



2019

Annual Activity Report

**Directorate-General
for Internal Market,
Industry,
Entrepreneurship and
Small and Medium-
sized Enterprises**

(DG GROW)

Foreword of the Director – General

Foreword of the Director – General

In 2019, DG GROW continued its work to boost jobs, growth and investment in Europe by supporting European SMEs to grow, innovate and internationalise, helping EU industry to become a global leader in innovation, digitisation and decarbonisation, delivering on a deeper and fairer Single Market on the ground and contributing to Europe's strategic autonomy and role as a major space player.

Negotiations on the new spending programmes for the next EU long-term budget continued in 2019. DG GROW has been the lead service in these discussions for the Single Market Programme, the Space Programme and the European Defence Fund. In addition, we contributed to Horizon Europe and InvestEU.

2019 has been marked by a strong focus on the complementation of the Juncker Commission priorities and intensive work to prepare the new Commission. DG GROW continued its efforts to closing its legislative agenda while implementing, in parallel, rules that ensure the free flow of goods and services. At the same time, preparatory work has been underway on the new European industrial strategy and the SME strategy, which were adopted in March 2020 in line with the new von der Leyen Commission priorities. A new Directorate-General for Defence Industry and Space (DG DEFIS) was created in January 2020. DG GROW took preparatory actions to ensure a smooth separation of portfolios.

Finally, looking back, 2019 was an eventful year. In October, a withdrawal agreement was reached between the European Union and the United Kingdom. DG GROW contributed to reduce negative consequences for citizens and businesses by preparing guidance notes and policy work in 16 policy areas, amongst which chemicals and automotive sectors.

All these achievements were made possible thanks to the hard work of the dedicated and motivated colleagues in DG GROW. To them, I would like to extend my wholehearted gratitude.

Gwenole Cozigou

Acting Director – General of DG GROW

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THE DG IN BRIEF

Mission of the Directorate-General

DG GROW works to create opportunities for all – European businesses & citizens.

Extended Mission Statement

"Every European citizen should benefit from a dynamic and sustainable economy, characterised by a favourable entrepreneurial climate and respect for core European values like cultural diversity, social cohesion and protection of the environment.

Working together at the European level allows us to make the best out of the opportunities and challenges arising from an increasingly digitalised global and rapidly changing world.

A vibrant economy will create ample job opportunities for a well-trained and well-skilled European workforce and offer to the consumer products and services that are safe, affordable, of good quality and produced under environmentally and socially sound conditions.

DG GROW is well placed to foster opportunities and welfare for all, allowing citizens, entrepreneurs, small and large businesses as well as their employees to reap the full benefits from a large, integrated and globally competitive single market.

Our aim is to help entrepreneurs with great business ideas obtain the necessary support to start up, grow and thrive. We want to also help them find opportunities for their innovative products and services in the global economy beyond the EU's borders."

Environment under which the Directorate-General operates

The general environment, in which DG GROW operates, in both executing budget and achieving objectives, is characterised by a great number of challenges. Given that the majority of the DG GROW budget is managed indirectly via entrusted entities, the Directorate-General has also to rely on external control systems.

In addition to the inherent risks related to the direct and indirect spending modes, DG GROW has to take into account other risks related to factors which could not necessarily be directly influenced by the Directorate-General and could develop despite our efforts made in mitigation, e.g. highly technical aspects of certain activities; non-occurrence of circumstances, which are an underlying assumption for an activity or extraordinary events or circumstances beyond the control of DG GROW.

In line with the organisation established in the Management Plan of DG GROW, 805 establishment posts were assigned to the DG at end-2019 and 168 external staff (excluding blue book trainees, interimairees and service providers).

The administrative structure of the DG was organised in four main strands, composed of 11 directorates and 47 units.

The activities under the first strand cover three directorates and report directly to the Director-General:

- Competitiveness and European Semester,
- Single Market Policy, Regulation and Implementation,
- Resources.

The second strand, directly reporting to a deputy Director-General, included directorates leading in:

- Industrial Transformation and Advanced Value Chains,
- Consumer, Environmental and Health Technologies in the Single Market and
- Innovation and Advanced Manufacturing.

