]).

([41]) The main climate-related fields of intervention are energy-efficient renovation of public infrastructure (EUR 8.9 billion), adaptation to climate change and prevention of climate change-related risks (EUR 6.3 billion), clean urban transport infrastructure (EUR 5.1 billion), energy-efficient renovation of housing stock (EUR 4 billion), railways (EUR 2.9 billion) and cycle tracks and footpaths (EUR 2 billion).

([42]) Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions – A Renovation Wave for Europe - greening our buildings, creating jobs, improving lives (COM(2020) 662).

Cohesion policy has a particular role in **managing the transition towards climate neutrality**. While fighting climate change is a common endeavour, not all regions and Member States are starting from the same point. Cohesion policy fully recognises that there is often an inverse link between economic development and the challenges of climate-proofing the economy. Thus, the Cohesion Fund and the European Regional Development Fund are geared to support climate and environmental objectives in economically less-developed Member States and regions, respectively. The European Social Fund+ complements the efforts with support for reskilling, to enable a just transition to climate neutrality.

**Climate change adaptation** measures ([43]) are essential to enhance preparedness and resilience, and to protect EU citizens against the adverse effects caused by climate-driven extreme weather events, which are likely to intensify even if global warming is kept within the 1.5 °C target.

- 2.8 million tonnes of carbon dioxide equivalent and 1 200 gigawatt hours per year of annual primary energy consumption by public buildings were saved as a result of European Regional Development Fund and Cohesion Fund investment.
- An increase in additional renewable-energy production capacity of over 2 000 megawatt hours was achieved thanks to regional funding.
- Almost 7.5 million people benefit from flood protection measures and almost 15.3 million people from forest-fire protection measures through regional funding.
- The European Social Fund supported reskilling of citizens in mining regions. In parallel, more businesses were structurally attracted to the coal-transition areas to diversify the spectrum of opportunities for the local population. These were possible through, for example, the Kooperative Ausbildung an Kohlestandorten, a programme from the Land of North-Rhine Westphalia co-financed by European Social Fund with EUR 7.7 million, which supported 1 300 participants between 2014 and 2020.

## The EU promotes a green, sustainable environment and protects biodiversity

In addition to climate measures, cohesion-policy investments through the European Regional Development Fund and the Cohesion Fund also support the EU's **nature and biodiversity policies**, for instance by strengthening the Natura 2000 network of protected areas and restoring natural ecosystems. Such investments also contribute to EU objectives in the fields of water quality, air quality and climate change adaptation, which in turn are important for regional development.

At the same time, the cohesion policy ensures that EU citizens have access to clean water and waste recycling, ensuring a healthy living environment across all EU Member States.

Through funding from the 2014-2020 European Regional Development Fund and Cohesion Fund:

- 1.2 million tonnes/year of additional waste recycling capacity has been installed;
- nearly 2.5 million additional people have been provided with an improved water supply;
- more than 1 700 hectares of land have been rehabilitated and nearly 6 million hectares of habitats have achieved better conservation status.

([43]) Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions – Forging a climate-resilient Europe – The new EU strategy on adaptation to climate change (COM(2021) 82).

## 1.3.3. Building an economy that works for people

Beyond infrastructure, it is people that bring the EU together, economically and through shared experiences and values. Both social and economic exchanges encountered particularly difficult challenges during the COVID-19 crisis and EU-wide lockdowns, with citizens unable to cross borders and businesses unable to reach customers. This made it all the more important to support small and medium-sized enterprises in alleviating the economic effects, maintaining competitiveness and finding novel ways to deliver training, networking and contact opportunities to people in the EU.

### Support for small and medium-sized enterprises is a key focus

The European Regional Development Fund has supported investment in over 613 000 small and medium-sized enterprises, which has helped to create an additional 185 000 jobs and has made an important contribution to economic growth. By the end of 2019, i.e. prior to the COVID-19 outbreak, the forecast rate of job creation, based on the selected projects, had reached 94% of the overall expectations for total job creation by the end of 2023. This demonstrates the strong support that the EU budget was able to deliver, even in times of crisis. It is as yet unclear, however, how the shock of the pandemic will affect the achievements of targets for job creation. Over EUR 57 billion will be invested in improving the business environment and entrepreneurship from the 2014-2020 programmes.

- More than 310 000 small and medium-sized enterprises received non-financial support.
- Approximately 88 000 new small and medium-sized enterprises were supported.
- Private investment of almost EUR 11.5 billion in grants and EUR 2.6 billion in non-grants was leveraged with the help of regional funding.

### The EU invests in people

The EU budget also invests directly in people and institutions. It supports the continued professional development of the European workforce, keeping it competitive through training. It also helps ensure that jobs are created in numerous fields and that EU citizens have the opportunity to earn a sufficient livelihood. Since young people represent the future of the European Union, it is of the utmost importance for the EU to ensure that there are opportunities for them, to create jobs and to promote the EU's values.

In particular, the **European Social Fund** had helped 36.4 million people through various projects from 2014 to 2019. Of these, 4.5 million people had found a job and 5.5 million had gained a qualification as a result of EU intervention. This included 2.5 million persons with disabilities as well as 5.6 million migrants and participants with foreign background and 6.5 million disadvantaged people.

The specific **Youth Employment Initiative** supports young people living in regions with particularly high youth unemployment. By the end of 2019, nearly EUR 6 billion was paid to Member States and 3 million young people were in education and training as a result of the support.

More widely, the **Youth Guarantee, reinforced in 2020,** provides the EU's policy framework in the fight against youth unemployment. Since 2014, it has ensured that more than 31 million young people (44) have taken up an offer of employment, education, training or apprenticeship.

(45) Commission staff working document – Evaluation of the ESF and YEI support to youth employment (SWD(2020) 216).

The 2020 Commission evaluation (45) of the European Social Fund and the Youth Employment Initiative found that EU support has provided clear benefits, as it has increased the number and range of young people receiving support and raised the profile of youth employment issues across the EU. Both are the most prominent spending channels supporting the implementation of the European Pillar of Social Rights (46).

In particular, the **European Social Fund** had helped 36.4 million people through various projects by the end of 2019. Of these, 4.5 million people had found a job and 5.5 million had gained a qualification as a result of EU intervention. Nearly EUR 6 billion has been paid to the Member States from the **Youth Employment Initiative** to support young people living in regions with particularly high youth unemployment. By the end of 2019, 3 million (47) young people along with a further 1.8 million people were in education and training as a result of the support received from both the European Social Fund and the Youth Employment initiative (48). Both are the most prominent spending channels supporting the implementation of the European Pillar of Social Rights (49) and cover a wide range of participants by targeting all people in need. From this perspective, by the end of 2019, 2.5 million persons with disabilities benefitted from support as well as 5.6 million migrants and participants with foreign background and 6.5 million disadvantaged people.

The 2020 Commission evaluation (50) of the European Social Fund and the Youth Employment Initiative found that EU support has provided clear benefits, as it has increased the number and range of young people receiving support and raised the profile of youth employment issues across the EU.

**Erasmus+** offers opportunities for learners and staff of all ages to study, train and volunteer within Europe and beyond. In 2020, almost EUR 3 billion from the EU budget was spent on education through this programme (+ 4% compared to 2019). Due to the COVID-19 crisis, Erasmus+ encountered formidable challenges in sending people abroad. While this resulted in almost 30% fewer people going abroad, in 2020 Erasmus+ still provided nearly 700 000 people with the opportunity to experience life differently, in higher education, in vocational training and through various other exchange possibilities. The sometimes life-changing effects of these experiences are making an important contribution to improving employment prospects (51) and promoting the idea of EU citizenship. Over its more than 30 years of existence, Erasmus+ has increased its scope, involving more and more citizens and leading to a total of more than 10 million mobility periods since 1987.

(45) Commission staff working document – Evaluation of the ESF and YEI support to youth employment (SWD(2020) 216).

(46) https://ec.europa.eu/info/strategy/priorities-2019-2024/economy-works-people/jobs-growth-and-investment/european-pillar-social-rights_en

(47) Communication from the Commission to the European parliament, the Council, the European Economic and Social Committee and the Committee of the Regions – Youth employment support: a bridge to jobs for the next generation (COM(2020) 276).

(48) Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions – Youth employment support: A bridge to jobs for the next generation (COM/2020) 276) (https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX:52020DC0276).

(49) https://ec.europa.eu/info/strategy/priorities-2019-2024/economy-works-people/jobs-growth-and-investment/european-pillar-social-rights_en

(50) Commission staff working document – Evaluation of the ESF and YEI support to youth employment (SWD(2020) 216).

(51) European Commission, *The Erasmus Impact Study – Effects of mobility on the skills and employability of students and the internationalisation of higher education institutions* (https://ec.europa.eu/assets/eac/education/library/study/2014/erasmus-impact-summary_en.pdf).

To respond to the outbreak of the COVID-19 pandemic, the maximum possible flexibility and support measures within the applicable legal framework were activated for Erasmus+ to allow participants and beneficiary organisations to adapt to the extraordinary circumstances. The programme has proved its resilience and adaptability to a unique and unprecedented context. The number of projects submitted showed only a very minor decrease.

Support and co-financing for the **Erasmus for young entrepreneurs programme** gave 1 300 newly established and aspiring entrepreneurs the opportunity to train with an experienced person running a small or medium-sized enterprise in another country.

The **European Solidarity Corps** created opportunities to volunteer or work for a large variety of projects at home or abroad, with funding of EUR 170 million (+ 16% compared to 2019). These projects span a wide range of domains, such as education and training, citizenship and democratic participation, the environment and natural protection, migration and culture.

The **Fund for European Aid to the Most Deprived** is providing much needed food and basic material assistance to the most vulnerable of our society. It reaches on average 12.5 million people every year. The food and basic goods support is complemented by accompanying measures providing guidance and advice aiming at the social inclusion of the most deprived people. In 2019, an estimated 12.2 million people benefited from food assistance (345 000 tonnes of food were distributed), over 800 000 people received material assistance, and 30 000 benefited from social inclusion support.

The cultural and creative sectors were among the hardest hit by the COVID-19 pandemic crisis in 2020. Due to this external shock, adaptations were essential and flexible measures were introduced, such as switching in-person project activities to an online format. The media subprogramme also provided additional support for Europa Cinemas members suffering from forced closures (with a total of EUR 16 million). Nonetheless, the COVID-19-related restrictions meant that the subprogramme underperformed in relation to some indicators, in particular in terms of the size of in-person audiences at events.

### 1.3.4. The EU budget protects the livelihoods of EU citizens

Bringing the EU closer together on the basis of its shared values includes improved protection. Here, the EU is continuing to show solidarity within its borders by coordinating and financing disaster-relief efforts. Disasters have affected every region of the EU in recent years, causing hundreds of casualties and billions of euro in damage. Epidemics, flash floods, storms, forest fires, earthquakes and human-made disasters are continually putting Member States' response capabilities under pressure. Additionally, security concerns have intensified and climate change is expected to worsen the impact of disasters in the future.

As an additional safety net, the European Commission created a strategic rescEU medical reserve and distribution mechanism under the umbrella of the **EU Civil Protection Mechanism**. The reserve enables the swift delivery of medical equipment such as ventilators and personal protective equipment. The stockpile, currently hosted by nine EU Member States (Belgium, Denmark, Germany, Greece, Hungary, the Netherlands, Romania, Slovenia and Sweden), allows the EU to react to health crises more quickly. Over 3 million items of personal protective equipment were distributed to the countries that needed them most. More medical and personal protective equipment is constantly being acquired to replenish the rescEU reserve.

Under the scope of rescEU, the following activities were carried out.

- 3.8 million items of personal protective equipment were provided to health services (e.g. 2 million masks and 1.4 million gloves).
- Denmark, responding to Slovakia's request for medical staff to help treat COVID-19 patients, offered to send three doctors and five nurses via the EU Civil Protection Mechanism. Belgium offered to deploy a doctor, two nurses and a team leader to Slovakia. There were 45 activations of the Civil Protection Mechanism inside the EU in 2020, with a 100% response rate.
- For the 2020 forest-fire season, the European Commission co-financed the standby availability of a rescEU **firefighting fleet** to address potential shortcomings in Member States' responses to forest fires. The 2020 fleet was composed of a total of 17 aircraft (eight Canadairs, one De Havilland Canada DHC-8, two Air Tractors and six helicopters).

The **fight against online disinformation** is essential for protecting our democracies and societies. For this reason, in addition to policy initiatives, last year the Commission provided funding (EUR 2.5 million) for the creation of the European Digital Media Observatory, whose purpose is to support the work of multidisciplinary communities composed of fact checkers, academic researchers and media literacy professionals.

The EU also protects against the worst forms of poverty. The **Fund for European Aid to the Most Deprived** effectively provides much-needed food and basic material assistance to an average of 12.5 million people every year. The food and basic goods are complemented by measures providing guidance and advice aiming to ensure the social inclusion of the most deprived people.

# 1.4. Natural resources and environment

The EU budget aims to safeguard natural resources, protect the environment and fight climate change. It is a crucial factor in implementing the green transition, improving food safety and quality, supporting jobs and tackling rural challenges, including in the light of the COVID-19 crisis. It does so via multiple funds, including the European Agricultural Guarantee Fund, the European Agricultural Fund for Rural Development, the European Maritime and Fisheries Fund and fisheries agreements, and the LIFE programme. The budget allocated to the programmes in this area amounted to almost EUR 60 billion in 2020, representing 35% of total annual budget expenditure. **In the 2021-2027 long-term budget, the initiatives in this area are grouped together under the heading 'Natural resources and environment'.**

## 1.4.1. The EU budget supports sustainable agriculture and fisheries, protects natural resources, fights climate change and preserves biodiversity

Various aspects need to be addressed for the greening of the agricultural sector, such as reducing greenhouse gas emissions, transitioning to sustainable agriculture and preserving biodiversity. The EU budget supports and promotes these changes, mainly through the European Agricultural Guarantee Fund and the European Agricultural Fund for Rural Development, but also with the LIFE programme.

The European Agricultural Guarantee Fund supports farm income through **direct payments**, 30% of which are linked to farmers' three agricultural practices that benefit the environment: crop diversification, the maintenance of permanent grassland and the preservation of ecological areas on farms.

The total share of the EU's agricultural area covered by practices beneficial for the environment increased from 75% in 2015 to 79% in 2019, and the area under organic farming increased from 8.0% in 2018 to 8.5% in 2019. However, a number of measures linked to farmland biodiversity did not show the desired impact, as was also found by the European Court of Auditors ([52]), which furthermore raised concerns about the protection of wild pollinators ([53]). Moreover, the reduction in greenhouse gas emissions from EU agriculture, whether from livestock or soil management, has stagnated in recent years, and has even reversed in some Member States.

The farm-to-fork and the biodiversity strategies, adopted in 2020, aim to ensure a transition to sustainable agriculture by, inter alia, setting a number of targets for 2030, and to strengthen the contribution of the common agricultural policy to tackling the climate crisis, protect the environment and preserve biodiversity. The future national strategic plans should translate this ambition into concrete actions, in line with the recommendations issued in December 2020. Important challenges remain, notably in terms of the environmental impact of the common agricultural policy, of climate change mitigation and adaptation, and of meeting the 2030 targets.

Two external evaluation support studies, published in March 2020, assessed the impact of the common agricultural policy on habitats, landscape and biodiversity, and on water. The study on biodiversity concluded that the presence of the common agricultural policy has raised Member States' ambitions in addressing biodiversity objectives as well as the level of funding. However, the policy's contribution and benefits are highly dependent on Member States' implementation choices and priorities. The study on water found the common agricultural policy framework to be effective in maintaining minimum practices that are beneficial for water quality. Again, the implementation choices by Member States are a determining factor, with only a few measures actually supporting operations directly targeting water quality and quantity issues. The absence

([52]) European Court of Auditors, *Special Report 13/2020 – Biodiversity on farmland: CAP contribution has not halted the decline*.

([53]) European Court of Auditors, *Special Report 15/2020 – Protection of wild pollinators in the EU: Commission initiatives have not borne fruit*.

of suitable monitoring data was identified as a limitation in both studies. The two studies, along with a third evaluation support study on soil (published in February 2021) form the basis of a Commission evaluation staff working document that is expected to be published in the second half of 2021.

Concerning **rural development**, the European Agricultural Fund for Rural Development supports the transition to green and sustainable production. At the end of 2019, the fund had, for example, already reached its targets set for 2023 under its objective of restoring, preserving and enhancing ecosystems relating to agriculture and forestry, notably by supporting land-management practices that are beneficial for biodiversity, water and soil. Climate action is also directly addressed by the fund, although with fewer means, notably through investment in renewable energy or areas under management contracts to reduce greenhouse gas emissions. In 2020, compensation for the costs or income forgone of implementing practices beneficial for the environment and the climate allowed farmers to stay in the market and to continue delivering public goods.

The LIFE programme addresses the green transition through focused actions relating to the protection of nature and biodiversity, climate action, awareness raising and supporting the implementation and enforcement of environmental and climate legislation and policies. This includes actions that contribute to the transition towards sustainable food systems along the whole food value chain, seek to protect, reduce negative impacts on, preserve and improve the quality of water, air, and soil and contribute to the protection of biodiversity, as well as encourage environmentally friendly agricultural practices for the protection of threatened species, land, forests and water, and promote sustainable nutrient management in agriculture. The LIFE programme also seeks to improve resource efficiency and supports climate change mitigation and adaptation actions. LIFE has for example increased resilience to the climate crisis for at least 650 000 people by adopting new processes and technologies developed to counter extreme weather events.

The common fisheries policy also puts a strong emphasis on greening fishing practices. As an example, in 2020, further progress was achieved towards more sustainable fisheries: in the North-East Atlantic, stocks are broadly fished at healthy levels, although some challenges remain; in the Mediterranean and the Black Sea, some stocks saw slight recovery, but many remain overexploited, and therefore emphasis was put on action to address this situation. Finally, in the EU, 20% of fishing gear is lost at sea and is the source of a third of the marine litter found in European seas. To address this situation, standardisation authorities will have to address requests for the circular design of fishing gear. The major challenges relating to achieving good environmental/conservation status are linked to implementation gaps and a lack of ambition and resources ([54]).

- 79% of the EU's total agricultural area was subject to at least one greening obligation under the common agricultural policy by 2019.
- Via the European Maritime and Fisheries Fund, 5 000 operations relating to the better management of the Natura 2000 network and other marine protected areas had been supported by the end of 2019, along with 8 445 projects addressing the environment and resource efficiency.
- Under the LIFE programme for 2014-2020, 1.7 million hectares of natural and semi-natural habitats are being improved or maintained, and action is ongoing to improve conditions for 247 wildlife species.

([54]) Report from the Commission to the European Parliament and the Council on the implementation of the marine strategy framework directive (Directive 2008/56/EC) (COM(2020) 259); Commission staff working document – Fitness check of the EU nature legislation (birds and habitats directives) – Directive 2009/147/EC of the European Parliament and of the Council of 30 November 2009 on the conservation of wild birds and Council Directive 92/43/EEC of 21 May 1992 on the conservation of natural habitats and of wild fauna and flora (SWD(2016) 472).

- LIFE Diademe developed a new adaptive street-lighting system integrating sensors for noise, traffic and air quality ([55]). The project successfully reduced the greenhouse gas emissions and energy consumption of cities, generating significant economic savings. The system is now used in Rome, Piacenza and Rimini, and is ready to be commercialised on the market.

## 1.4.2. EU action helps achieve better food safety and quality for all EU citizens

Ensuring sustainability in agriculture yields positive effects for EU citizens: both the European Agricultural Guarantee Fund and European Agricultural Fund for Rural Development are key to ensuring viable food production, food safety and security. The EU school fruit, vegetables and milk scheme reached over 19 million children in the 2018/2019 school year, and several educational measures were funded, including tasting classes and visits to farms.

Sustainability, food safety and quality are also addressed in the fishing sector, notably through the promotion of aquaculture. Having already exceeded in 2016 the production target level set for 2020, aquaculture is a strong and growing sector in the EU that will continue to play a key role in the future in providing sustainable food that is safe, nutritious and of high quality. In practice, close to half of the budget of the European Maritime and Fisheries Fund that was allocated to innovation related to aquaculture, supporting the move to more efficient systems with less impact and better-quality produce.

An interim evaluation of the direct management component of the European Maritime and Fisheries Fund was published in October 2020. The evaluation concluded that this part of the fund is relevant in meeting the objectives of the EU's maritime and fisheries policies. It is effective and efficient in that the results could not have been achieved at a lower cost and would not have happened without EU financial support. Nevertheless, beneficiaries of grants and contracts did report that some of the procedures were administratively heavy. Additionally, there is a need for key performance indicators to help demonstrate the results and impacts in a more structured way.

Finally, the **international ocean governance** agenda saw further progress in 2020. Challenges and solutions for better ocean governance were discussed in the EU Stakeholder Forum for International Ocean Governance. A negotiation mandate adopted in 2020 provided the starting point for the EU's efforts to reach an agreement that would prevent unregulated high-seas fisheries in the central Arctic Ocean. The EU, through regional fisheries management organisations, further promoted the sustainable management of stocks, supported by scientific advice, compliance actions and the fight against illegal fishing.

## 1.4.3. The EU provides essential support to farmers and coastal communities and helps face challenges in rural areas

The EU budget provides valuable support, which is fundamental for the development of the EU's rural areas, to millions of beneficiaries in the agricultural sector ([56]).

([55]) https://www.diademe.it/en/

([56]) There were approximately 6.2 million beneficiaries of direct support schemes, around 3.5 million beneficiaries of rural development measures and some 0.10 million beneficiaries of market measures in the 2020 financial year. The number of direct support beneficiaries has dropped from 6.5 million in the last couple of years, mainly due to structural adjustments in the European agricultural sector. In the fishing and costal community sectors, at least 100 000 fishers had been supported by the European Maritime and Fisheries Fund by the end of 2019, and 15 000 jobs had been created or maintained through sustainable fisheries partnership agreements.

A system of schemes and interventions is implemented to attract young people to agriculture and facilitate business development in rural areas – such as by developing local processing capabilities. The share of agricultural holdings with support for business development / investments for young farmers has increased significantly over the last few years. While common agricultural policy measures on generational renewal have had a positive impact on attracting young people to rural areas and improving employment, it remains difficult to isolate the effects of individual measures due to the strong influence of external factors, including difficulties with access to land and capital that depend mostly on national legal, social and fiscal policies.

In addition to the agricultural sector, the European Agricultural Fund for Rural Development also creates tens of thousands of jobs via its projects, with the objective of addressing social inclusion and poverty reduction. This is part of the fund's objective to support wider challenges in rural areas. Through its various initiatives, according to targets aggregated from the 2014-2020 rural development programmes, during this period the common agricultural policy helped 17 million people living in rural areas benefit from improved access to information and communication technology services and infrastructure. A long-term vision for rural areas, to address the multiple challenges they face (from demographic change to connectivity, the risk of poverty and limited access to services), is currently under preparation. A large consultation with several different streams has already taken place, designed to pay particular attention to people living in rural areas as well as local and regional authorities. It will be combined with the evaluation of the common agricultural policy in terms of its impact on territorial development and with a forward-looking exercise. The vision aims to address challenges and concerns by building on the emerging opportunities of the EU's green and digital transition and by identifying means to improve rural quality of life, ensuring coherence, consistency and complementarities between policies to benefit rural areas and communities. It will also contribute to future-proofing of the agricultural system and help boost its resilience, by looking at the capacities of the sector and making the most of any opportunities.

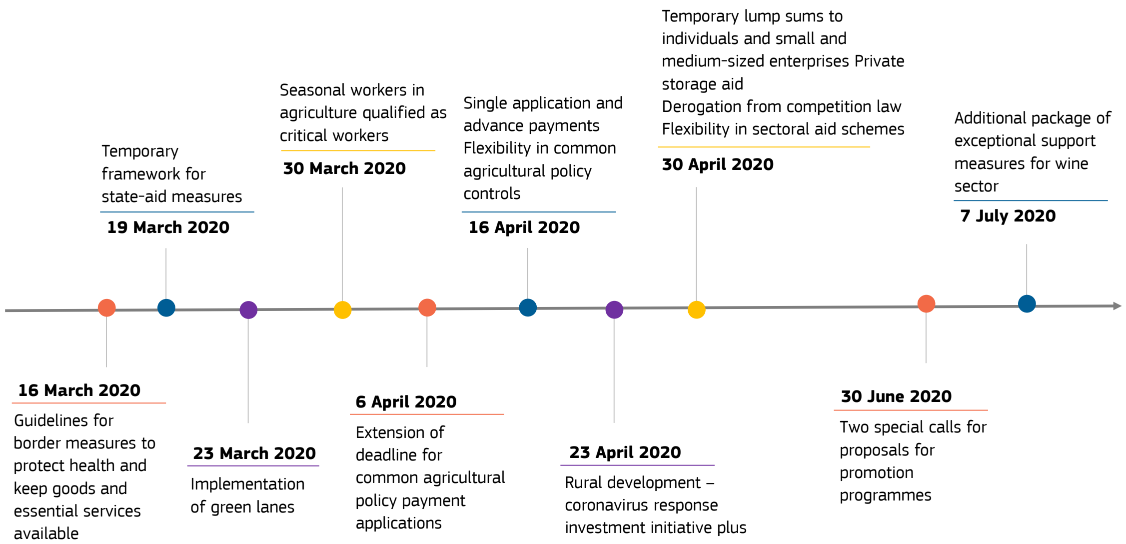
Multiple facets of the coastal communities received support through the European Maritime and Fisheries Fund. At the end of 2019, the fund supported nearly 15% of the active fishing fleet, along with more than 4 000 vessels in small-scale coastal fisheries. The fund also addresses the challenges facing the outermost regions, notably to ensure that fishing and aquaculture products produced in those regions benefit from a level playing field.

- 6.2 million farmers benefited from direct payments in the 2020 financial year, and 500 000 farmers benefited from the young farmers scheme.
- As part of the European Agricultural Fund for Rural Development, 1.5 million beneficiaries had received vocational training in agriculture by the end of 2019 – with the goal of reaching 3.6 million beneficiaries by 2023.

### 1.4.4. EU action helped farmers and coastal communities to mitigate the challenges posed by the COVID-19 pandemic

In 2020, both the agricultural and fisheries funds proved agile when it came to addressing the issues faced due to the COVID-19 crisis. In the agricultural sector, several measures on simplification and greater flexibility were put in place to prevent negative consequences.

Examples of concrete measures taken in 2020 to support the common agricultural policy in addressing the COVID-19 crisis.




In response to the COVID-19 pandemic, **market measures** provided the necessary support to make farm income viable and to enhance food security. The EU budget financed private storage aid for dairy and meat products to stabilise the markets by temporarily reducing the available supply. The temporary easing of competition rules through a COVID-19-specific State-aid framework helped further address the severe market imbalance, and thus helped farmers and their associations in hard-hit sectors (e.g. milk, potatoes, flowers, wine). Exceptional market measures allowed more flexibility in market-support programmes (e.g. fruits, vegetables, olives and olive oil, apiculture, wine). Flexibility was also provided in the EU school fruit, vegetables and milk scheme, due to school closures, as well as in the management of trade. Rural development programmes were allowed more flexibility, and rules were simplified to provide exceptional temporary support under the European Agricultural Fund for Rural Development.

Fisheries and aquaculture were also among the sectors most immediately affected by the disruption caused by the COVID-19 outbreak. A first package of support measures was adopted in March 2020 under the coronavirus response investment initiative while the temporary easing of competition rules through the COVID-19-specific State-aid framework helped to ensure that sufficient liquidity remained available in the market.

A special 'Adapting to COVID-19 Award' went to Italy's LIFE Prepair project for its work during the COVID-19 crisis. This project tackles air pollution caused by traffic, domestic heating, industry and energy production.

# 1.5. Migration and border management

In 2020, more than EUR 1.7 billion ([57]) was dedicated to migration and border management through the **Asylum, Migration and Integration Fund**, the **Internal Security Fund** and the **four agencies** established in the area of migration and home affairs: the European Asylum Support Office, the European Border and Coast Guard Agency, the European Union Agency for Law Enforcement Cooperation and the European Union Agency for the Operational Management of Large-Scale IT Systems in the Area of Freedom, Security and Justice. **In the 2021-2027 long-term budget, the initiatives in this area are grouped together under the heading 'Migration and border management'.**

## 1.5.1. The EU budget supports solidarity between the Member States in addressing migration challenges and protecting people in need

### Supporting solidarity between Member States

- 32 256 asylum seekers and beneficiaries **transferred from one Member State** to another with the support of the Asylum, Migration and Integration Fund during the 2014-2020 period.

Despite the relatively small size of the funds involved in comparison with the significant challenges, the main benefit of action at the EU level arises from the benefits of burden sharing. Member States that were under greater migration pressure received support to improve their asylum systems and reception capacities, and were provided with urgent and strategic operational support, ensuring the fair sharing of responsibilities. By the end of January 2021, the total amount of emergency assistance provided since 2014 had reached over EUR 2.4 billion ([58]), allowing several Member States, including Greece, Spain and Italy, to save lives at sea, to improve reception facilities for arriving migrants, to provide basic healthcare and to protect vulnerable groups. The role of the emergency assistance tool under the 2021-2027 multiannual financial framework will remain critical in addressing unforeseen events linked to the volatile migration situation.

As the arrival of migrants continues across the Mediterranean, voluntary solidarity in the shorter term, through the relocation of asylum seekers and beneficiaries from one Member State to another, can help build confidence among Member States. Since 2019, the Commission has been coordinating the voluntary relocation of asylum applicants disembarked in Italy and Malta after rescue operations in the central Mediterranean to other Member States that are voluntarily showing solidarity. In March 2020, voluntary relocation also began in Greece, from where 2 213 of the most vulnerable applicants have already been relocated.

([57]) This amount consists of the budget in commitment appropriations in 2020 to the following funds: EUR 1 389 million for the Asylum, Migration and Integration Fund and EUR 323 million for the Internal Security Fund – Borders and Visa.

([58]) This amount consists of EUR 2 029 million allocated via the Asylum, Migration and Integration Fund and EUR 414 million allocated via the Internal Security Fund – Borders.

## Strengthening the common asylum system and providing help to people in need

- 2 442 140 asylum seekers were provided with **assistance** in 2014-2020 with the support of the Asylum, Migration and Integration Fund.
- 6 924 718 non-EU nationals received **help with integration** in 2014-2020. This included language and civic-orientation training; preparatory action to facilitate access to the labour market; and capacity building.

During 2020, people continued to flee persecution in their home countries in search of a better life. With the support of the EU budget, Member States assisted more than 2 million asylum seekers between 2014 and 2020. Special attention was paid to the most vulnerable, particularly unaccompanied minors.

In 2020, following the fires that destroyed the Moria Reception and Identification Centre on Lesbos in September, the Commission financed the transfer of 406 unaccompanied minors from Moria to the mainland, and also moved unaccompanied children on other islands to safety. The Commission provided emergency-assistance contracts worth EUR 121 million for the construction of three new centres on the islands of Samos, Kos and Leros. In addition, and in full agreement with the Greek authorities, the Commission set up a task force to support migration management in Greece in a sustainable way, which is implementing a joint pilot project for a new reception facility on Lesbos.

## New pact on migration and asylum, setting out a fairer, more European approach to managing migration and asylum

To respond to the need for the structural reform of EU migration policy, and build on the progress made in this field since 2016, the Commission put forward a new pact on migration and asylum and a number of legislative proposals, which were adopted by the Commission in September 2020. The initiative covers all of the elements needed for a comprehensive EU approach to migration management based on solidarity and the fair sharing of responsibility.

## 1.5.2. The EU budget supports strong external borders

The Commission worked in 2020 to ensure strong external borders and the harmonised implementation of the common visa policy, which will allow for a fully functioning Schengen area, a key driver of our prosperity, security and freedoms.

## Strengthening border management

- By the end of 2020, 33 516 items of **border-control infrastructure and means for checks and surveillance** had been developed or upgraded with the support of the Internal Security Fund for border management.
- There were 209 178 **hits in the Schengen information systems** in 2020.

The European Union has invested considerably in the effective control of the external borders through the various information systems ([59]) at the EU level and their interoperability, providing border guards and police officers with access to up-to-date information. The Internal Security Fund has also contributed to strengthening Member State authorities' border management capacities, which act as the national components of the European Border and Coast Guard, mainly by funding their technical capabilities and infrastructure. Preparatory work was also ongoing during 2020 on the deployment of the first teams of the European Border and Coast Guard standing corps in 2021. In addition, the Commission prepared the secondary legislation necessary to enable the European Union Agency for the Operational Management of Large-Scale IT Systems in the Area of Freedom, Security and Justice to begin designing and developing the new information systems and their interoperability.

Interinstitutional negotiations on the reform of the visa information system were successfully concluded with the support of the Commission. Together with the entry/exit system and the European travel information and authorisation system, the reformed visa information system will strengthen border management and security within the Schengen area.

## Reducing the incentives for migrants to arrive irregularly and providing legal pathways

With the support of Commission activities and EU funding, including in the context of the COVID-19 crisis, the total number of irregular border crossings that were detected decreased further in 2020 to 125 000, compared to 142 000 in 2019.

The root causes of migration, including local conflicts, poverty and inequalities exacerbated due to the COVID-19 crisis and climate change ([60]), will remain. The Commission is working closely with non-EU countries to address irregular migration. Under the EU Emergency Trust Fund for stability and addressing root causes of irregular migration and displaced persons in Africa, financial support provided to Morocco helped reduce the number of irregular migrants on the western Mediterranean route. Information campaigns in non-EU countries were also funded to provide information on the risks of irregular migration and the smuggling of migrants.

- 77 463 people were resettled in 2014-2020 with the support of the Asylum, Migration and Integration Fund, including 14 812 in 2020 despite the disruption caused by the COVID-19 pandemic.

Coordinated resettlement efforts, providing a safe and legal way to reach the EU to people in need of international protection, have increased continually since 2015. The new pact on migration and asylum, published on 23 September 2020, confirmed the importance of providing safe legal pathways, and the focus in recent years has increasingly been on legal migration and integration addressing various target groups, along with establishing legal pathways at the EU level, complementing and developing Member States' efforts. Almost EUR 1 billion was allocated for resettlement in the 2014-2020 programming period.

The Commission put in place a new ad hoc resettlement scheme for 2020-2021 with a target of 20 000 people, to which the Member States collectively pledged almost 30 000 resettlement places. This confirms the Member States' commitment to resettlement and their resolve to scale up safe and legal pathways to protection in the EU. The collective EU pledge for 2020 represents almost 50% of global pledges.

([59]) Schengen information system, visa information system, Eurodac, entry/exit system and European travel information and authorisation system. A 'hit' in the Schengen information system (second generation) means that the person or object has been located in a Member State and thus further action is required.

([60]) The World Bank estimates that, by 2050, climate change could force over 140 million people to become internal climate migrants across Africa, South Asia and Latin America (https://www.worldbank.org/en/news/press-release/2018/03/19/climate-change-could-force-over-140-million-to-migrate-within-countries-by-2050-world-bank-report).

## Returning migrants with no right to stay

- 316 463 people with no right to stay were returned with the support of the Asylum, Migration and Integration Fund in 2014-2020.

For the EU asylum system to be credible, migrants with no right to stay need to be returned to their countries of origin. In 2020, the Commission continued to take action to increase the return rate, for instance by further improving the cooperation with key countries of origin and pushing for an adoption of the recast returns directive.

The EU budget supports the Member States in implementing the return decisions they issue for migrants with no right to stay via the Asylum, Migration and Integration Fund and the European Border and Coast Guard Agency.

However, the rates of return remain unsatisfactory. The prospects for improvement depend both on better cooperation by non-EU countries and on Member States' effectiveness in implementing returns. In this respect, Schengen evaluations, financed by the Asylum, Migration and Integration Fund in the field of return, help to orient Member States towards specific actions that have to be prioritised in order to achieve set objectives. Action is also being taken to enhance the role of the European Border and Coast Guard Agency: in 2020, through flights coordinated by the agency, 12 072 non-EU nationals were returned, despite the severe restrictions due to the COVID-19 pandemic.

The **new pact on migration and asylum** announced a new strategy to reinforce voluntary return and reintegration, and provides for the appointment of a return coordinator supported by a new high-level network for return. This will help ensuring return is a common responsibility and is managed in a coherent way.

# 1.6. Security and defence

Over the last several years, challenges in the field of security have increased. The EU has increasingly faced situations that have prompted the strengthening of its security capacity. The following initiatives are instrumental in this domain: the European defence industrial development programme, the preparatory action on defence research and the 'Police' strand of the Internal Security Fund. **In the 2021-2027 long-term budget, the initiatives in this domain are grouped together under the heading 'Security and defence'.**

## 1.6.1. The EU budget strengthens the European Union's security and defence capacity

A strong defence industry lies at the core of a more autonomous EU in the field of security. Research on security and promoting innovation underpin a coordinated EU response to complex challenges and allow for concrete steps to mitigate risks The security union was one of four focus areas under the **2018-2020 work programme for Horizon 2020**, which represented 50% of overall public funding for security research in the EU.

To address the fragmentation of the defence industry in the EU, and with the aim of building the next generation of critical defence capabilities, the **European defence industrial development programme** was adopted in July 2018 for a duration of 2 years until 31 December 2020, with a budget of EUR 500 million. It enhanced the competitiveness and the innovative capacity of the defence industry in the EU, and collaboration between Member States, in the development phase of defence products and technologies, thus facilitating better exploitation of economies of scale. By supporting the development phase, the programme contributes to the better exploitation of the results of defence research and helps to cover the gap between research and production. Given that the aim of the programme is, in particular, to enhance cooperation between undertakings across Member States, the only activities that are eligible for funding under the programme are those carried out by a consortium of at least three undertakings based in at least three different Member States. The programme fosters a collaborative approach between defence industry players in the Member States, with the EU's financial contribution unlocking defence development projects that otherwise would not have started due to their financing needs or the technological risks involved. Almost 40% of the beneficiaries receiving funding following the 2019 European defence industrial development programme calls are small and medium-sized enterprises, a critical part of the European defence industry. Another pilot programme is the **preparatory action on defence research**. In 2020, it provided EUR 23 million in funding to 10 defence research projects. The programmes pave the way for a fully fledged European Defence Fund, which, from 2021, will help create an integrated defence industrial base across the EU.

In order to support the defence industry during the COVID-19 crisis, both the preparatory action on defence research and the European defence industrial development programme were fully implemented through the signing of grant agreements and the pre-financing of all projects retained for funding. However, and to accommodate the effects of the crisis in the procedures and working arrangements, it was decided to extend the submission deadline for the 2020 call for proposals until December 2020, with no impact on the financial implementation of the programme in 2020.

## 1.6.2. The EU budget facilitates cross-border cooperation in the field of security

The EU institutions aim to strengthen security in the European Union, facilitating cross-border cooperation and the exchange of information between Member States' competent authorities, enabling the interoperability of the relevant EU security information systems. This is done through the Internal Security Fund, which also facilitates joint operations and enables the upgrading of security-relevant constructions, promoting the implementation of the internal security strategy and law enforcement cooperation.

The **'Police' strand of the Internal Security Fund** ([61]) contributes to the fight against criminal threats, terrorism and security threats. A total of 21 EU networks have been put in place to strengthen mutual trust and information sharing between national authorities, and this strand finances the setting-up of national passenger name record systems, allowing national law enforcement authorities to exchange information on suspect air passengers. Moreover, the EU is fighting to protect freedom of religion and worship. Hence, EUR 23 million was provided in 2020 for Member States and religious communities to protect places of worship and public spaces. The new counterterrorism agenda ([62]) sets out the way forward for actions at EU level to better anticipate, prevent, protect against and respond to terrorist threats.

The efforts made throughout the years in this area have had tangible results. According to the European Union Agency for Law Enforcement Cooperation's *European Union Terrorism Situation and Trend Report 2020*, cases of terrorist attacks fell to 119 in 2019, compared to 129 in 2018. As terrorism cannot be dealt with by Member States acting alone, the EU budget supports increased cooperation between Member States in this field, as well as training and capacity building.

- 287 joint investigation teams and European Multidisciplinary Platform against Criminal Threats operational projects were supported by the Internal Security Fund in 2014-2020.
- 406 tools have been put in place or further upgraded to facilitate the protection of critical infrastructure by Member States in all sectors of the economy.

([61]) The Internal Security Fund also has a 'Borders and Visa' strand, which is described in Section 1.5 above.
([62]) Communication from the Commission to the European Parliament, the European Council, the Council, the European Economic and Social Committee and the Committee of the Regions – A counter-terrorism agenda for the EU: anticipate, prevent, protect, respond (COM(2020) 795).