The third strand, directly reporting to a second deputy Director-General, included directorates leading in:

- Modernisation of the Single Market,
- Single Market for Public Administrations,
- COSME Programme.

The fourth strand, directly accountable to a third deputy Director-General, included the Space Programmes directorates:

- Space Policy, Copernicus and Defence and
- EU Satellite Navigation Programmes.

The **accountability chain** established in DG GROW relies on input from other entities¹ to allow the achievement of the DG GROW's policy and operational objectives:

- With the executive agencies, REA² and EASME³, the Directorate-General steered the implementation of Horizon 2020 and COSME.
- With the support of decentralised agencies, the Directorate-General led the successful implementation of for example: the regulation on Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH), the European satellite navigation and Copernicus programmes. [Annex 8](#) shows the complete list of agencies.
- With the support of international organisations, DG GROW is further developing a European capacity for earth observation, a satellite navigation system and is monitoring EU programmes and supporting SMEs through dedicated financial instruments. [Annex 6](#) shows international organisations.

Regarding the budget, [Annex 3](#) shows the payment execution of DG GROW for 2019. The detailed distribution of the payments appropriations in 2019 is included in Section 2.

At the end of 2019, DG GROW went through a reorganisation which took effect as of 1/1/2020, when Defence Industry and Space activities were taken over by the newly created DG DEFIS and pharmaceuticals and medical devices by DG SANTE. The present AAR covers the transferred activities since at end 2019 these were still part of DG GROW portfolio.

As from the 1st of January 2020, Mr. Gwenole Cozigou is acting Director-General of DG GROW because the College appointed his predecessor Mr. Timo Pesonen Director-General of the new DG DEFIS in December 2019. The Secretariat General was informed on 15 January 2020⁴ that the financial sub-delegations attributed to Mr. Pesonen when he was appointed as Director-General at DG GROW in March 2019⁵, were transferred to Mr. Cozigou as from the 1st of January 2020.

This transfer concerns only the DG GROW budget lines considering that those from DG DEFIS remain with Mr. Pesonen (being Director-General of DG DEFIS as from the 1st of January 2020).

¹ The reader is referred to section 2.1.

² Research Executive Agency

³ Executive Agency for SMEs

⁴ [Ares\(2020\)238136](#)

⁵ [Ares\(2019\)1333896](#)

EXECUTIVE SUMMARY

This Annual Activity Report is a management report of the Director-General of DG GROW to the College of Commissioners. Annual Activity Reports are the main instrument of management accountability within the Commission and constitute the basis on which the College takes political responsibility for the decisions it takes as well as for the coordinating, executive and management functions it exercises, as laid down in the Treaties⁶.