# 1.7. Neighbourhood and the world

As challenges become ever more global, the EU needs to have a more active role and a stronger voice in the world by enhancing its standing as a champion of democracy and promoting open and fair trade, partnership, multilateralism and a rules-based global order. The aim is to enhance relations with partner countries, promote sustainable development and build up the EU's crisis management capabilities.

Through its external action programmes, the EU promotes its core values across the globe, financing action to help promote democracy, peace, solidarity, stability, poverty eradication, prosperity and the preservation of natural resources in the EU's neighbourhood and around the world. Moreover, the EU's engagement in connectivity is part of its international promotion of the twin green and digital transitions. The EU budget helps foster a sustainable economy; social and digital development; and the protection of human rights, good governance and the rule of law. Both the strategic intent and the practical implementation of EU connectivity will remain at the heart of the EU's geopolitical agenda. **In the 2021-2027 long-term budget, the initiatives in this domain are grouped together under the heading 'Neighbourhood and the world'.**

**COVAX** is leading the effort to secure fair and equitable access to COVID-19 vaccines in low- and middle-income countries. Team Europe is one of the lead contributors to COVAX, having provided close to EUR 2.5 billion. The Commission participates in the COVAX Facility for equitable access to affordable COVID-19 vaccines and had contributed EUR 1 billion in guarantees by January 2021. The COVAX Facility aims to procure at least 2 billion doses of COVID-19 vaccines – enough so that at least 20% of the population can be immunised in every country.

## 1.7.1. The EU is striving to achieve a free and prosperous neighbourhood

The European neighbourhood policy seeks to establish special relations with 16 of the EU's neighbours in the southern Mediterranean and the Eastern Partnership, and focuses on four priority areas (good governance, democracy, the rule of law and human rights; economic development; security; and migration and mobility) with the objective of enhancing the resilience of the EU's neighbouring states and societies. The enlargement policy guides, supports and monitors reforms in countries wishing to join the EU, in line with EU values, laws and standards. Itfosters peace and stability and helps to improve the quality of people's lives.

The EU provides assistance to neighbourhood countries and accession candidates not only through institutional support, but also through economic support and infrastructure development, which act as key building blocks in ensuring stability, prosperity and sustainability. The main budgetary vehicles to support the neighbourhood policy and enlargement countries in 2020 were the **European Neighbourhood Instrument** and the **Instrument for Pre-accession Assistance II.**

The EUR 5.1 billion European external investment plan is set to generate investment of over EUR 50 billion in countries neighbouring the EU and in Africa. It is already benefiting individuals, communities and small businesses. In 2020, the plan was refocused to help respond to the COVID-19 pandemic, including EUR 400 million in financing for COVAX.

The **Instrument for Pre-accession Assistance** is the means by which the EU supports reforms in the enlargement countries with financial and technical help. The funds build up the capacities of the countries throughout the accession process, resulting in progressive, positive developments in the region. During the 2014-2020 period, significant milestones were reached. The Commission adopted its opinion on Bosnia and Herzegovina's application in May 2019, identifying 14 key priorities for the country to fulfil with a view to opening EU accession negotiations. In July 2018, the Commission confirmed that Kosovo [63] had fulfilled all outstanding visa liberalisation benchmarks. In March 2020, the European Council endorsed the decision to open accession negotiations with Albania and North Macedonia. Since January 2014, negotiations on 18 chapters have been opened with Serbia, while two have been provisionally closed. As of 2020, 33 chapters were open with Montenegro. To further support long-term economic recovery and to speed up the convergence with the EU in the region, in October 2020 the Commission put forward an **economic and investment plan for the western Balkans**, mobilising up to EUR 9 billion in grants, while a new **Western Balkans Guarantee Facility** will boost investments of up to EUR 20 billion. The plan also promotes strong regional integration through a common regional market, which the leaders of the western Balkans endorsed in November 2020 [64]. In 2020, the Commission continued to support the social and economic reforms in the region through the **economic reform programmes** and also through (1) incentivising the application of the principles of the European Pillar of Social Rights in these countries, (2) strengthening the regional cooperation in partnership with the International Labour Organization and the Regional Cooperation Council, and (3) the roll-out of the EU *acquis*.

- 100 000 people, including students, researchers and staff, participated in the Erasmus+ activities involving partners in the western Balkans between 2014 and 2020.
- 75 000 citizens were connected to cleaner and more efficient district heating in Pristina and Gjakova between 2014 and 2020.

The **Eastern Partnership** was launched in 2009, with the intention of promoting more thorough democratic and economic development and anti-corruption measures in former countries of the Soviet Union. No current prospects for EU membership are evident, and progress towards implementing measures to support EU principles has been slow at times in several partnership countries. This is particularly the case with regard to democracy, freedom of speech and anti-corruption measures. Nevertheless, the EU has supported more than 125 000 enterprises, backed EUR 2 billion worth of loans, sustained over 250 000 jobs and helped create around 34 000 new jobs since the partnership began.

In the eastern neighbourhood, Ukraine remains a key focus for support as it faces continued internal and external aggression. The EU supported Ukraine in increasing its resilience in order to reduce the damaging influence. EU assistance contributed to Ukraine's comprehensive reform programme and to the stabilisation of its economy with unprecedented assistance packages (around EUR 1.6 billion of bilateral assistance between 2014 and 2020). Assistance was provided through programmes on, among other topics, decentralisation (Ukraine – local empowerment, accountability and development programme), anti-corruption (European Union anti-corruption initiative), rule-of-law (Pravo-Justice) and public administration reform (support to comprehensive reform of public administration in Ukraine).

Among other successes, through EU support in **Ukraine**, the following successes have been achieved.

- 900 municipalities have benefited from policy advice from the Ukraine – local empowerment, accountability and development programme.

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

[64] European Commission press release, 'Western Balkans Summit in Sofia: Important steps taken to advance regional cooperation to boost socio-economic recovery and convergence with the EU', 10 November 2020.

- 300 high-level corruption cases against senior officials, politicians and businessmen have already been handled by the High Anti-Corruption Court, which was established with EU support.
- 197 judges of the Supreme Court, which was reformed in 2016, were selected following a transparent and merit-based process, including an integrity check and advanced psychological testing.
- 9 800 prosecutors at the regional and local levels are undergoing a rigid vetting procedure, including professionalism and integrity checks and adaptive ability testing. 8 400 of them have already completed the procedure, with 6 500 successfully passing.

In the **southern neighbourhood**, EU relations with the Middle East and North Africa are shaped through the Union for the Mediterranean and the European neighbourhood policy. The former focuses on regional cooperation, complementing the latter, which encourages political and economic reform coupled with financial or technical assistance at country level.

For example, the EU's support for Palestine ([65]) reached 55 000 beneficiaries in the West Bank, providing salaries and pensions to the Palestinian Authority's civilian workers. It also provided 22 000 poor and vulnerable families in the West Bank and 65 000 such families in the Gaza Strip with cash assistance. Moreover, the Commission contributed to the payment of medical referrals to hospitals in eastern Jerusalem, maintaining the availability, access and sustainability of essential tertiary healthcare services to the Palestinian population, most of which are not available elsewhere in Palestine. In Syria, support was also addressed to the healthcare sector, with results including 1.8 million primary healthcare consultations, 15 085 referrals, 6 751 deliveries, the restoration of eight primary healthcare clinics, support for 320 primary health staff and robust capacity building to increase the competency of health staff across several needs-based areas.

Via the EU Regional Trust Fund in Response to the Syrian crisis, since 2015:

- 43 155 people have been trained and 6 229 local facilities have been supported as part of the programme to strengthen local infrastructure;
- 504 225 children have gained access to basic formal and non-formal education, while 19 362 teachers have been trained and 324 education facilities have been constructed or refurbished;
- more than 4.3 million individuals have been reached by primary healthcare consultations and health education activities, 7 380 professional staff have been trained in healthcare services and 204 pieces of health infrastructure have been upgraded, refurbished or equipped;
- access to services in the water, sanitation and hygiene sector has been improved for 483 704 individuals, notably in terms of drinking-water sources and hygiene promotion, and 265 municipal/regional water and waste-water facilities have been constructed or restored.

In Tunisia and Morocco, the joint EU–Council of Europe programme 'Ensuring sustainable democratic governance and human rights in the southern Mediterranean' has actively worked to address gender-based violence as a human rights violation. Tunisia requested accession to the Istanbul Convention in November 2019.

([65]) This designation shall not be construed as recognition of a state of Palestine and is without prejudice to the individual positions of the Member States on this issue.

## 1.7.2. The EU budget promotes sustainable development, peace and democracy through international partnerships

As a global force for peace, the rule of law, democracy and sustainable development, the EU seeks to establish these objectives and values worldwide. It does so through various instruments and trust funds that aim to reduce poverty and conflict potential, increase economic development and promote human rights and gender equality.

When world leaders adopted the **UN 2030 Agenda**, they had anticipated the need for a **shared framework to address multiple global challenges simultaneously**. With the pandemic and its repercussions, progressing on sustainable development became acutely urgent. In 2020, COVID-19 deepened existing **inequalities** and reversed years of progress. Taking forward a transformative agenda, the EU together with its partners, started to deliver a Global Recovery Initiative that seeks to reduce inequalities and to promote **human development and just, green transition** at global level.

The EU's relationship with **Africa** remained a key priority over the course of 2020. In March, the Communication detailing the EU's partnership with Africa and the EU's vision towards strengthening the EU's alliance with Africa was launched in a Joint Communication together with the EEAS - **"Towards a Comprehensive Strategy with Africa"**.

2020 also brought us closer towards a new Partnership Agreement with the 79 members of the **Organisation of African, Caribbean and Pacific States**. The new ambitious agreement, also known as "post-Cotonou", is not only set to redesign partners' relations with a specific focus on the regions, but will also better address global challenges in the next two decades.

The **Team Europe** approach was launched as a joint response to COVID-19 by the EU, its Member States and European Financial institutions and it mobilised successfully EUR 40 billion. As part of the programming process launched in 2020, around 150 ideas for Team Europe Initiatives have been identified. These are flagship transformational projects that will be designed, funded and implemented jointly, in a Team Europe approach.

Concerning actions on climate change, in 2020 **the EU remained the leading global provider of climate finance** and the most progressive actor in the international climate negotiation process. The Commission contributed to fulfilling the EU's commitments under the Paris Agreement on climate change by supporting the upgrading and implementation of partner countries' Nationally Determined Contributions and by assisting them in building their capacities to adapt to climate change through the establishment of a new EUR 100 million programme on disaster risk reduction.

The COVID-19 pandemic has forced global leaders to re-think **education systems** and highlighted the importance of investing in **connectivity and digitalisation**. Digital and data technologies have been a key driver of the EU's response; about EUR 60 million were mobilised in a Team Europe approach and redirected to immediate response interventions to provide relief in partner countries' socio-economic systems, giving means to people to be able to continue with their education and to get access to health information and services.

Human rights and democracy are under severe stress in many countries, a situation that has deteriorated further with the COVID-19 crisis. In 2020, the EU collaborated with consortia of civil society organisations to support journalists in Latin America and Africa and funded the creation of the global monitor of COVID-19's impact on democracy and human rights [66].

Under the **Instrument contributing to Stability and Peace**, 56 actions responding to crisis situations in 2020 were adopted, 16 of which related to the COVID-19 crisis. The instrument played a pioneering role in responses to global, trans-regional and emerging threats, engaging in areas not previously covered by EU cooperation instruments through pilot actions that in some cases were later scaled up under more traditional development cooperation instruments such as the European Development Fund. Pertinent examples include

(66) http://www.idea.int/gsod-indices/covid19globalmonitor

those in the Sahel (on police cooperation and counterterrorism), the Horn of Africa (on the prevention and financing of terrorism) and Latin America (on police cooperation).

The non-proliferation and disarmament actions funded from the **common foreign and security policy** budget contributed to international peace and security by strengthening the norms against the proliferation of weapons of mass destruction. This was achieved through advancements in universalisation, institutional strength and the effective implementation of the relevant treaties and mechanisms (e.g. the Comprehensive Nuclear-Test-Ban Treaty), and by preventing and combating the illicit accumulation and trafficking of small arms and light weapons and their ammunition. It also supported the implementation of the Arms Trade Treaty and the adoption of policies on exports of military technology and equipment. Substantial common security and defence policy missions and the mandates of EU special representatives also ensured the preservation of stability.

The **Partnership Instrument** continued to contribute to the EU external action by supporting its foreign policy, covering challenges of global concern such as climate change and environmental protection; the international dimension of the Europe 2020 strategy for smart, sustainable and inclusive jobs and growth; and improving access to markets and boosting trade, investment and public diplomacy.

In 2020, the **EU Trust Fund for Colombia, partially funded from the Development Cooperation Instrument**, continued to support the implementation of the peace agreement between the Colombian government and FARC (the Revolutionary Armed Forces of Colombia). It translated the EU's political support into the peace agreement, in particular on the elements relating to rural reform, land reform and the social and economic reincorporation of former FARC combatants. In 2020, the fund also provided 39 partner countries with support to make their national social protection systems more inclusive, financially sustainable and responsive to shocks like the COVID-19 crisis.

The EU's support for its core values is further strengthened by the **European Instrument for Democracy and Human Rights**. Despite increasing attacks against the international human rights system and the international justice system, the Commission has continued to support the key institutions, including the International Criminal Court and the United Nations Office of the High Commissioner for Human Rights. The Human Rights Crises Facility of the European Instrument for Democracy and Human Rights provides a flexible funding method to respond to situations where there is a serious lack of fundamental freedoms, where human security is most at risk, where human rights organisations and defenders work in exceptionally difficult conditions or where the publication of a call for proposals would be inappropriate. For instance, in 2020, the implementation of the EU election observation missions required flexibility and adaptability to travel restrictions and to challenging sanitary conditions due to the COVID-19 pandemic.

- 1 035 staff of the Palestinian Authority were trained by the EU border assistance mission in Rafah from 2015 to 2020.
- 500 000 small arms and light weapons and pieces of ammunition were destroyed in the western Balkans in 2017-2019 (Instrument contributing to Stability and Peace).
- 19 fact-finding missions of the Organisation for the Prohibition of Chemical Weapons relating to the alleged use of chemicals as weapons were deployed to Syria in 2016-2017 (common foreign and security policy).
- 80 pairings were established between cities of EU and non-EU countries in Asia and the Americas in the context of the new urban agenda under the international urban cooperation programme in 2020 (Partnership Instrument).
- 7 700 at-risk human rights defenders were supported in 2014-2020 (European Instrument for Democracy and Human Rights).
- 14 electoral processes and democratic cycles were supported, observed and monitored in 2020 (European Instrument for Democracy and Human Rights).

## 1.7.3. The EU is the leading global humanitarian aid donor

Firmly rooted in the core humanitarian principles of humanity, neutrality, impartiality and independence, the EU's humanitarian aid has contributed to saving lives and alleviating suffering wherever it can worldwide. From protracted conflicts in Africa and the Middle East to severe food crises, humanitarian needs are increasing faster than available resources, putting aid delivery to those most in need at risk. The EU continued its humanitarian mission by distributing more than EUR 2 billion in humanitarian aid in 2020 to countries hit by natural and human-made disasters. The EU and its Member States thereby remain, together, the world's largest humanitarian aid donor, contributing more than 36% of the global share of humanitarian aid contributions.

In 2020, most ongoing humanitarian crises were further compounded by the short- and medium-term impact of COVID-19, which received special focus in 2020. In parallel, the EU has continued addressing other new or pre-existing humanitarian needs, including for example the fight against the desert locust outbreak in East Africa, the humanitarian emergency in seven countries of the wider Sahel region, or the need for support for the most vulnerable impacted by the Syrian crisis.

In 2020, EU humanitarian aid funded more than 170 million interventions, providing assistance in 97% of the countries for which the United Nations launched an appeal. 68% of the humanitarian aid budget was spent in countries ranked as being at very high risk of disaster, and more than 28% of the initial budget was spent on forgotten crises. The initial budget was topped up to respond to sudden-onset crises in 2020: for instance, in Lebanon, the EU mobilised more than EUR 30 million to tackle emergency humanitarian needs in the immediate aftermath of the devastating explosion that took place on 4 August in Beirut.

In parallel to the humanitarian response, EU funding also contributed to disaster preparedness, with the objective of building the capacity and resilience of vulnerable or disaster-affected communities. In 2020, approximately 35 million people worldwide benefited from disaster-preparedness actions in disaster-prone regions. In addition, the EU furthered its commitment to strengthening preparedness capacities for response and early action in relation to vulnerable or disaster-affected communities (e.g. in Mozambique, Nepal and the Philippines) through dedicated funding.

A key asset for EU humanitarian action is a very strong field presence and the technical and operational expertise of its network of humanitarian field offices spread over almost 40 countries. The EU channels its aid through its network of around 200 organisations, including United Nations agencies, the International Red Cross and Red Crescent Movement and non-governmental organisations through which people in need can receive assistance even in hard-to-reach areas.

Sixty-seven flights were organised by the EU Humanitarian Air Bridge, reaching 20 countries on four continents to deliver more than 1.2 tonnes of medical and humanitarian equipment and to transport more than 1 700 medical and humanitarian staff and other passengers.

As part of **Team Europe**, the Commission allocated EUR 450 million in humanitarian assistance for the urgent short-term emergency response to the health crisis and the resulting humanitarian needs, strengthening health and water systems.

- In 2020, EUR 2.1 billion in humanitarian aid was provided to the most vulnerable.
- Of that group, 1.8 million children living in crises and conflict had received education by 2020, with the EU standing by its earlier commitment to devote 10% of its initial humanitarian budget to education in emergencies.

### 1.7.4. The EU budget helps address the refugee crisis by offering dignity and assistance to refugees to meet their basic needs

The EU budget put a clear focus on development cooperation, and particularly on improving the conditions of refugees hosted by non-EU countries and investing in their health, education and skills and in infrastructure, sustainable growth and security. It also helps countries hosting refugees to provide them with humanitarian conditions that uphold their dignity.

In 2020, the European Commission continued to be fully committed to assisting the most vulnerable refugees in Turkey and to providing support to their host communities. In 2020, areas of assistance covered support for basic needs, healthcare, protection and municipal infrastructure, along with training, employment and business development for refugees and vulnerable local populations alike. In the same year, the Commission completed the allocation and contracting of EUR 6 billion in operational budget for the Facility for Refugees in Turkey, in order to ensure that the needs of refugees and host communities in Turkey are addressed in a comprehensive and coordinated manner.

The 2016 EU–Turkey statement has also provided safe and legal pathways to the EU for 28 621 people in need of international protection through resettlement.

- Through the Facility, some 1 800 000 refugees received basic needs support, 668 900 refugee children receive educational support, and healthcare and protection services are being delivered to millions of refugees and host communities in Turkey.Up to 365 schools will be built in Turkey.
- Over 3 400 healthcare service staff in Turkey are employed in 177 migrant health centres. Over 14 million healthcare consultations have been delivered, and over 4 million vaccination doses have been provided to migrant infants and pregnant women.
- In response to the COVID-19 crisis in Turkey, close to EUR 105 million in support has been mobilised, in particular for the most vulnerable refugees.

In 2020, the EU continued to play a pivotal role in supporting the most vulnerable refugees with partner countries in the southern neighbourhood. By December 2020, the EU Regional Trust Fund in Response to the Syrian Crisis had directly reached more than 7.8 million people through education, livelihood and social assistance, and measures for health, water and sanitation, as well as protection, most importantly in **Iraq, Jordan, Lebanon and Turkey**.

In 2020, the Commission also mobilised EUR 70 million to support Venezuelan migrants and refugees as well as their host communities in Columbia, Costa Rica, Ecuador, Peru and Venezuela.

# Annex 2 – Internal control and financial management

# 2.1. Strong tools to manage the EU budget in a complex environment

## 2.1.1. The Commission manages the EU budget in a complex environment

It is the Commission's duty to make the best possible use of taxpayers' money to support the achievement of the EU's policy objectives. It is therefore essential to ensure both that funding reaches the intended beneficiaries in an effective, efficient and economical manner and a high level of compliance with the applicable rules. The Commission strives to achieve the highest standards of financial management while striking the right balance between a low level of errors, fast payments and reasonable costs of controls.

The Commission attaches great importance to the sound financial management of the EU budget, as well as of the European Development Fund ([67]) and the EU trust funds.

### The EU budget: a wide variety of areas, recipients and spending

In 2020, the expenditure managed by the Commission amounted to **EUR 158 billion** (see chart below), corresponding to more than 242 000 payments, ranging from a few hundred euros (for Erasmus+ mobility grants) to hundreds of millions of euros (for large projects such as the International Thermonuclear Experimental Reactor or Galileo and Copernicus, as well as budgetary support to developing countries) ([68]). The recipients of EU funds are very diverse and numerous.

| **Natural resources** | **Cohesion** | **Research, industry, space, energy and transport** | **External relations** | **Other internal policies** | **Other services and administration** |
|---|---|---|---|---|---|
| EUR 60 billion (38%) | EUR 54 billion (34%) | EUR 16 billion (10%) | EUR 13 billion (8%) | EUR 7 billion (5%) | EUR 8 billion (5%) |
| **Up to 6.7 million beneficiaries** supported with agricultural funds | Over **610 000 enterprises** and **36.4 million people** participating in social inclusion activities since 2014 | More than **14 000** grants signed with **small and medium-sized enterprises** | Assistance provided to **130 non-EU countries** in five continents | Erasmus+: almost **412 000 student and staff mobility opportunities** supported in 2020 | |

**Relevant expenditure of the EU budget implemented by the Commission in 2020, per policy area, in % and billion EUR.**
*Source:* European Commission annual activity reports.

([67]) It should be noted that until 2020 the European Development Fund was managed by the European Commission and the European Investment Bank. The fund has been incorporated into the EU's general budget for the 2021-2027 multiannual financial framework.
([68]) The amount of the Commission's relevant expenditure corresponds to the payments made in 2020 minus the pre-financing paid out in 2020, plus the pre-financing paid out in previous years and cleared in 2020 (see Annex 5 for definitions and more details).

More than two thirds of the budget (e.g. expenditure on cohesion policy and natural resources) is implemented under shared management. This means that Member States, or bodies designated by them, distribute funds and manage expenditure in accordance with EU and national law and share this responsibility with the Commission. The rest of the budget is spent either directly by the Commission or indirectly in cooperation with entrusted entities. The table below describes the three management modes.

| Management mode | Description | % of relevant 2020 expenditure | Examples of programmes/spending | Other actors involved, in cooperation with the Commission |
|---|---|---|---|---|
| **Direct management** | Funds are implemented by the Commission | 23% | Horizon 2020; Connecting Europe Facility; administrative expenditure | n/a (funding goes directly to the beneficiaries) |
| **Indirect management** | Funds are entrusted to external entities | 7% | Erasmus+; part of development and humanitarian aid; pre-accession assistance | e.g. EU agencies, United Nations, World Bank, European Investment Bank, European Bank for Reconstruction and Development, non-EU countries [69] |
| **Shared management** | Funds are implemented in cooperation with Member States' national and/or regional authorities, which have a first level of responsibility | 70% | Agricultural funds; European Maritime and Fisheries Fund; European Regional Development Fund; Cohesion Fund; European Social Fund; migration and security funds | 76 paying agencies for common agricultural policy; 492 managing authorities for cohesion funds, in all Member States |

Given that the EU budget is implemented in many different ways, involving different actors, the associated risks vary between programmes and management modes (see Annex 6). This is taken into account when developing the control strategies (see under 'Multiannual control strategies ensure that the taxpayers' money is well spent', in Section 2.1.3).

## 2.1.2. The COVID-19 crisis

The Commission is fully committed to ensuring that the management of the EU budget remains subject to the highest standards of sound financial management, even during these unprecedented times.

Thanks to good crisis preparedness, the Commission was able to remain fully operational in 2020. Its administration (comprising almost 30 000 people) switched to teleworking in the span of only a few days. This allowed the Commission to play a leading role in all aspects of the crisis response, from public health to the economic recovery plan. It also put in place extraordinary measures to give staff the tools, flexibility and support they needed to adapt to this new reality.

(69) See Article 62(1)(c) of the financial regulation.

In parallel, the Commission took specific measures to support beneficiaries along with Member States facing difficulties in the implementation of projects due to COVID-19-related restrictions. Examples of measures taken to minimise the impact of the COVID-19 crisis are given in the box below.

Thanks to the mitigating measures implemented, including targeted adjustments to the audit and control plans, overall the COVID-19 pandemic did not have an impact on the level of assurance reached for 2020.

**Flexibility offered to recipients**

The Commission extended the deadlines for the implementation of projects in order to support recipients facing difficulties in implementation due to COVID-19-related restrictions. This is evidenced by the high number of contractual amendments. More time has also been given to tenderers to submit their offers or proposals.

**Flexibility introduced into Member States' control procedures**

Common agricultural policy: soon after the outbreak of the pandemic, the Commission adopted a regulation providing rules for realistic and attainable control requirements for the Member States under the common agricultural policy ([70]). The amended rules were limited in time and scope (only affecting some administrative and on-the-spot checks). It also proposed alternative methods by which Member States could carry out the controls even under the COVID-19 restrictions (e.g. geotagged photographs, dated drone surveillance reports, administrative checks or videoconferences with the beneficiaries) and continued to provide a good basis for assurance. The regulation also required the paying agencies to include explanations of the measures taken in their management declarations.

In cohesion, the Commission provided further targeted support to programme authorities to address the situation caused by lockdowns, proposed the flexibilities required to carry out controls and audits despite travel restrictions and worked with the audit authorities to ensure a robust and harmonised approach.

**Remote audits**

In order to minimise the impact of travel restrictions and local lockdowns, the Commission carried out the majority of its financial audits remotely. It also instructed its contracted external audit firms to perform as many audit tests as possible remotely, complementing them with on-the-spot visits as soon as restrictions were eased. This allowed the Commission to maintain a high level of audit coverage. For instance, for the research programme Horizon 2020, 94% of the audits planned for 2020 were successfully finalised, even though there were some delays in the reporting and certification.

**Reinforcement of security mechanisms and governance of information technology tools**

In 2020, a 50% increase in cyberattacks against the Commission was observed, exploiting new opportunities created by the COVID-19 pandemic. As a response, the Commission invested considerable resources in enhancing the security of its information technology infrastructure following the institution of the policy of remote working by default, and has also enhanced the cyberculture, namely through cyber-awareness campaigns and initiatives. Overall, in 2020 security mechanisms and governance of information technology tools were reinforced to safeguard the Commission's infrastructure assets.

**Early risk assessment**

At an early stage – before summer 2020 – the Commission assessed the risks posed by the COVID-19 pandemic to the EU budget, in terms of both compliance and performance. These were mainly related to challenges in conducting audits and controls on the spot, hindrances to the implementation of policies and programmes, or reduced staff capacity and the impact on staff well-being. These assessments also took into account the increased exposure to fraud in the context of the COVID-19 pandemic, for example the potential abuse of new instruments and simplified rules (see box under 'Fight against fraud: the legal framework of the European Anti-Fraud Office to protect the EU budget', p. 58, in Section 2.1.3).

([70]) Commission Implementing Regulation (EU) 2020/532, of 16 April 2020.

For all those risks, Commission services put in place, or already had in place, robust mitigating measures to prevent or limit any negative impact on the implementation of the EU budget. During the year, all services monitored the risks closely and in real time, with support and oversight from the Commission's corporate governance bodies, and mitigating actions were adapted when needed.

As the pandemic is still ongoing in early 2021, its consequences for the management and performance of the EU budget will need to be assessed. The related risks and mitigating measures remain under constant monitoring by the various services and are followed up on at corporate level. This is a dynamic assessment which is kept under constant review and will continue for as long as the crisis situation lasts.

## 2.1.3. The Commission relies on strong instruments to protect the EU budget

In order to ensure that the budget is well implemented and protected from weaknesses, fraud and irregularities in this complex environment, the Commission has several instruments at its disposal.

### A robust governance system

The Commission's internal functioning is based on a number of key principles underpinning robust governance: clear roles and responsibilities and accountability mechanisms, a strong commitment to performance management and compliance with the legal framework, transparency and high standards of ethical behaviour.

The chain of accountability and the governance system used by the European Commission are tailored to its unique structure and role. The Commission's governance arrangements have been strengthened over time and adapted to changing circumstances, as reflected in the latest communication, issued in June 2020 ([71]). Recent work by the internal and external auditors has confirmed that these arrangements are robust.

As authorising officer of the European Commission, the **College of Commissioners is politically responsible** for the management of the EU budget, which encompasses accountability for the work of the Commission's departments. The main building blocks of the EU budget's governance, underpinned by a clear division of responsibilities between the political and the management levels, and well-defined reporting, lead to a solid chain of assurance building and accountability.

Under the Commission's unique model of decentralised decision-making in budget implementation, the College of Commissioners delegates the day-to-day operational management to the **51 Directors-General** ([72]) who manage and steer their departments towards delivering on their objectives as defined in their strategic plans, taking into account available resources. **They are accountable** for the share of the EU budget implemented in their department.

In their **annual activity reports**, the Directors-General report in a transparent way on the performance and results achieved, on the functioning of their internal control systems and on the financial management of their share of the EU budget – taking account of the assurance provided by Member States under shared management. The annual activity report contains the Director-General's declaration of assurance. The latter may be qualified with a reservation if they identify any weaknesses that have a significant impact. In parallel, they put in place action plans to mitigate future risks and to strengthen their control systems (see Section 2.2.2 below).

([71]) Communication to the Commission – Governance in the European Commission (C(2020) 4240).

([72]) In this document, the term 'Director-General' also covers heads of executive agencies, offices, services, task forces, etc. In this context, they are formally named 'authorising officers by delegation'. Article 74(1) of the financial regulation states that: 'The authorising officer shall be responsible in the Union institution concerned for implementing revenue and expenditure in accordance with the principle of sound financial management, including through ensuring reporting on performance, and for ensuring compliance with the requirements of legality and regularity and equal treatment of recipients.'

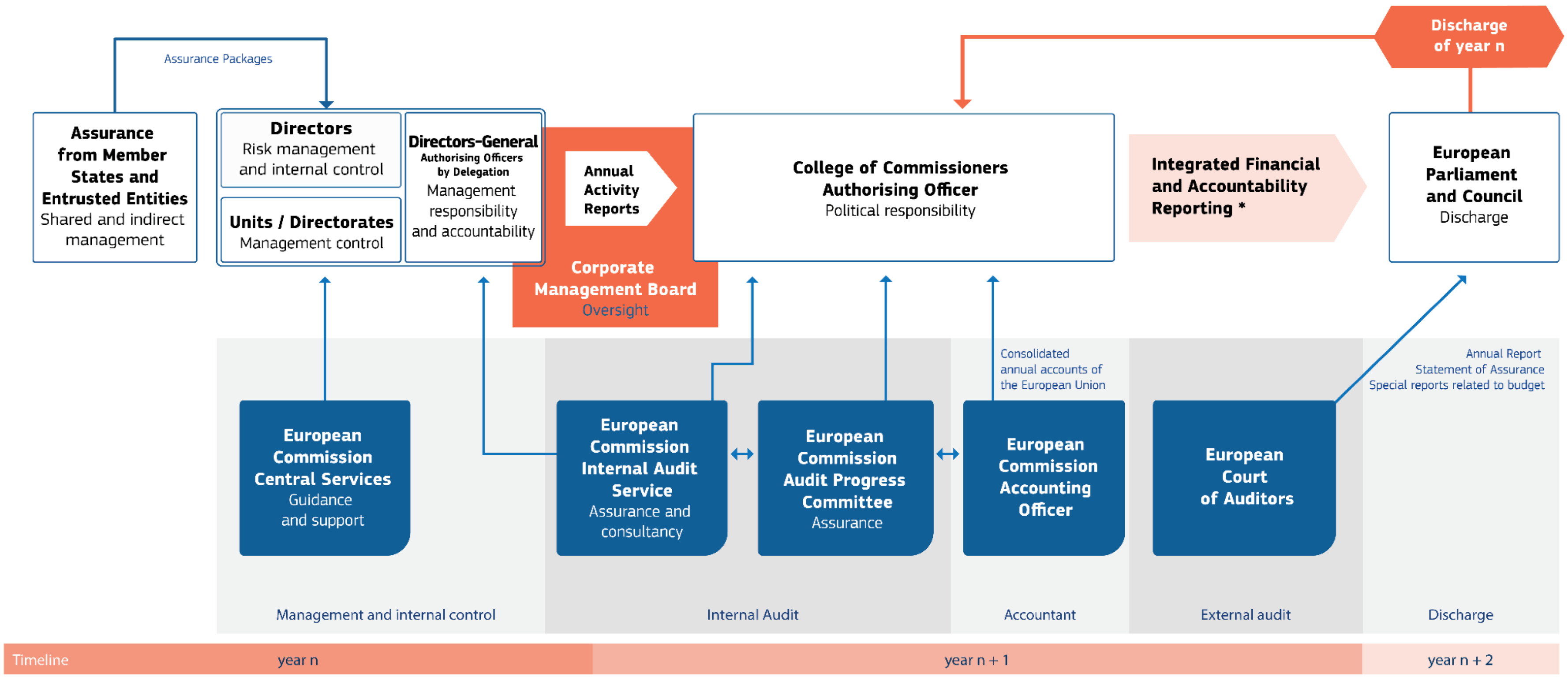
The **annual management and performance report** presents the annual results for the EU budget, based on the assurance and reservations contained in all the annual activity reports. This report is part of the Commission's integrated financial and accountability reporting package, which is **adopted by the College of Commissioners** ([73]).

The ensuing **annual budgetary discharge procedure** allows the **European Parliament** and the **Council of the European Union** to hold the Commission politically responsible for the implementation of the EU budget. The European Parliament's decision takes into consideration the Commission's integrated financial and accountability reporting, the annual and special reports of the Court of Auditors, as well as its statement of assurance on the reliability of the accounts and the legality and regularity of underlying transactions, the hearings of Commissioners and Directors-General and a recommendation from the Council.

These robust governance arrangements help the College of Commissioners to deliver on the Commission's objectives, to use resources efficiently and effectively and to ensure that the EU budget is implemented in accordance with the principles of sound financial management. An overview is presented in the chart below.

([73]) As required by Article 247 of the financial regulation, the integrated financial and accountability reporting package also includes the consolidated annual accounts of the European Union, the report on the follow-up to the budgetary discharge for the previous financial year, the annual report to the discharge authority on internal audits carried out, and the long-term forecast of future inflows and outflows of the EU budget.

## Commission's assurance building and accountability for the EU budget: clear roles and responsibilities




*** Integrated Financial and Accountability Reporting:**
- Consolidated annual accounts of the European Union
- Annual management and performance report
- Long-term forecast of future inflows and outflows
- Annual internal audit report
- Report on the follow-up to the discharge

*Source:* European Commission.

## A strong internal control framework

The Commission has in place a **strong corporate internal control framework** based on the highest international standards ([74]).

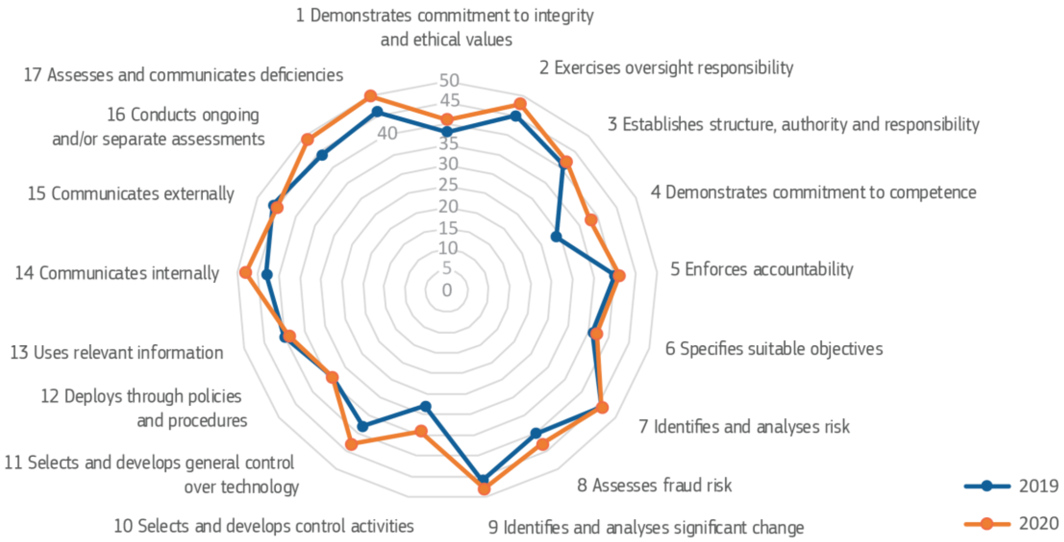
The Directors-General implement this corporate framework within their departments through tailored internal control systems, taking into account their specific operating environments, risks and needs. They are supported in this task by the central services ([75]), which provide instructions, guidance, training and advice and facilitate the sharing of good practices. Each year, they assess the functioning of their internal control systems according to a common methodology and summarise their conclusions in their annual activity reports. Those conclusions are subject to peer reviews by horizontal services, aiming at ensuring a consistent approach and that any remedial measures envisaged are appropriate.

In addition, the Internal Audit Service may advise Commission services and conduct audits on the functioning of the internal control systems and on the assessment of the systems by Commission directorates-general and services (see Annex 8).

On 17 March 2020, the central services drew the attention of all Commission departments to the importance of the Commission's internal control framework as an essential safeguard for the Commission's operations in the context of the COVID-19 crisis. In particular, the importance of the business continuity arrangements and the need to properly justify and document exceptional changes to the applicable procedures was highlighted.

For 2020, the assessments by the Commission departments indicate that in spite of the COVID-19 pandemic their internal control systems remain effective.

The assessment confirms that the departments have made continuous efforts in relation to control activities, that the reinforced corporate oversight of risk identification and risk management has had a positive impact, and that improvements have been made in the field of information technology. This can be seen in the graph below, where most of the internal control principles appear to be upheld and functioning well.




**Assessment of the functioning of the 17 internal control principles: number of Commission department having reported that internal control principles are upheld and functioning well in 2019 and 2020.**

*Source:* European Commission annual activity reports.

([74]) As established by the Committee of Sponsoring Organizations of the Treadway Commission.

([75]) Specifically, DG Budget, in cooperation with the Secretariat-General, DG Communication, DG Human Resources and Security and the European Anti-Fraud Office.

While many Commission departments acknowledge that for some principles there is room for improvement, at the end of 2020, only a small number identified deficiencies that required major improvements, in a limited number of internal control principles. To improve the situation, services have drawn up action plans, which have been considered adequate by the Internal Audit Service. As remedial measures, several actions were already put in place in the first quarter of 2021, such as the publication of updated guidance on indirect management.

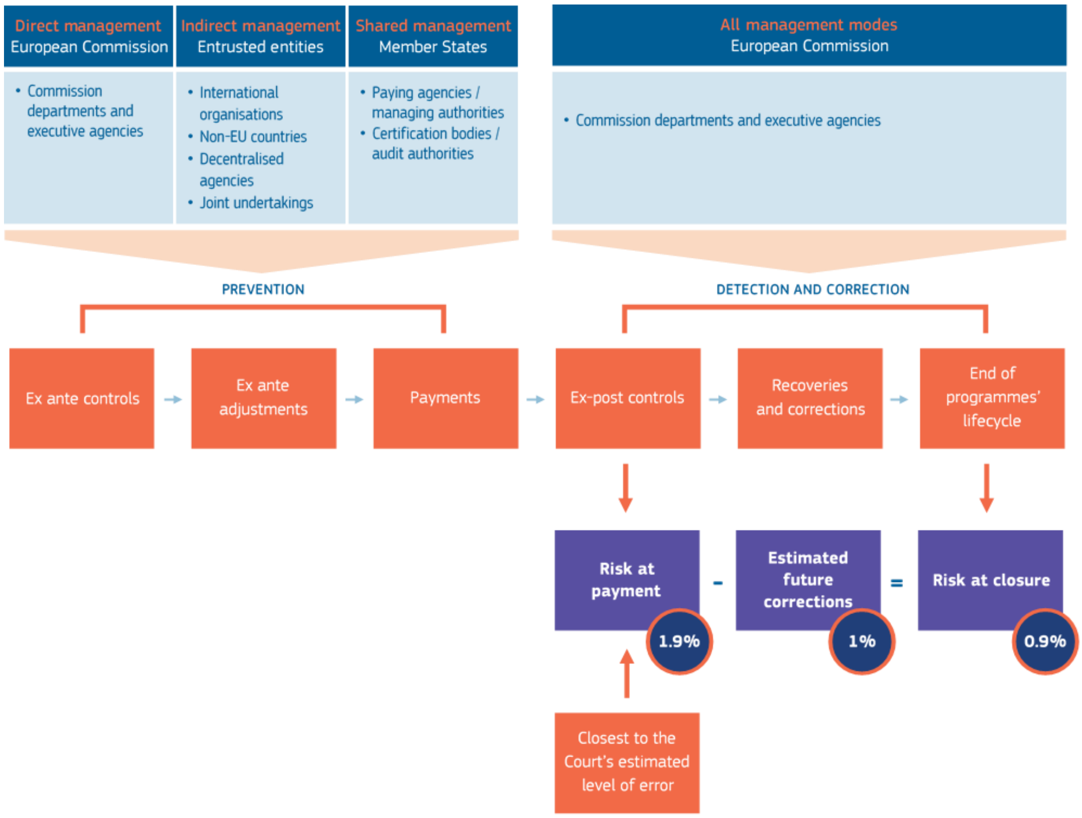
These results demonstrate that the Commission has reached an advanced level of internal control. The central services will continue to provide guidance and facilitate the sharing of good practices and the development of corporate information technology tools in order to further promote the internal control framework as a management tool that helps the organisation to achieve its objectives.

## Multiannual control strategies ensure that the taxpayers' money is well spent

Within their internal control systems, the Directors-General, as managers of the EU budget, put in place **multiannual control strategies** designed to **prevent** errors and, if they cannot be prevented, **detect** and **correct** them. To do so, they need to build their assurance from the **bottom up** and **in detail**, i.e. by programme or other relevant segment of expenditure. This allows the Commission to **detect weaknesses** and errors, to **identify the root causes** of systemic errors (e.g. the complexity of rules), to **take targeted corrective actions** and to ensure that any lessons learned are factored into the design of future financial programmes.

### From prevention to detection and correction

As EU spending programmes are **multiannual** by design, the related control systems and management cycles also cover multiple years. This means that errors may be detected at any point in the whole of the programme cycle, sometimes several years after the payment took place. In addition, while errors may be detected in a given year, they are corrected in the same year or in subsequent years, up to the point of closure at the end of the programmes' life cycle. Moreover, the control strategies are **risk differentiated**, i.e. they are adjusted to the different management modes, actors involved, policy areas and/or funding arrangements and associated risks.




**The Commission's multiannual control cycle.**

NB: For the 2020 results mentioned in the circles, see Section 2.3.1.

*Source:* European Commission.

## Prevention of errors

Prevention is the first line of defence against errors. The Commission's key preventive mechanisms include *ex ante* controls leading to the rejection of ineligible amounts before the Commission makes payments, verifications by Member States' authorities under shared management, system audits to detect weaknesses in the implementing partners' management and control systems (these have a preventive effect for future expenditure) and the interruption and suspension of payments until the deficiencies in the systems are fixed. In addition, guidance provided to beneficiaries and implementing partners also helps to prevent errors.

In shared management, for the European Structural and Investment Funds amounts corrected at Member State level under certain circumstances can be reused in the Member State. This serves as an incentive for Member States to correct payments before they submit their cost claims to the Commission.

In 2020, the preventive measures resulted in confirmed deductions and other adjustments before payment/acceptance by the Commission amounting to EUR 301°million.

Furthermore, for cohesion policy funds, the Member States have applied corrections amounting to EUR 440 million for the 2019/2020 accounting year (see details by fund and by Member State in Annex 7, Section 5). This is a result of the strengthened regulatory provisions that increase managing authorities' accountability and significantly strengthen the Commission's position in protecting the EU budget from irregular expenditure. For the common agricultural policy, Member States recovered EUR 491 million from beneficiaries and returned them to the EU funds.

## Detection and correction of errors affecting EU expenditure

Where preventive mechanisms have not been effective, it is important that errors affecting EU expenditure are **detected** a posteriori, through controls on amounts the Commission has accepted and paid out (i.e. *ex post* controls) (see Annex 5).

These errors are then **corrected** by the Commission during the same year or in subsequent years, by way of financial corrections or replacement of ineligible expenditure in shared management, by the Member States, and recoveries or offsetting from final recipients in direct and indirect management. The bulk of the financial corrections correspond to cases where systemic errors have been identified and flat-rate corrections applied to all the expenditure for a given paying agency or operational programme, or to all the grants for a given beneficiary.

In 2020, the corrective measures confirmed amounted to EUR 596 million. These relate mainly to errors affecting payments made in previous years.

Weaknesses in control systems, detected through risk-based and/or system audits, are also addressed and systems are corrected to avoid the recurrence of the same errors in the future. In the context of shared and indirect management, this is done in the first place by the implementing Member States and partners.

For more information on the protection of the EU budget, see Annexes 5 and 7.

## Reliance on implementing partners' control systems

Almost 80% of the budget is implemented in **cooperation with the Member States and other implementing partners** (see second table in Section 2.1.1). It is thus important to ensure that these partners demonstrate a level of protection of the EU's financial interests equivalent to that achieved when the Commission manages the budget itself, before being entrusted with implementing the EU budget on behalf of the Commission. To this end, the Commission carries out an assessment of the systems, rules and procedures of the persons or entities implementing EU funds. This involves in particular an assessment of the Member States' and entrusted entities' management and control systems through system audits and through compliance testing, accompanied for some by substantive testing on expenditure and by other types of verification, called 'pillar assessments', by accreditation audits or by 'designation procedures'.

In **indirect management**, each year the implementing partners report on the sound financial management of the entrusted budget through a management declaration and a summary of the audits and controls carried out, including an analysis of the nature and extent of any errors and weaknesses identified in the systems, along with any corrective action taken or planned.

In addition to the recent issuance of the general guidance on indirect management and instructions to operational services, the Commission is currently increasing its corporate oversight by setting up an automated workflow for the different verification procedures related to the assessment of the systems, rules and procedures of the persons or entities implementing EU funds. This tool will ensure that all the necessary phases allowing an entity to qualify for working with the Commission in indirect management are harmonised, centralised and can be easily monitored.

In the area of **shared management**, Member States' authorities report each year on their controls on the use of EU funds at national and regional level and on the sound financial management of their respective programmes. This is done through an assurance package, containing a management declaration, an annual summary of the verifications carried out and an annual control report containing an error rate based on representative samples and an audit opinion on the legality and regularity of the expenditure. This reporting is the basis for the Commission's acceptance of programme accounts and for enabling the related Commission departments to build their assurance. It is also used for determining the potential risks to the EU budget, and for identifying weaknesses and areas where further checks are needed.

Best practices on internal control matters are currently shared with and among Member States through the networks for structural and agricultural funds and, as from 2021, through the better spending network as well, led by the Commission.

### The Commission and the European Court of Auditors: different roles lead to different control approaches

The **Commission and the European Court of Auditors play different roles** in the chain of controls on the EU budget and therefore, although both institutions converge on several concepts, their approaches are different. The **Commission's** duty as manager of the EU budget is to prevent errors and, if necessary, to correct them and recover unduly spent funds, on a **multiannual** basis. This requires a **detailed, bottom-up** assessment of the control systems in order to identify where the weaknesses are, so that **targeted corrective measures** can be taken at the level of the programmes, the implementing partners and the Member States' authorities. On the other hand, the role of the **European Court of Auditors** is to provide an **annual audit opinion** on the legality and regularity of **EU spending as a whole**, which may be supplemented by specific assessments of major areas of the EU budget (see also Annex 5).

These approaches can lead to **differences between the error rates** reported by the European Court of Auditors and those reported by the Commission. The Commission's **approach** and the resulting **detailed information** at its disposal allow for a **differentiated view** of the level of errors across the payments made (providing higher granularity) and enable areas where improvements are needed to be better identified.

## Fight against fraud: the legal framework of the European Anti-Fraud Office to protect the EU budget

The Commission has zero tolerance for fraud. It should be underlined that fraud represents a very limited part of illegal or irregular spending, most of which relates to errors.

**The Commission's anti-fraud strategy is taking hold**

Pursuant to Article 325 of the Treaty on the Functioning of the European Union, the Commission and the Member States protect the EU budget from fraud and other illegal activities. On the initiative of the European Anti-Fraud Office, the Commission adopted the current corporate anti-fraud strategy in April 2019. The strategy and its action plan containing 63 actions play a significant role in preventing the possible misuse of EU money. In September 2020, good progress had already been achieved, with a quarter of the actions completed and more than half of them partially done or ongoing.

The strategy has two priority objectives: (1) improving data collection and analysis and (2) improving coordination, cooperation and processes. During 2020, in line with the first objective, the European Anti-Fraud Office intensified its analytical work and further developed the Irregularity Management System. This database is hosted by the European Anti-Fraud Office and fed by authorities of the Member States with information about cases of fraud and other irregularities detected in shared management. The European Anti-Fraud Office is also the lead service for drafting the Commission's annual reports on the protection of the EU's financial interests, adopted in accordance with Article 325 of the Treaty on the Functioning of the European Union. The last report, published in September 2020, included an analysis of irregularities and fraud affecting the European Structural and Investment Funds in healthcare infrastructure. In line with the second objective of the Commission's anti-fraud strategy, good progress was made in 2020 on a number of actions designed to increase coordination and cooperation between Commission services in the area of fraud, and to equip the Commission with a more effective system of fraud oversight. The Fraud Prevention and Detection Network held two plenary meetings, and work resumed in the subgroups, organised by management mode.

The European Anti-Fraud Office is essential to the fight against fraud, not only as a policymaking service but, crucially, as an independent investigative body. Its administrative investigations into fraud, corruption and other irregularities help bring criminals to justice and repair damage done to the EU budget. It reports on its investigative activities in its annual reports [76].

(76) For more information, see the European Anti-Fraud Office's annual reports (available here: https://ec.europa.eu/anti-fraud/about-us/reports/olaf-report_en).

**Fighting fraud in practice: investigation into fake COVID-19-related products by the European Anti-Fraud Office**

The COVID-19 pandemic led to a sudden and massive increase in demand for personal protective equipment – in particular face masks, hand sanitisers and testing kits. Demand came not only from the medical profession tasked with treating the virus but also from consumers wanting to keep themselves safe. Both were targeted by fraudsters, who saw major opportunities in what very quickly became a big business.

This massive increase in demand highlighted in particular the extent to which the EU is dependent on non-EU-country suppliers for many products, including medical equipment. As a result of the COVID-19 outbreak, EU imports from China of healthcare products – from protective garments to disinfectants and testing kits – grew by a massive 900% in the second quarter of 2020, compared to the virus-free previous year.

Faced with exponential growth in the number of infections and deaths at the start of the outbreak, EU public authorities were forced to act quickly to try to contain the spread. One decision taken was to accelerate the certification processes for face masks, hand sanitisers, ventilators and medicines coming from outside the EU, mainly from China, in order to better meet demand.

However, it soon became clear that while relaxing the rules did indeed help speed up the supply of legitimate, safe products to the EU, it also made it easier for millions of substandard or fake medical products, with invalid EU certificates of conformity, to be imported into the EU.

The speed with which this happened is reflected in the fact that the European Anti-Fraud Office opened its investigation into this trade in fake and counterfeit goods on 19 March 2020 – right at the very start of the outbreak of the virus in Europe. Teaming up with nearly every customs and enforcement authority in the EU, and many more worldwide, and with international organisations such as the European Union Agency for Law Enforcement Cooperation, Interpol and the European Union Intellectual Property Office, the European Anti-Fraud Office set to work identifying the many suspicious companies acting as intermediaries or traders of counterfeit or substandard products linked to the COVID-19 pandemic. A year later, with the investigation (and the pandemic) still ongoing, the European Anti-Fraud Office and its partners have identified more than 1 000 of these suspicious companies, many of which are based outside the EU.

Not all are fraudulent operators, however. The European Anti-Fraud Office also identified many opportunistic companies, trying to profit from the pandemic by moving into a new line of business, despite having no track record in the area and with little or no control over their supply chain. These companies are often easy targets for fraudsters, who create artificially long chains of intermediary shell companies that open and close quickly to hide their tracks – and which pass off fake and counterfeit products as the genuine article to unsuspecting clients.

The following are fake and substandard medical products seized so far in the investigation by the European Anti-Fraud Office:

- 31 500 fake COVID-19 test kits,
- 2 416 000 face masks,
- 140 000 litres of hand sanitiser,
- 105 000 spray cans,
- 3 636 litres of counterfeit antiseptic disinfectants from a renowned company.

In parallel, and to a large extent on the basis of information collected through the investigations of the European Anti-Fraud Office, fraud prevention and sanctioning continue through the **early detection and exclusion system**, which allows for the early detection of unreliable economic operators and their exclusion from implementing EU funds in direct and indirect management.

The year 2020 was marked by an increase in cases registered in the early detection system and a continuous upward trend in cases submitted to the interinstitutional panel for possible administrative sanctions (i.e. exclusion and/or financial penalties and, where applicable, the publication of the sanctions). These are determined in line with the proportionality principle (i.e. taking into account the seriousness of the situation, including the impact on the EU's financial interests and image; the time that has elapsed since the misconduct occurred; the duration and recurrence of the misconduct; the degree of ill intention or negligence; and the amount at stake). In addition, several companies submitted remedial measures in order to restore their business's reliability.

In its efforts to fight corruption, the Commission has also adopted a communication which reinforces and complements other EU instruments and sets out the approach for conducting the necessary steps in the review process, with full respect for the principle of sincere cooperation among the institutions and for their administrative autonomy ([77]).

In December 2020, the co-legislators adopted Regulation (EU, Euratom) 2020/2223, amending Regulation (EU, Euratom) No 883/2013 ([78]). The new regulation makes changes to the operation of the European Anti-Fraud Office's investigations in order to ensure maximum complementarity with the recently established European Public Prosecutor's Office. It also contributes to enhancing the effectiveness of the European Anti-Fraud Office's investigative function as regards the on-the-spot checks, inspections, access to bank account information, the admissibility of evidence that it collects as well as the assistance that it receives from the national anti-fraud coordination services and cooperation between the European Anti-Fraud Office and national authorities. Finally, the new regulation strengthens the procedural guarantees of the persons concerned by the European Anti-Fraud Office investigations and reinforces the protection of whistle-blowers ([79]).

## 2.1.4. Overall the general implementation of the new data protection rules is progressing well

In order to ensure a coherent and harmonised approach to personal data protection across the EU institutions and bodies, Regulation (EU) 2018/1725 was adopted on 23 October 2018, and entered into force on 11 December 2018. The main objective of this regulation is to ensure that the EU institutions process personal data fairly and transparently. This means notably that the institutions are obliged to inform citizens in a timely and intelligible manner about what the institutions do with their personal data and why, and to subsequently protect the data adequately.

Overall the general implementation of these data protection rules is functioning well. However, a specific challenge arose in 2020 in relation to the recent invalidation of the 'European Union–United States Privacy Shield' by the Court of Justice of the European Union (the *Schrems II* judgment). This poses concrete challenges in relation to transferring personal data to the United States (and other non-EU countries, as explained below) or using cloud-based solutions which involve such a transfer.

([77]) Communication from the Commission to the European Parliament, the European Council, the Council, the Court of Justice of the European Union, the European Central Bank and the Court of Auditors on the review of the European Union under the Implementation Review Mechanism of the United Nation Conventions against Corruption (UNCAC) (COM(2020) 793).

([78]) Regulation (EU, Euratom) 2020/2223 of the European Parliament and of the Council of 23 December 2020 amending Regulation (EU, Euratom) No 883/2013, as regards cooperation with the European Public Prosecutor's Office and the effectiveness of the European Anti-Fraud Office investigations (OJ L 437, 28.12.2020, p. 49) (https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv%3AOJ.L_.2020.437.01.0049.01.ENG&toc=OJ%3AL%3A2020%3A437%3ATOC).

([79]) Communication from the Commission to the European Parliament pursuant to Article 294(6) of the Treaty on the Functioning of the European Union concerning the position of the Council on the adoption of a regulation amending Regulation (EU, Euratom) No 883/2013, as regards cooperation with the European Public Prosecutor's Office and the effectiveness of the European Anti-Fraud Office investigations (COM(2020) 805).

The Commission continues to assess its data processing activities in light of the requirements of the *Schrems II* judgment. All affected Commission services are working together with the information technology governance bodies and the Commission's Data Protection Officer to implement coherent solutions. The Commission services, coordinated by the Data Protection Officer, have already fulfilled a request from the European Data Protection Supervisor to all EU institutions to identify and map their international data transfers and to report certain categories of transfers. The European Data Protection Supervisor's response and further guidance are pending. In parallel, the Commission services, assisted by the Data Protection Officer, are continuing to assess data processing activities that involve international transfers with a view to ensuring compliance with Regulation (EU) 2018/1725. The goal is to minimise the risks linked to ongoing and future international transfers of personal data, including by informing all data subjects of the legal context in which such transfers take place, in order for operations undertaken by the Commission services to comply with EU data protection law.

# 2.2. Cost-effective controls protecting the EU budget

## 2.2.1. The Commission aims at striking the right balance between a low level of errors, fast payments and reasonable costs of controls

All Commission departments apply the **common control features** described above, by which measures to detect, prevent and correct irregularities are applied on a multiannual basis at the level of specific programmes or other expenditure segments. As seen in Section 2.1.3, individual spending programmes may be very diverse and therefore **control strategies need to be adapted** to different management modes, policy areas, beneficiaries and/or funding modalities and their associated risks.

This differentiation of the control strategies is needed to ensure that the controls remain **cost-effective**, i.e. that they strike the right balance between ensuring a low level of errors (effectiveness), fast payments (efficiency) and reasonable costs (economy). Riskier areas will trigger a higher level of scrutiny and/or frequency of controls, whereas low-risk areas should lead to less intensive, costly and burdensome controls. In addition, the actual recovery potential of unduly spent EU funds will be considered when setting up the control strategy (e.g. through the cost–benefit analysis of on-site audits).

Other ways to ensure the cost-effectiveness of controls include reducing the risk of errors through simplified rules and/or processes (such as simplified cost options, i.e. lump sums, flat rates and unit costs), cross-reliance on existing assessments and/or audits and controls performed by other entities and achieving economies of scale by pooling the control functions.

In order to measure the cost-effectiveness of its controls, the Commission uses the following indicators.

- Effectiveness. The level of errors found based on the controls carried out, which allow the expenditure to be grouped into different risk categories.
- Efficiency. The average time taken to make a payment. Beyond this, the Commission is also constantly looking for and developing new ways to increase efficiency, notably by creating synergies wherever possible.
- Economy. The proportionality between the costs of controls and the funds managed.

## 2.2.2. At the end of the programmes' life cycle, the risk is below 2%

### The Commission's control results confirm that the EU budget is well protected


To measure the effectiveness of the audits and controls carried out as described above and based on their results, every year each Commission directorate-general and service estimates the level of risk to the legality and regularity of EU spending at two stages in the multiannual control cycle: payment and closure.

**Overall results for 2020**
**Risk at payment.** 1.9%
**Risk at closure.** 0.9%
**Corrections of past payments.** EUR 596 million
**Reservations.** 19, with a total financial impact of EUR 1 219 million

The **risk at payment** is an estimate of the errors that have not been prevented and may still affect the payments (made to Member States, intermediary organisations, beneficiaries, etc.) despite the *ex ante* controls. The errors are detected through *ex post* controls and audits on the payments made.

The **risk at closure** is an estimate of the errors that will remain at the end of the programmes' life cycle, once all *ex post* controls and corrections have been made. It is equal to the risk at payment minus a conservative estimate of the **future corrections**, which will take place between the reporting year and the end of the programmes' life cycle.

For more details on these concepts and the methodology used to determine these estimates, as well as the rates per policy area and per Commission DG, see Annex 5.

The Commission considers that the budget has been effectively protected when, by the closure of the programme at the latest – i.e. when all controls, corrections, recoveries, etc. have been made – the risk at closure is below 2% of the relevant expenditure, which is the materiality threshold also used by the European Court of Auditors.

For **2020, the Commission's overall risk at payment and risk at closure are both below** the materiality threshold of 2%. The risk at payment and the risk at closure are below 2% in most of the individual policy areas as well (for details by DG, see Annex 5).

The decrease in the overall risk at payment compared to 2019 is due to the decrease in the risk at payment in cohesion.

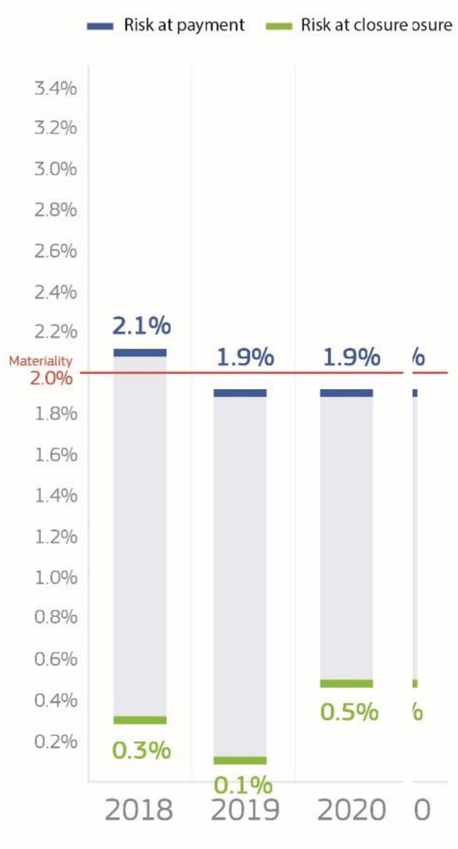
The increase in the overall risk at closure is related to an increase in the risk at closure for agriculture.

This means that, overall, the Commission's multiannual control systems ensured the effective **protection of the EU budget** in 2020.

The situation regarding risks at payment and at closure for 2020 per policy area is described below and their evolution over the 2018-2020 period is shown in graph format. For more details, including about the departments covered in each policy area, see Annex 5.

## Natural resources

For **natural resources**, the **risk at payment** is **stable**, at **1.9%** in 2020. This is **similar to 2019**(80) and remains below the materiality threshold of 2%. It corresponds to the risk at payment for agriculture expenditure, which represents the bulk of the expenditure in this policy area (98%), the rest being dedicated to maritime and fisheries (81), environment and climate expenditure.




The estimated **risk at closure** remains very **low**, at **0.5%**, which nevertheless represents an increase compared to 2019 (when the risk at closure was 0.1%) (82). This is due to the decrease in the estimated future corrections – which stand at 1.4%, compared to 1.8% in 2019. This is partly explained by the decrease that has been observed in recent years in the error rate in agriculture. For the European Agricultural Guarantee Fund, net financial corrections were lower in 2020 due to reimbursements following judgments by the Court of Justice of the European Union. It is expected that the financial corrections in 2021 will be at the same level as in previous years for this fund. In 2020, the Commission **recovered** an amount of **EUR 348 million** for natural resources (see also Annex 7).In agriculture, direct payments under the European Agricultural Guarantee Fund account for 70% of payments, with a risk at payment estimated at 1.6%. This is well below 2% and remains free of material error for the 6th consecutive year. This type of expenditure is inherently low risk due to the entitlement-based reimbursement mechanism (see also Section 2.2.3). This is also the case for fisheries and the environment and climate actions. For spending areas where the expenditure is subject to complex eligibility conditions, such as rural development and market measures, the levels of risk at payment remain above the materiality threshold, at 2.9% and 2.4% respectively. Nevertheless, this risk has been decreasing over recent years due to the efficient management and control systems applied, in particular the Integrated Administration and Control System, including the Land Parcel Identification System. Moreover, the successful cooperation between the Commission and the Member States has proven to be an effective tool to remedy the weaknesses identified in certain paying agencies.

At the end of 2020, there were **five reservations** for segments of expenditure or programmes where control weaknesses and/or error rates above 2% had been identified (see more details in Annex 6), namely:

- three reservations for agriculture, for the **European Agricultural Guarantee Fund market measures** (affecting 8 Member States) and **direct payments** (affecting 17 paying agencies in 9 Member States), and the **European Agricultural Fund for Rural Development measures**, corresponding to those Member States and paying agencies that (temporarily) experienced control weaknesses and/or high error rates;
- one recurrent non-quantified reservation for the **EU emissions trading system registry**;
- one new non-quantified reservation in 2020 for the **European Maritime and Fisheries Fund**, corresponding to a control system weakness identified in **one Member State**.

(80) The risk at payment was estimated at 1,9% in 2019 which in line with the level of error for natural resources estimated by the Court of Auditors in its 2019 annual report (See Annex 6.1, p. 185 of the annual report on the implementation of the EU budget for the 2019 financial year (https://op.europa.eu/en/publication-detail/-/publication/58a200f9-a180-11eb-b85c-01aa75ed71a1/language-en/format-PDF/source-206369444).

(81) The European Maritime and Fisheries Fund expenditure, although included under the 'Natural resources' heading, follows the same delivery mechanism as cohesion expenditure.

(82) As there is no closure of the European Agricultural Guarantee Fund measures, in the area of agricultural expenditure the risk at closure is replaced by the final amount at risk.

In all cases where the deficiencies identified have led to reservations, there are follow-ups: conformity clearance procedures to ultimately protect the EU budget, monitoring of the implementation of remedial actions taken by Member States and, where necessary, interruption or reduction/suspension of payments to the Member States. This systematic and precisely targeted approach ultimately enables the protection of the EU budget.

## Cohesion


For **cohesion**, the **risk at payment** is estimated in the range of **1.9% to 2.4%**, a **decrease** compared to 2019. The upper limit of the range is determined taking into account the worst-case scenario in light of ongoing audit procedures. The **estimated future corrections** have also **decreased**. Therefore, the **risk at closure** is estimated at **1.2%**, which is in line with 2019 (1.1%). In 2020, the Commission applied **corrections and recoveries** for an amount of **EUR 186 million**.

The decrease in the risk at payment can be attributed in particular to the **European Regional Development Fund** and the **Cohesion Fund**, which have the largest share of expenditure under this policy area. In these funds, the risk at payment has decreased from a range of 2.7% to 3.8% in 2019 ([83]) to a range of 2.1% to 2.6% in 2020.

For the **European Social Fund**, the risk at payment has also decreased from a range of 1.7% to 2.4% in 2019 to a range of 1.4% to 1.9% in 2020. The difference from the European Regional Development Fund and the Cohesion Fund risk level is mainly explained by differences in the complexity of the projects financed by each fund and the fact that the European Social Fund uses a higher proportion of simpler delivery mechanisms such as simplified cost options.

After the initial ramping-up of payments in 2018 and 2019, which resulted in an increase in the level of errors and the number of programmes under reservation (from less than 35 in 2017 to more than 90 in 2019), the implementation was fully up to speed in 2020. This allowed the actions that the Commission had put in place, building on the lessons learned from the previous years, to start to bear fruit. As a result, the number of operational programmes under reservation is down to under 65 and the risk at payment has also decreased.

More specifically for cohesion policy, in 2020, the Commission, in close cooperation with the audit authorities from the Member States, has taken all necessary initiatives to further consolidate the compliance level through:

- contributing to the assurance process by performing audits and presenting assurance packages on time, notwithstanding special COVID-19-related conditions (affecting all audit authorities);
- improving administrative capacity by increasing the number of audit personnel and their auditing qualifications;

([83]) This is within the error-level range of between 2.1% and 6.7% estimated by the Court of Auditors in its 2019 annual report (Annex 5.1, p. 156). The higher level of error estimated by the Court can sometimes be explained by divergences in the interpretation of national rules, by the calculation of the level of error related to procedural procurement errors and by the Court's methodology, which extrapolates any errors found in one Member State to all Member States.

- updating and completing checklists with a view to achieving coverage of all legal requirements and leaving a full audit trail; and
- entering reservations on the basis of the system assessments and reportable error rates, adjusted, as the case may be, based on the previous year's confirmed error rates after all controls were applied.

However, despite these improvements, for the European Regional Development Fund and the Cohesion Fund, the risk at payment remains above the 2% materiality threshold. The main categories of irregularities identified by the Member States' audit authorities and the Commission are similar to those identified by the Court of Auditors: ineligible expenditure, public procurement errors, deficient audit trails and the absence of essential supporting documents. This shows that **most audit authorities detect the different types of irregularities** contributing to the error rate appropriately, but not always entirely. This issue is inherent in complex projects and rules. In most cases, overall the weaknesses detected are not systemic and, usually, with the remedial action put in place, the situation becomes satisfactory again within a year or two. In addition, errors or weaknesses found in one operational programme do not mean that similar errors or weaknesses are present in the whole Member State. Only in a **limited number of cases are the deficiencies systemic and recurrent** ([84]).

At the end of 2020, there were **four reservations** issued by the two directorates-general dealing with cohesion:

- two reservations correspond to the **2014-2020 period** and include all the programmes which, during the year, presented significant weaknesses in their management and control systems or for which the error rate was above the materiality threshold or, less frequently, for which the audit work at Member State level was deemed insufficient or unsatisfactory;
- two reservations correspond to the **2007-2013 period**, where a few operational programmes still need to be closed, but are not quantified because no payments were made.

Reservations are only lifted once sufficient corrective measures have been taken. Usually, the reasons for the reservations are not structural and it takes 1 to 2 years, with the support provided by the Commission, for a reservation to be lifted for an operational programme. For instance, for the European Regional Development Fund and the Cohesion Fund, in 87% of the cases, the reservations are lifted less than 2 years after being issued. See more details on reservations in Annex 6.

When the Commission identifies that programme authorities (i.e. managing or audit authorities) missed errors or did not appropriately or exhaustively detect errors, it provides them with targeted technical support (e.g. revision of (audit) checklists, clarification of applicable rules and training of staff) to improve the quality of their work and their detection capacity and to ensure that their work meets the expected standards. The Commission also provides targeted support so that the managing authorities are better equipped to deal with the most complex parts of the implementation of the funds. For instance, given the importance of procurement procedures, which are one of the main sources of errors for the implementation of the funds, the Commission continues implementing its action plan to improve the compliance with these procedures. Particular emphasis is being given to actions helping Member States to further professionalise procurers. In general, the Commission has also drawn up extensive guidance, examples of good practices and explanations, which are available online. Peer-to-peer exchanges are being promoted to support contracting and programme authorities in dealing with these issues and reducing errors at their level. Where necessary, when the deficiencies are persistent, the Commission proposes more targeted remedial action to improve the authorities' administrative capacity, which entails requests for more staff, additional training for staff or increased recourse to outsourcing.

**The Commission is taking action to bring the risk at closure for the Cohesion Fund and the European Regional Development Fund below 2%.** In order to achieve this goal, targeted efforts are being made, under the guidance and scrutiny of the central services. These highlight the wealth of actions put in place by the Commission to improve, where necessary, the work of the managing authorities along with

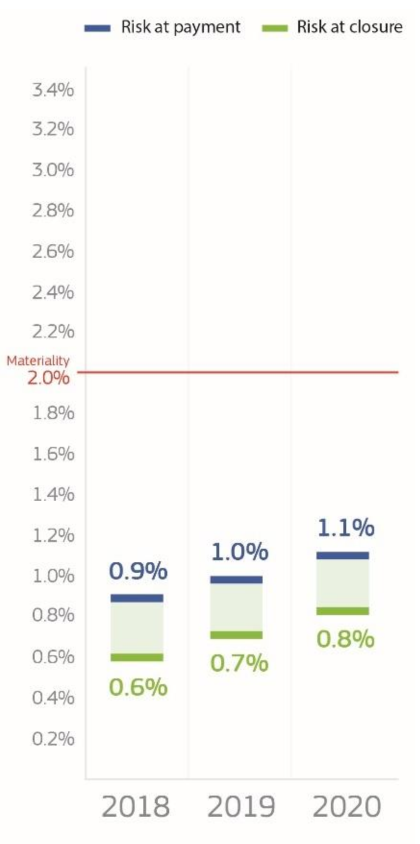
([84]) This concerns 30 out of 293 programmes for the European Regional Development Fund and the Cohesion Fund and 34 out of 214 programmes for the European Social Fund.

that of the audit authorities. The Commission will further focus these actions on the more problematic operational programmes.

In addition, in relation to previous accounting years, after finalisation of further contradictory procedures additional financial corrections have been implemented. The residual error rates have decreased accordingly, which confirms that progress is being made towards reaching the estimated risk at closure ([85]). This percentage will continue to drop until the closure of the programmes.

For **the 2021-2027 period**, the Commission proposed significant **simplification measures** for cohesion policy. A handbook of 80 key administrative simplifications was developed and largely followed. Furthermore, the Commission has set up a subgroup on simplification, in the framework of the Transnational Network of European Regional Development Fund / Cohesion Fund Simplified Cost Options Practitioners, in order to identify and discuss the most burdensome activities in the implementation of European Structural and Invest ment Funds and facilitate the exchange of replicable best practices and their dissemination to the Member States. Furthermore, peer-to-peer exchanges have taken place to allow the transfer of knowledge between Members States and the Commission, in the form of bilateral meetings and training on specific issues raised by Member States. The burden on beneficiaries will be significantly reduced by moving to sample-based management verifications, instead of systematic verifications.

## External relations




For **external relations**, both the **risk at payment** (**1.1%**) and the **risk at closure** (**0.9%**) remained **stable** and were well below 2%. In 2020, the Commission's **preventive and corrective measures** amounted to **EUR 126 million** – EUR 110 million preventive and EUR 16 million corrective.

In previous years, one important source of errors was inadequate or missing supporting documents from entrusted entities. This remains true in some segments of expenditure, like direct grants, for DG International Partnerships, as duly reflected in the yearly action plans.

Consequently, considerable efforts have been made to address the causes of these recurrent errors that will continue to have a positive impact in 2021. In particular, actions to raise awareness were maintained (and covered all types of recurrent errors) and the cooperation with international organisations was reinforced. More precise guidelines and checklists were also issued and an evaluation of the use of terms of reference for expenditure verifications adopted in 2018 was also conducted. In addition, the recommendations of the European Court of Auditors were a useful resource for continuously improving the building blocks of assurance, such as by fine-tuning the residual error rate studies.

However, in spite of these efforts, high risks were encountered in the area of neighbourhood and enlargement negotiations for grants in direct management where the reimbursement mechanism is based on eligible actual costs: this mechanism is inherently more prone to errors because of the relatively complex contractual provisions. As a result, the main source of errors was costs incurred that were not in compliance with the eligibility requirements.

([85]) For example, when taking into account all corrections related to the 2017/2018 accounting year, made between 2019 and the end of 2020, the residual error rate for 2017/2018 is:

- 1.8% for the European Regional Development Fund and the Cohesion Fund, down from a risk at payment estimated between 2.7% and 3.8%, as reported in DG Regional and Urban Policy's *2019 Annual Activity Report*, and getting closer to the risk at closure of 1.1%; and
- 1.3% for the European Social Fund, down from a risk at payment estimated between 1.7% and 2.4%, as reported in DG Employment, Social Affairs and Inclusion's *2019 Annual Activity Report*, and already corresponding to the risk at closure of 1.3%.

At the end of 2020, DG Neighbourhood and Enlargement Negotiations maintained its **two reservations**, as follows.

- One relates to **projects in Libya and Syria**, where the delegations cannot implement standard monitoring and evaluation activities due to the virtual impossibility of sending staff to conduct on-site project visits or of other verifications in the vast majority of locations in the countries due to security, political and, lately, COVID-19 constraints. DG Neighbourhood and Enlargement Negotiations has taken and will continue to adopt risk-mitigating measures, such as third-party monitoring or cross-checking and cross-referencing oral, written and visual information obtained from different sources. These measures will allow for the mitigation of the systemic risks related to the operations even without a Commission presence on the ground, but the countries remain two active conflict zones, and therefore the potential impact in terms of assurance remains significant.
- The other relates to **grants under direct management**, where the risk at payment minus corrections already applied is 3.17%, and therefore above the materiality threshold of 2% (see more details in Annex 6). An action plan including preventive actions (e.g. enhanced scrutiny of the financial capacity of the potential beneficiaries, kick-off meetings with new beneficiaries, including a dedicated session on financial and contractual issues, and on-the-spot checks of grants towards the beginning of projects) is currently in force.

## Research, industry, space, energy and transport


For the **research, industry, space, energy and transport** policy area as a whole, the **risk at payment** (**1.8%**) decreased slightly compared to 2019. The **risk at closure** (**1.4%**) remained stable. In 2020, the Commission's **preventive and corrective measures** amounted to **EUR 172 million** – EUR 146 million preventive and EUR 26 million corrective. Most spending on these programmes is directly managed by the Commission, including through executive agencies and joint undertakings, and takes the form of grants to public or private beneficiaries participating in projects.

Within this policy area, the risk at payment for the **Horizon 2020** research programmes (2.95%) remains well above 2%([86]). This higher risk is inherent in this type of expenditure, where payments are still largely based on the reimbursement of actual eligible costs (see Section 2.2.3 ) as per the related legal bases. Nevertheless, some parts of Horizon 2020, such as the Marie Skłodowska-Curie actions or the European Research Council grants, are considered low risk, with error rates below 2%.

As in previous years, the research departments have not qualified their declarations of assurance with any reservations in relation to the Horizon 2020 programme despite the fact that the risk at payment minus applied corrections is 2.3%. This is because they apply the programme's specific materiality threshold of 2% to 5% in order to take into account its inherent risks and the control limitations ([87]).

**The Commission is taking action to bring the risk at closure for Horizon 2020 below or as close as possible to 2%.**

([86]) In 2019, the risk at payment for Horizon 2020 was estimated at 3,3% which was within the range estimated by the Court of Auditors' in its Annual Report 2019 (see Annex 6.1, p. 128).

([87]) The legislative financial statement accompanying the Commission's proposal for the Horizon 2020 regulation states: 'The Commission considers therefore that, for research spending under Horizon 2020, a risk of error, on an annual basis, within a range between 2-5% is a realistic objective taking into account the costs of controls, the simplification measures proposed to reduce the complexity of rules and the related inherent risk associated to the reimbursement of costs of the research project. The ultimate aim for the residual level of error at the closure of the programmes after the financial impact of all audits, correction and recovery measures will have been taken into account is to achieve a level as close as possible to 2%.' (https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX%3A52011PC0811)

Several waves of simplification have been introduced in the research programmes, making life easier for beneficiaries and contributing to the reduction of the risk of error over the years. Still, the remaining complexities, in determining the exact costs that can be charged to projects, lead to errors in the related payments. In order to achieve this goal, an action plan has been set up under the guidance and scrutiny of the central services. Targeted efforts are being made to enhance the communication with Horizon 2020 participants, focusing on the most error-prone beneficiaries such as small and medium-sized enterprises, newcomers and one-time participants. Dedicated webinars are being put in place which aim to better explain the cost categories that contribute the most to the error rate. In addition, Commission staff in charge of carrying out *ex ante* controls are receiving additional training and guidance on how to focus more on riskier areas while maintaining the balance between mitigating risk and building trust, while enhanced online training of external firms performing audits on behalf of the Commission will also be organised. All the while, existing controls are being assessed and, where possible, enhanced and/or automated. In addition, the detection of plagiarism and double funding has been improved through a dedicated information technology tool.

For the next research programme, **Horizon Europe**, the Commission's proposal (to be adopted in 2021) further expands the use of simplified cost options, enabling beneficiaries to comply with the rules more easily and dedicate more focus to their actual research project.

Regarding the other programmes, the risks at payment and closure for the **Connecting Europe Facility** (covering transport, energy and telecommunications), implemented by the European Climate, Infrastructure and Environment Executive Agency (formerly the Innovation and Networks Executive Agency), are globally below 2%. The EU **space** programmes ([88]), implemented by the European Space Agency and the European GNSS Agency, also have inherently lower risks thanks to the type of funding and the level of auditing carried out.

For 2020, there is only one **reservation** for the grants under the EU programme for the competitiveness of enterprises and small and medium-sized enterprises implemented by the **European Innovation Council and SMEs Executive Agency** (formerly the Executive Agency for Small and Medium-sized Enterprises), because the risk at payment minus the corrections made during 2020 (2.96%) is above the materiality threshold of 2% (see more details in Annex 6).

## Other internal policies


For **other internal policies**, comprising mainly education and culture, migration and home affairs, and economic and financial affairs, the **risks at payment and at closure** increased slightly, from 1.0% to 1.3% and from 0.8% to 1% respectively, and are **well below 2%.** In 2020, the Commission's **preventive and corrective measures** amounted to **EUR 51 million** – EUR 35 million preventive and EUR 16 million corrective.

The Commission's main education and culture programmes have undergone progressive simplification over many years, leading to an overall low risk profile thanks to the recurrent nature of activities and beneficiaries. The overall amount at risk is a reflection of this low inherent risk combined with effective control systems.

Under this policy area, last year's **reservations** have all been maintained, as follows (see more details in Annex 6).

**DG Justice and Consumers.** One reservation for a material error rate in grants under direct management. As in the previous years this is due to the complexity of the rules defining the eligibility of the costs and the lack of supporting documents.

As remedial actions, a number of concrete measures have been introduced, such as the systematic organisation of kick-off meetings to explain the applicable rules to the grant beneficiaries in detail. In addition, the approval of the new multiannual financial framework has led to the

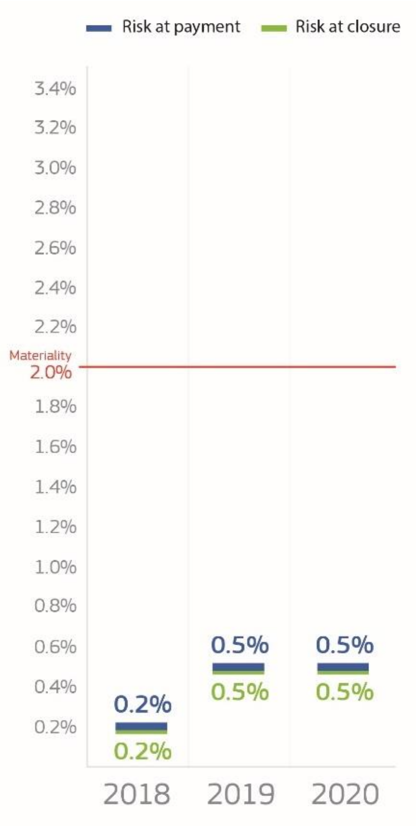
([88]) Such as Galileo and the European Geostationary Navigation Overlay Service (the European satellite navigation systems) and Copernicus (the EU earth-observation system).

application of further simplifications, such as a single, simple way of determining the number of productive hours for the calculation of personnel costs.

**DG Migration and Home Affairs.** One reservation for shared management in the 2014-2020 funding period concerning the Asylum, Migration and Integration Fund and the Internal Security Fund, one for the instruments of the 2007-2013 funding period, and one for the EU actions and emergency assistance grants. Where these reservations are quantifiable, it is because of a material level of error.

In addition, DG Migration and Home Affairs has issued a reservation on reputational grounds related to weaknesses identified in the effective implementation of the European Border and Coast Guard Agency's new mandate.

### Other services and administration




Finally, the Commission's **other services and administration** departments cover mostly low-risk types of expenditure, such as the administrative expenditure by the Office for the Administration and Payment of Individual Entitlements. Nevertheless, the **risk at payment** is prudently set at **0.5%**. As most of the corresponding control systems involve predominantly *ex ante* controls, the estimated future corrections are often set at a conservative 0.0%. Thus, the risk at closure is equal to the **risk at payment** and remains very low, at **0.5%**. In 2020, the Commission's **preventive and corrective measures** amounted to **EUR 7 million** – EUR 6 million preventive and EUR 1 million corrective.

From the revenue side, following the **loss of traditional own resources** due to undervalued imports of textiles and footwear from China – which led to a **reservation** – the quantification process of the inaccuracy of the traditional own resources amounts transferred to the EU budget is ongoing. Provisional calculations indicate that, in 2020, the inaccuracy might have reached more than 1% of the total amount of traditional own resources transferred to the EU budget in 2020, which would justify a reservation. The case is still pending before the Court of Justice of the European Union.

In this policy area, **DG Structural Reform Support** has maintained its reservation limited to grant agreements signed under direct management with beneficiaries for which no *ex ante* assessment of their internal control systems had taken place [89] (see more details in Annex 6).

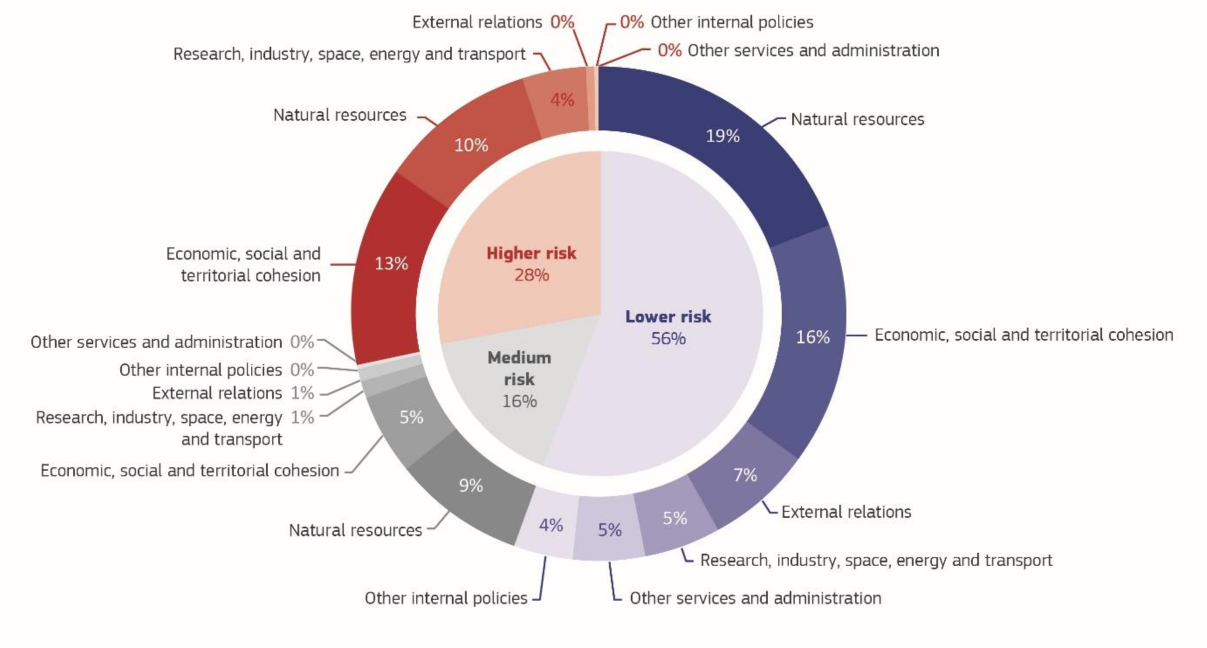
## 2.2.3. Lower, medium and higher risk programmes

From the above, it appears that there are programmes or segments of expenditure with fairly low levels of error and others with relatively higher ones. This is closely related to the nature of the funding, notably the difference between rather complex reimbursement-based schemes on the one hand and fairly straightforward entitlement-based payments on the other hand [90]. But the control systems in place allow the risks related to some of the more complex programmes to be mitigated and as a result reduce the level of error.

[89] For the European Structural and Investment Funds and the Structural Reform Support Programme.

[90] This is also recognised by the European Court of Auditors (in its 2018 annual report on the implementation of the budget, paragraphs 1.16-1.32 (https://www.eca.europa.eu/Lists/ECADocuments/annualreports-2018/annualreports-2018_EN.pdf)).

The Commission identifies which programmes are higher risk allowing it to focus its action where it matters most. Given its in depth empirical approach, the Commission has robust evidence that demonstrates the differentiated situation for the funds managed. Based on the **risk at payment** – before any future correction is implemented - the Commission can divide the annual expenditure precisely into lower risk at payment (where the risk is below 1.9%), medium risk at payment (between 1.9% and 2.5%) and higher risk at payment (above 2.5%). For natural resources and cohesion, this analysis is also applied at the level of individual paying agencies and operational programmes in the Member States, irrespective of the financial corrections and recoveries to be made in subsequent years. (see chart below). This allows the Commission to focus its efforts and to efficiently provide its support and to address specific weaknesses even for policies which, taken globally, are low risk, such as the common agricultural policy.




**The Commission's relevant expenditure for 2020, split into higher, medium and lower risk segments, per policy area, in % and billion EUR.**
*Source*: European Commission annual activity reports.

The division of the Commission's portfolio into lower, medium and higher risk strata is as follows.

- **Lower risk.** This segment amounted to EUR 88 billion in 2020 (56% of the expenditure). This includes the expenditure of the paying agencies in agriculture and the European Maritime and Fisheries Fund as well as the operational programmes for cohesion with a low error rate; expenditure related to the Marie Skłodowska-Curie actions; the European Research Council grants; the European Space Agency and the European GNSS Agency; the Connecting Europe Facility; Erasmus+; the Asylum, Migration and Integration Fund; and budget support, subsidies and administrative expenditure.
- **Medium risk.** This amounted to EUR 26 billion in 2020 (16% of the expenditure). This includes the expenditure of the paying agencies in agriculture as well as the operational programmes for cohesion with an estimated error rate between 1.9% and 2.5%.
- **Higher risk.** This amounted to EUR 44 billion in 2020 (28% of the expenditure). This includes the expenditure of the paying agencies in agriculture as well as the operational programmes for cohesion with an estimated error rate above 2.5% or with serious deficiencies ([91]); the expenditure related to the Horizon 2020 research grants; and the complex grants of other departments.

([91]) In the case of the European Regional Development Fund, the Cohesion Fund and the European Maritime and Fisheries Fund, the level of risk has also been considered high, irrespectively of the percentage of error, when the audit opinion issued by the national audit authorities on the functioning of the management and control system and on legality and regularity of the operational programmes was either adverse or qualified..

**The Commission is closely monitoring the risk at payment and risk at closure for the different programmes and policy areas and is taking further action to reduce error rates.** For the medium and higher risk strata in particular, the services will continue to work closely with the central services on ways to further decrease the error rates by raising beneficiaries' and implementing partners' awareness of issues, adjusting the control strategies where necessary and applying the lessons learned to the future programmes.

It is important to highlight that this estimated split results from an analysis of the risk at payment at the level of programmes and other relevant expenditure segments. This split is different from that of the European Court of Auditors, which is based on the type of reimbursements made – i.e. entitlements are considered inherently low risk and reimbursements are considered inherently high risk – regardless of the level of error actually found. From a management perspective, thanks to the results of the controls in place, the actual level of error can be lower than the materiality threshold and programmes that are considered high risk by the Court of Auditors can actually be quite low risk in reality.

## 2.2.4. The Commission is further improving the efficiency of its operations

In a context of tight budgetary constraints, the Commission is striving to improve efficiency in all areas of its activity while maintaining a high level of delivery. The Corporate Management Board directs work across the Commission in domains such as human resources management, strategic planning, security, business continuity, financial management, information technology governance and information management, communication, logistics and event management. Working methods and processes are being streamlined to ensure the most efficient use of limited resources.

This work will continue in order to ensure optimal allocation of resources and a high level of performance in a context of increasing workload in many areas, including most recently in relation to the response to the ongoing COVID-19 pandemic.

- In 2020, the College of Commissioners adopted the legal acts establishing the future executive agencies under the 2021-2027 multiannual financial framework ([92]). This was accompanied by guidance to optimise staffing and administrative procedures in these agencies.
- In her mission letter to Commissioner Hahn, President von der Leyen requested that he develop a new human resources strategy for the Commission in order to continue the modernisation of the organisation. The Corporate Management Board provided guidance on the development of this strategy, taking into account the experience gained from the COVID-19 pandemic and the need for alignment with the policy for the greening of the Commission and the new real estate policy.
- In 2020, the Corporate Management Board presided over the preparation of a comprehensive action plan for greening the Commission's administration in line with the objectives of the European Green Deal. This plan will lead the Commission, as a public institution, towards climate neutrality by 2030.
- In 2020, the Commission swiftly decided on an allocation of human resources with a view to strengthening the delivery of the key political priorities and the Commission's response to the impact of the COVID-19 pandemic. This included in particular staff reinforcement for the European Green Deal and the implementation of the NextGenerationEU package.

COVID-19 not only required Commission departments to adjust the way they carry out their controls, but also presented an opportunity to rethink the way they work in all areas.

([92]) Communication to the Commission – Delegation of the management of the 2021-2027 EU programmes to executive agencies (C(2021) 946).

In supporting the Commission's response to the COVID-19 crisis, Eurostat promptly implemented a number of actions to ensure business continuity for the provision of relevant and high-quality statistics. In parallel, it also implemented new methods of producing statistics with new data sources, experimental statistics and innovative tools, to respond to emerging data needs during the pandemic and the recovery period. These advancements are here to stay and will be capitalised on even after the crisis.

**Simplification** can be achieved through the simplification of rules; through harmonised and, as far as possible, standardised corporate models of legal instruments and modern corporate financial information technology tools; and through ensuring consistency in relations with beneficiaries, Member States and partners implementing EU funds under indirect management.

Actions undertaken **at corporate level** during 2020 include developing more efficient corporate workflows (for grants, procurement and financial instruments) through simplified corporate models and procedures (building on the single electronic data interchange area). In addition, the Commission has stepped up guidance and coordination vis-à-vis both Member States and other Commission departments in areas that are relevant to the implementation of the EU budget (e.g. internal control systems in Member States, conflicts of interest, rule of law and anti-fraud measures).

The single data-mining tool the Commission makes available to Member States, for control and audit purposes under the European Structural and Investment funds, will be extended to the common agricultural policy and the Recovery and Resilience Facility. The tool aims at enhancing the interoperability of the data on recipients of EU funds and helping identify which measures, recipients, contracts and contractors might be susceptible to fraud, conflicts of interest and irregularities. It will thus ensure an additional layer of protection for the EU budget.

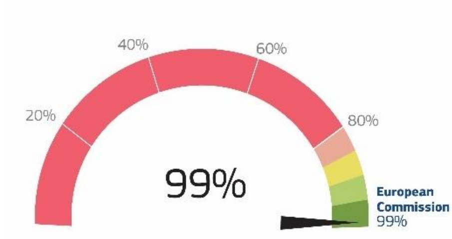
Other information technology initiatives are e-cohesion in shared management and the geospatial system used for agriculture. Further digitalisation of the processes is being encouraged and tested.

Initiatives to further progress in making the Commission agile and modern also continued **at the level of the Commission departments**, in particular to reinforce the efficiency of financial management and as a response to the COVID-19 pandemic, as follows.

- A number of Commission departments have further digitalised their financial processes. This contributes to a leaner, less bureaucratic, better integrated and more flexible Commission. As a result, resources are increasingly focused on front-line activities. Moreover, automated dashboarding tools have enhanced the monitoring process and facilitated improved management and better use of data, while reducing the chances of missing opportunities for early response.
- Several Commission departments also reported that they have adapted their control strategies and/or their financial workflows, with a view to simplifying procedures and further aligning the frequency and intensity of controls with the level of risk associated with transactions and with the travel restrictions imposed by the COVID-19 pandemic.

Despite the difficult situation created by COVID-19 and thanks to the abovementioned initiatives to ensure the effective implementation and protection of the EU budget, the time needed to complete the financial processes remained similar to previous years. In particular, the main efficiency indicators for the use of the EU budget – the level of implementation of the budget and the timeliness of the payments – remained at a very high level, as shown in the following.

- 99% of the payment appropriations expiring in 2020 were paid in 2020.
- 99% of the payments made (in terms of amounts) were within the legal payment deadline (see details in Annex 10). This is important as many beneficiaries rely on these payments to carry out their activities and projects, which, in turn, contribute to the Commission's objectives.



Given the COVID-19 pandemic, the Commission made use of the option of accelerated procurement procedures, to allow projects to start early and to ensure timely results.

## 2.2.5. The cost of controls remains proportionate to the associated risks

Overall, the estimated cost of controls is **reasonable** in view of the nature of the programmes and/or the contexts of the controls. Furthermore, the costs remain **stable**. In some cases they decreased slightly due to the adjustments made to the control plans in the context of COVID-19, where on-the-spot audits were replaced with remote audits. In other, limited cases, their relative weight increased slightly when the amount of expenditure decreased compared to the previous year. A direct comparison between programmes is often not possible because of their different features and cost drivers, examples of which are given in the box below.

**Examples of common cost drivers**

- The degree of complexity of the programmes managed.
- The volumes and amounts to be processed – processing a high number of low-value transactions is more labour intensive than processing a low number of high-value transactions.
- The specific risk profiles of the programmes managed, for instance programmes in external relations where funds are mostly spent in non-EU countries.
- Possible diseconomies of scale for certain smaller programmes, in terms of amounts of funding, as well as programmes that are being phased out, or funds managed by smaller entrusted entities, or Commission departments managing smaller amounts of funds, as there is always an irreducible number of controls to be carried out regardless of the amounts of funding involved.
- The type of management: under indirect and shared management, the costs of controls are shared between the Commission and its implementing partners, national authorities or entrusted entities, and so the costs at Commission level may be much lower for such programmes than for those that are directly managed by the Commission.

For the sake of transparency and completeness, those departments dealing with shared and/or indirect management have also reported in their annual activity reports on the cost of controls in Member States and entrusted entities, separately from the Commission's own cost of controls. For example, for common agricultural policy, the costs reported by Member States for delivery represented 3.4% of the expenditure for 2020.

In 2020, following the combined assessment of their effectiveness, efficiency and economy, all Commission departments concluded that, overall, their **controls were cost-effective**.

# 2.3. Management assurance

## 2.3.1. Assessments, assurance and reservations declared by Directors-General

In their 2020 declarations of assurance ([93]), **all 51 Directors-General (or equivalent) declared they had reasonable assurance** of the following: (1) the information contained in their reports presents a 'true and fair view' (i.e. reliable, complete and correct) of the state of affairs in their departments; (2) the resources assigned to their activities were used for their intended purpose and in accordance with the principle of sound financial management; and (3) the control procedures put in place give the necessary guarantees concerning the legality and regularity of the underlying transactions, taking into account the multiannual character of some programmes and the nature of the payments concerned.

Within the context of their overall assurance-building processes and from their management perspectives, the Directors-General also perform a more detailed analysis for each programme or segment of their portfolio. They use all available information, especially the results of their controls, to spot any potential significant weakness in quantitative or qualitative terms. At the end of each financial year, they determine whether the financial impact of such a weakness is likely to be above the materiality threshold of 2% and/or whether the reputational impact is significant. If so, **they qualify their declaration of assurance with a reservation** for the specific portfolio segment affected.

For 2020, 11 Directors-General issued a qualified declaration, resulting in a total of 19 reservations (this is similar to 2019, where 18 reservations were reported, by 11 departments as follows.

- A total of 16 reservations are **recurrent** from previous year(s), 15 of which are related to the spending programmes and the other is related to the revenue side of the EU budget. These reservations have been maintained mainly because the root causes of the material level of error can be partially mitigated but not fully eradicated under the current programmes' legal frameworks.
- Three reservations are **new** in 2020. They are due to a material level of error, or serious weaknesses found in the control systems of the implementing partners (Member States or agencies).
- Two reservations that were present in 2019 were lifted in 2020: in one case this was because of the application of the 'de minimis' rule whereby reservations are no longer considered meaningful under certain conditions, namely where limited expenditure is involved (less than 5% of the payments of the directorate-general or service) and the resulting financial impact is low (less than EUR 5 million), and in the other case it was because the issues leading to the reservation were resolved.

The total financial impact of all reservations was EUR 1 219 million for 2020, i.e. 16% higher than the EUR 1 053 million in 2019. This increase is related to the slight increase in the error rates found in agriculture. For each reservation, mitigating actions are put in place to address the underlying weaknesses and mitigate the resulting risks (see details in Section 2.2.2).

Annex 6 provides a complete list of the reservations for 2020 as well as further explanations and details.

## 2.3.2. Work of the Internal Audit Service and overall opinion

The Commission directorates-general and services also base their assurance on the work done by the Internal Audit Service.

The Internal Audit Service audits the management and control systems within the Commission and the executive agencies, providing independent and objective assurance on their adequacy and effectiveness. As required by its mission charter ([94]), the Internal Audit Service issued an annual overall opinion on the

([93]) https://ec.europa.eu/info/publications/annual-activity-reports_en

([94]) Communication to the Commission – Mission charter of the Internal Audit Service of the European Commission (C(2020) 1760).

Commission's financial management, based on the audit work it had carried out in the area of financial management in the Commission during the previous 3 years (2018-2020). The overall opinion also takes into account information from other sources, namely the reports from the European Court of Auditors.

Based on this audit information, **the internal auditor considered that, in 2020, the Commission had put in place governance, risk management and internal control procedures which, taken as a whole, are adequate to give reasonable assurance on the achievement of its financial objectives**. However, the overall opinion is qualified with regard to the reservations the authorising officers by delegation made in their declarations of assurance issued in their respective annual activity reports. In arriving at the overall opinion, the internal auditor also considered the combined impact of (1) all amounts estimated to be at risk at payment as these go beyond the amounts put under reservation and (2) the financial corrections and recoveries related to deficiencies and errors the Commission directorates-general and services will detect and correct in the coming years due to the multiannual corrective mechanisms built into the Commission's internal control systems. Given these elements, the Internal Audit Service considers that the EU budget is adequately protected in total and over time.

Without further qualifying the opinion, the internal auditor added two 'emphases of matter', which are described in Annex 8 to this report, regarding:

- the implementation of the EU budget in the context of the current crisis related to the COVID-19 pandemic, notably the ongoing need for **continuous monitoring** and assessment of new and/or emerging risks and for defining and implementing corresponding mitigating measures **as well as appropriate financial management, audit and control strategies for operations to support the recovery under NextGenerationEU, in particular as concerns the Recovery and Resilience Facility**; and
- supervision strategies for third parties implementing policies and programmes, in particular as concerns the fulfilment of the preconditions for entrusting third parties with the management of EU funds.

With a view to contributing to the Commission's performance-based culture and greater focus on value for money, the Internal Audit Service also carried out performance audits in 2020 as part of its strategic audit plan. These audits resulted in recommendations, all accepted by the auditees, concerning data and information management, data protection, supervision strategies regarding the implementation of programmes by third parties, control strategies for selected directorates-general and services, human resources management processes, and reviews assessing the implementation of the new internal control framework in the Commission. For all recommendations, the auditees drafted action plans, which were submitted to and assessed as satisfactory by the Internal Audit Service.

Finally, the Internal Audit Service pursued its strict follow-up policy and assessed the actual implementation of its recommendations by the Commission's departments on a regular basis. The audit work confirmed that 95% of the recommendations issued during 2016 to 2020 and followed up on by the Internal Audit Service were adequately and effectively implemented by the auditees. This result indicates that the Commission services are diligent in implementing the recommendations and mitigating the risks identified by the Internal Audit Service. Annex 8 includes more information on the assurance provided by the Internal Audit Service. In addition, a report on the internal auditor's work is forwarded by the Commission to the discharge authority in accordance with Article 118(8) of the financial regulation, as part of the integrated financial and accountability reporting package.

## 2.3.3. Assurance obtained through the work of the Audit Progress Committee

The Audit Progress Committee oversees audit matters within the Commission, and reports annually to the College of Commissioners. It ensures the independence of the Internal Audit Service, monitors the quality of internal audit work, and ensures that internal (i.e. from the Internal Audit Service) and external (i.e. from the European Court of Auditors) audit recommendations are properly taken into account by the Commission directorates-general and services and that they receive appropriate follow-up.

During this first full reporting year of its 2019-2024 mandate, marked by the outbreak of the COVID-19 pandemic, the Audit Progress Committee continued to play its important role in enhancing governance, organisational performance and accountability across the entire organisation. It held four rounds of meetings.

While the committee focused its work on the four key objectives set out in the 2020 and 2021 work programmes, it also closely monitored the COVID-19 situation in connection with its areas of responsibility, for example when considering the results of COVID-19-related risk assessments and their relevance for the audit planning.

It also discussed three critical audit findings raised by the Internal Audit Service with the relevant auditees, urging the auditees to complete their mitigating actions as soon as possible. The Audit Progress Committee was satisfied with the independence and quality of the internal audit work. It also found that the internal auditor's new multiannual strategic plan for the 2021-2023 period adequately covers the audit universe and continues to cover the key risk areas, such as performance, legality and regularity, data protection and COVID-19 response and recovery measures. The committee considered it encouraging that the effective implementation rate of the internal auditor's recommendations remained high (i.e. covering 95% of recommendations issued and followed up on during the 2016-2020 period) and that only six very important audit recommendations were overdue by more than 6 months as of January 2021. The committee also continued to monitor the progress in implementing the Court's recommendations.

Finally, it was satisfied when for the 13th time in a row the Court of Auditors gave a clean opinion on the reliability of the EU consolidated accounts.

Annex 9 to this annual management and performance report includes more information on the work and conclusions of the committee.

### 2.3.4. The opinions of the Court of Auditors on the 2019 accounts and on the legality and regularity of transactions

The 2019 annual report of the European Court of Auditors, published in November 2020, **once again gave a clean opinion on the EU accounts, for the 13th year in a row**.

**Validation of local systems**

The accounting officer is required to sign off on the annual accounts, certifying that they have reasonable assurance that the accounts present a true and fair view of the financial situation of the Commission. The validation of local systems consists of a number of monitoring and supervisory controls aimed at providing assurance that the accounting officer can rely on the information entered by the various Commission departments in the accounting systems. This is in addition to the departments' own management assessments of the internal control systems in place.

The work carried out in 2020 identified strengths as well as a number of weaknesses and issues, resulting in recommendations intended to improve the control environment and accounting quality in the departments – mitigating risks to the accuracy of the financial and regulatory management reporting ([95]). Action plans are being implemented to address the recommendations. None of the weaknesses identified are likely to have a material impact on the annual accounts.

([95]) The recommendations mainly concerned six directorates-general: DG Economic and Financial Affairs, DG Internal Market, Industry, Entrepreneurship and SMEs, DG Employment, Social Affairs and Inclusion, DG Energy, DG Environment and DG Climate Action.
The main risks concerned various issues with the following: the accounting control environment; the fact that the European Agricultural Guarantee Fund was not included, which might have an impact on charges accrued during the year, the timely clearing of pre-financing (but mitigating measures are taken at the end of the year for the cut-off); the timely issuance of recovery orders; and the synchronisation of accrual-based accounting with local information technology systems.

While **revenue** also continues to be **free from material error**, the European Court of Auditors issued an **adverse opinion on the legality and regularity of 2019** expenditure instead of a qualified opinion as in the last 3 years. The overall **level of error** for the EU budget **(2.7%**) estimated by the European Court of Auditors was relatively **stable** compared to the last 2 years, and significantly lower than in the years before 2017.

The Court's decision to move from a qualified to an adverse opinion is mainly explained by the increase in the share of what it considers to be high-risk expenditure. High-risk expenditure, which is often subject to complex rules and is mainly based on reimbursement of costs, increased from 51% of the audited population in 2018 to 53% in 2019. It therefore came to account for more than half of the EU budget and covers in particular cohesion, research expenditure, rural development, European Agricultural Guarantee Fund market measures and some parts of external actions. For the biggest areas of EU expenditure – natural resources (accounting for 47% of audited expenditure) and cohesion policy (23%) – the Court's estimated levels of error decreased compared to the year before: in cohesion, the level fell from 5% to 4.4% and in natural resources it fell from 2.4% to 1.9%, the latter being, according to the Court, close to the materiality threshold of 2%.

The Commission follows up on the Court's recommendations, and reports on the measures taken in the annual activity reports. Moreover, it reports on the implementation of the Court's recommendations to the Audit Progress Committee on a regular basis, which performs certain monitoring activities in this respect under its updated mandate ([96]).

The European Court of Auditors also monitors the Commission's **implementation of its recommendations** and provides feedback, helping the Commission to enhance its follow-up activities. In its *Report on the Performance of the EU Budget – Status at the end of 2019*, the Court of Auditors reviewed the extent to which the Commission had pursued the implementation of 270 audit recommendations addressed to it in 33 special reports published in 2016. The Court of Auditors noted that the Commission had implemented slightly more than three quarters of the recommendations either fully (63%) or in most respects (14%), and another 14% in some respects. Out of the 24 recommendations that the Court considered had not been implemented, the Commission had initially not accepted 20. These results are broadly in line with previous years.

## 2.3.5. Discharge of the budget for 2019

The European Parliament granted discharge to the Commission for the 2019 financial year by a clear majority on 27 April 2021 after having examined the reports of the European Court of Auditors, the Commission's integrated financial and accountability reporting package and the Council's discharge recommendation. The European Parliament's Committee on Budgetary Control also invited selected Commissioners and Directors-General for exchanges of views during the discharge procedure. During the procedure, the key stakeholders – the European Parliament, the Council of the European Union and the European Court of Auditors – focused on how to improve the results delivered by the EU budget and how to further reduce the level of error. The debate also touched upon issues such as the rule of law and fundamental rights, smoother implementation, distribution of funds, information on beneficiaries of EU funds, financial instruments managed by the European Investment Bank Group, and traditional own resources. As usual, **the Commission is taking appropriate action to implement these recommendations** and report on the follow-up in a dedicated report ([97]).

## 2.3.6. Conclusion on management achievements

The annual activity reports demonstrate that all Commission departments have put in place solid internal controls and provide evidence of the efforts undertaken to improve cost-effectiveness, further simplify the rules and adequately protect the budget from fraud, errors and irregularities.

([96]) Communication to the Commission from Commissioner Reynders in agreement with the president – Update of the charter of the Audit Progress Committee of the European Commission (C(2020) 1165).

([97]) This will be the report on the follow-up to the discharge for the 2019 financial year, which will also be part of the integrated financial and accountability reporting package.

All authorising officers by delegation have provided reasonable assurance, although qualified with reservations where appropriate. These reservations are a keystone in the accountability chain. They outline the challenges and weaknesses encountered along with the measures envisaged to address them and an estimation of their impact.

The departments implementing the budget for regional cohesion policy will work with the relevant national authorities to further strengthen the controls in place to further reduce the amount at risk.

The departments implementing research policy will pursue various initiatives aiming at reducing the amount at risk through further promotion of simplified cost options and by exhausting the benefits of the different information technology tools, and adjusting the control strategies in place both to detect errors and to identify and implement best practices to prevent them.

On the basis of the assurances and reservations in the annual activity reports, taking into account the opinion of the internal auditor, the College of Commissioners adopts this *Annual Management and Performance Report for the EU Budget – Financial year 2020* and takes overall political responsibility for the management of the EU budget.

# 2.4. Further developments: outlook for 2021 and beyond

## 2.4.1. Recovery and Resilience Facility: establishment, progress and challenges

**In 2021, the Commission will make the first disbursements under the Recovery and Resilience Facility.** During 2020, the Commission took unprecedented measures to set up the facility in record time.

The main actions consisted of putting in place a dedicated governance structure and the relevant internal processes and control strategies, tailored to the fact that the facility is a performance-based instrument and that disbursements to Member States are based on the achievement of predefined milestones and targets. Payments will therefore not be subject to controls on the costs actually incurred by the beneficiary. Unlike in shared management, the Member States are the beneficiaries of the EU funds, which, once paid, become fungible in their national budgets. The Member States bear the responsibility of ensuring that the facility is implemented in compliance with EU and national rules and with the principles of sound financial management.

In order to build its assurance, the Commission will rely on the Member States' controls and complement them with its own controls as necessary, at three stages.

- During the assessment of the Member States' recovery and resilience plans, the Commission will assess whether the control systems outlined by the Member States in the plans provide sufficient assurance that the management and control systems function. If a control system is deemed insufficient, the plan cannot be approved.

  In particular, Member States must explain in their plans how they will demonstrate to the Commission that the predefined milestones or targets have been met and ensure that the related data are reliable, including control mechanisms to ensure such reliability.

  Moreover, Member States will describe the control system in place to prevent, detect and correct fraud, corruption, conflicts of interest and double funding. For that purpose, Member States must also collect certain standardised data on the final recipients of funds for the reform and investment projects.

- During the implementation of the facility, once Member States submit their payment requests, the Commission will assess whether the milestones and targets have been satisfactorily achieved and all other conditions for disbursement met. In particular, Member States must accompany each payment request with:

  — a management declaration confirming that that the funds were used for their intended purpose, that the information provided is correct, and that the control systems in place give the necessary assurance that the funds were used in accordance with applicable rules; and

  — a summary of the audits carried out, including any weaknesses identified and corrective actions taken.

  The Commission may ask for additional information and may decide to carry out additional controls in order to obtain the necessary complementary assurance of the achievement of the milestones and targets before making the payment. If the milestones and targets have not been satisfactorily fulfilled, payments will be suspended or proportionally reduced.

- After disbursements, the Commission will perform *ex post* controls, in particular in cases of doubt or if the Member States' control systems are deemed insufficient. These *ex post* controls may be related to the legality and regularity of the disbursements (i.e. to the achievement of milestones and targets).

In addition to the controls on the fulfilment of milestones and targets, although it is the Member States' responsibility to ensure the sound financial management of the funds disbursed under the facility and to recover misappropriated amounts, the Commission will perform risk-based controls to verify that there are no serious irregularities (i.e. fraud, corruption or conflicts of interest), or serious breaches of the obligations of the financing agreement and that, in case such issues are noted, they have been or are in the process of being corrected. If necessary, the Commission will recover proportionate amounts if these have not already been recovered by the Member States themselves or require early repayment of the loans.

## 2.4.2. Managing the transition of the delegation to executive agencies

Based on the successful experience of the 2014-2020 multiannual financial framework, the Commission decided, in 2020, to make greater use of executive agencies for implementing the 2021-2027 EU programmes. Six new executive agencies have been established as of 1 April 2021. Five are the successors to previous agencies, with some important changes to their portfolios. Setting up the new agencies in a single establishment act has simplified the legal basis by integrating six decisions into one, setting out the portfolio changes in a clear manner.

The new portfolios ensure that each executive agency is of sufficient size to operate efficiently and to facilitate synergies between EU programmes, ensuring sound financial management. Synergies are also supported by the new provisions allowing agencies to, for example, be entrusted with pilot projects and preparatory actions and implement transfers from funds under shared management. This structure is underpinned by a cost–benefit analysis finalised in 2020 that demonstrates its advantages for the quality and efficiency of programme implementation and its cost-effectiveness.

The staffing for each programme and executive agency has been determined based on the new portfolios. Productivity targets have been set for each programme to promote further efficiency improvements to be achieved by the end of the multiannual financial framework. Staff increases in agencies are offset by a reduction in Commission staffing levels.

In early 2021, the Commission has continued to work to ensure a smooth transition to the new agencies and programmes. The management of the new programmes will be formally delegated to the executive agencies once the co-legislator has adopted the basic acts of the programmes. This process is currently ongoing.

## 2.4.3. Better avoidance of conflicts of interest

In order to help the managers of EU funds and thereby contribute to the effectiveness of the internal control of the budget implementation, the Commission has published guidance on the avoidance and management of conflicts of interest under the financial regulation, which covers all management modes (direct, indirect and shared management) ([98]). It aims at raising awareness and promoting the uniform interpretation and application of the rules among staff of the EU institutions and Member States' authorities as well as any person involved in the implementation of EU funds.

Following the publication of the guidance, the Commission has planned promotion actions targeted at Member States, through Member States' authorities and respective expert networks, including a workshop in the context of the better spending network, as well as at its internal specialised networks. Such targeted actions and presentations will take place over the course of 2021 and beyond.

([98]) Commission Notice – Guidance on the avoidance and management of conflicts of interest under the financial regulation (C/2021/2119) (OJ C 121, 9.4.2021, p. 1).

## 2.4.4. Implementing the conditionality for the protection of the EU budget

Regulation 2020/2092 on a general regime of conditionality for the protection of the EU budget was adopted on 16 December 2020 [99]. This is a major achievement as, for the first time, the EU has a specific tool to protect its budget from breaches of the principles of the rule of law.

The regulation came into effect on 1 January 2021 and complements other procedures established by EU legislation for the protection of the budget. It aims at protecting the EU budget against breaches of the principles of the rule of law that affect (or seriously risk affecting) its sound financial management or the protection of the financial interests of the EU. The Commission has started to draw up guidelines on the application of the regulation, and is already assessing available information to identify possible breaches relevant under the regulation.

[99] Regulation (EU, Euratom) 2020/2092 of the European Parliament and of the Council of 16 December 2020 on a general regime of conditionality for the protection of the Union budget (OJ L 433I, 22.12.2020, p. 1) (https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX%3A32020R2092).

# Key terms

| TERM | DEFINITION |
|---|---|
| **Agency** | • An **executive agency** is a body governed by EU public law and which has its own legal personality, to which the Commission entrusts, under its own control and responsibility, certain tasks relating to the management of EU programmes.<br>• A **decentralised agency** is a body governed by EU public law and which has its own legal personality. A decentralised agency is subject to the external control of the Court of Auditors and to the annual discharge from the European Parliament. |
| **Annual management and performance report** | The annual report providing a comprehensive overview of the performance, management and protection of the EU budget. The Commission, by adopting this report, takes overall political responsibility for the management of the EU budget. |
| **Appropriations** | Amount of commitments/payments that can be committed/paid after receipt of contributions. |
| **Basic act** | An act of secondary law (regulation, directive or decision) laying down the objectives and conditions for budget implementation. It usually relates to the type of action (programmes). |
| **Budget execution** | Consumption of the budget through expenditure and revenue operations. |
| **Budgetary commitment** | The reserving of appropriations to cover subsequent specific payments. |
| **Department** | The Commission applies a decentralised model of financial management. According to the financial regulation, the College of Commissioners acts as the Authorising Officer. The College delegates financial management tasks to the Authorising Officers by Delegation, who become responsible for their Commission department. These 51 departments comprise 6 'types' of entities: directorates-general, executive agencies, offices, services, a centre and a task force. |
| **Direct management** | A form of implementation of the EU budget where the implementation is carried out by the Commission or one of its executive agencies. |
| **Discharge** | Decision by which the European Parliament closes an annual budget execution process, on the basis of a recommendation from the Council and a declaration of assurance from the Court of Auditors. It covers the accounts of all the EU's revenue and expenditure, the resulting balance, and assets and liabilities, as shown in the balance sheet. |

| TERM | DEFINITION |
|---|---|
| **Draft budget** | The proposal of the European Commission for an annual financial plan drawn up according to budgetary principles, which provides forecasts and authorises an estimate of future costs and revenue and expenditures, with detailed descriptions and justifications (the latter in 'budgetary remarks'). Once adopted, the **voted budget** will be available in the following year for the intended purpose. |
| **Evaluation** | Tool to provide a reliable and objective assessment of how efficient and effective interventions financed from or guaranteed by the EU budget have been or are expected to be. Commission services assess the extent to which interventions have achieved their policy objectives, and how their performance could be improved in the future. |
| **Financial instrument** | Means of providing EU financial support from the budget to address one or more of the EU's specific policy objectives through a risk-sharing mechanism. Such instruments may take the form of equity or quasi-equity investments, loans or guarantees or other risk-sharing instruments and may, where appropriate, be combined with other forms of financial support or with funds under shared implementation. |
| **Financial Regulation** | Regulation (EU, Euratom) 2018/1046 of the European Parliament and of the Council of 18 July 2018 on the financial rules applicable to the general budget of the Union (OJ L 193, 30.7.2018, p.1). |
| **Grant** | A direct financial contribution, by way of donation, from the budget to finance either an action intended to help achieve an objective of an EU policy or the functioning of a body that pursues an aim of general European interest or has an objective corresponding to part of an EU policy. |
| **Heading** | A group of EU activities covering a broad category of expenditure under the multiannual financial framework. The current multiannual financial framework (2014-2020) is composed of six headings, as follows.<br>• Heading 1. 'Smart and inclusive growth', which has two subheadings: (a) Competitiveness for growth and jobs and (b) Economic, social and territorial cohesion.<br>• Heading 2. 'Sustainable growth – Natural resources', which includes agriculture, fisheries and the environment.<br>• Heading 3. 'Security and citizenship'.<br>• Heading 4. 'Global Europe'.<br>• Heading 5. 'Administration'.<br>• Special instruments. These are for areas that fall outside the multiannual financial framework ceilings or its other headings. |

| TERM | DEFINITION |
|---|---|
| **Implementation rate** | Share of available amounts committed or paid compared to the amount of the voted budget. |
| **Indirect management** | A form of implementation of the EU budget based on entrustment by the Commission of one or more third parties (e.g. non-EU countries, international organisations, European Investment Bank Group). |
| **Joint undertaking** | A legal EU body established under the Treaty on the Functioning of the European Union. The term can be used to describe any collaborative structure proposed for the 'efficient execution of Union research, technological development and demonstration programmes'. |
| **Payment appropriations** | Amount of money covering expenditure due in the year, arising from legal commitments entered into in the current year and/or earlier years. |
| **Programme** | Set of related measures and activities for implementing EU policies. EU policies are implemented through a wide range of programmes and funds providing financial support to hundreds of thousands of beneficiaries – farmers, students, scientists, non-governmental organisations, businesses, towns, regions, etc. |
| **Shared management** | A form of implementation of an EU fund or programme where the task of management is delegated to EU Member States (as opposed to direct management). This applies to the vast majority of EU-funded projects. |
| **Special instruments** | A means of providing EU financial support from the budget to allow the EU to react to specified unforeseen circumstances or to allow the financing of clearly identified expenditure that cannot be financed within the limits of the ceilings available for one or more headings. The mobilisation of special instruments is subject to a decision by the budgetary authority, acting on a proposal for a transfer from the 'reserve' title to the item concerned. |

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