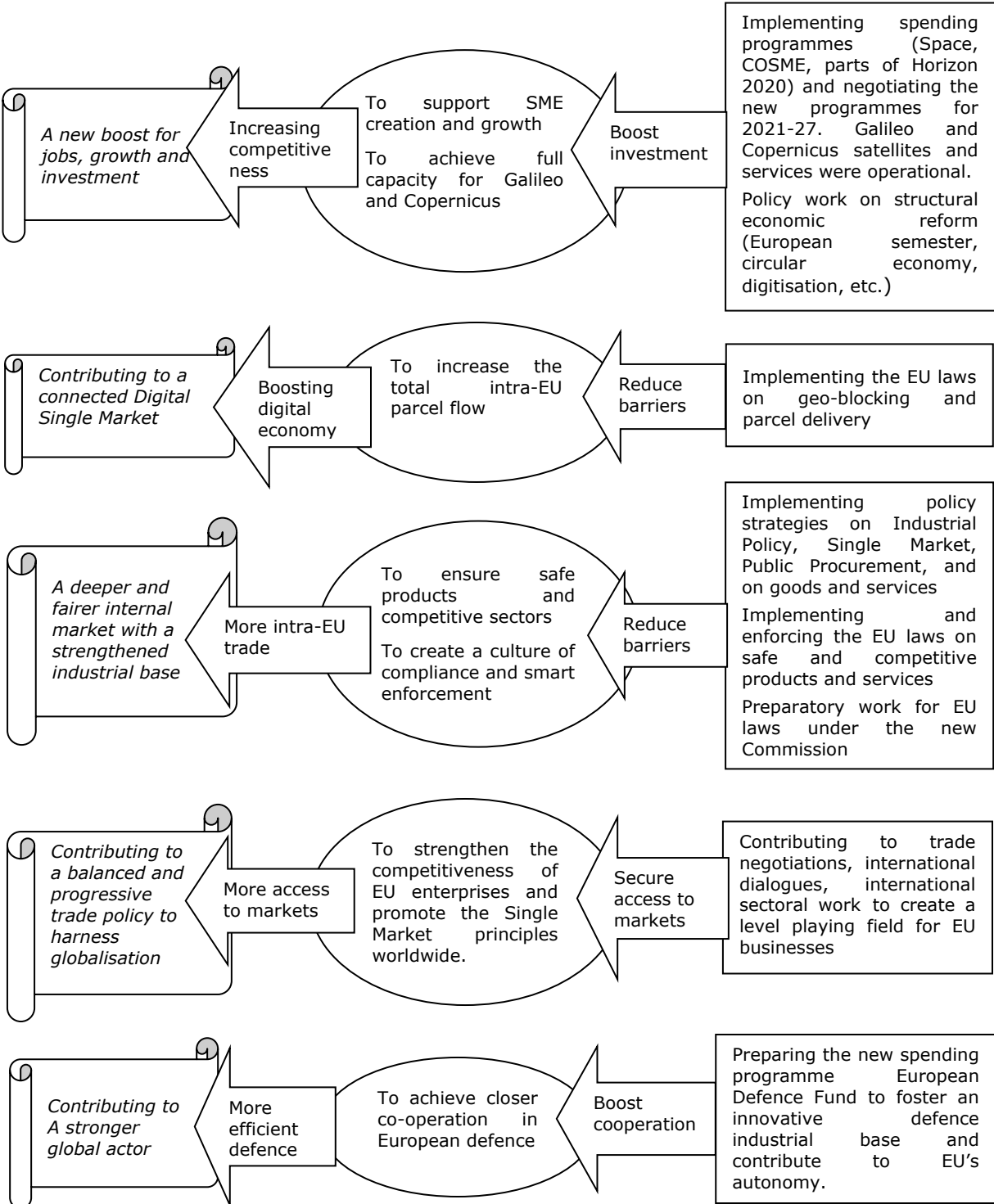
The executive summary has four subsections:

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

The work of DG GROW in 2019 reflected the planning presented in the Management Plan for that year and contributed to the intervention logic in the DG's Strategic Plan 2016-2020 in order to achieve the specific objectives of DG GROW and the priorities of the Commission.

⁶ Article 17(1) of the Treaty on European Union

Commission priorities / GROW specific objectives 2019 output



Brexit: legal and policy work to ease negative consequences in sectors (e.g. automotive, chemicals, medical devices), publication of guidance notes to prepare citizens and businesses

b) Key Performance Indicators (KPIs)

The KPIs were chosen from the result indicators in the DG GROW Strategic Plan 2016-2020. These are the most relevant to illustrate the performance of the DG.

Number of firms benefiting from debt financing		
Baseline	Milestone	Target
2013 As of 31 December 2013, € 16.1 billion in financing mobilised, reaching 312,000 Small and Medium-sized Enterprises (SMEs) under SME Guarantee facility of the 2007-2013 Competitiveness and Innovation Framework Programme (CIP)	2017 Financing mobilised from guarantees ranging from € 7 billion to € 10.5 billion; number of firms reached ranging from 108,000 to 161,000 under the current COSME programme	2020 Financing mobilised from guarantees ranging from € 14 billion to € 21 billion; number of firms reached ranging from 220,000 to 330,000 under the current COSME programme
Latest known results at 30/09/2019: More than 500,000 SME received ca. € 30 billion of financial support since the launch of the programme. Thanks to a reinforcement of COSME Loan Guarantee Facility resources from the SME window of the European Fund for Strategic Investments (doubling the available resources), it was possible to achieve the targets set for the overall programming period (2013-2020) already in the course of 2018. In 2019, the high performance continued to benefit SMEs in need of finance.		
Percentage of the Directorate-General's primary regulatory acquis covered by retrospective evaluation findings and Fitness Checks not older than five years		
2014 Between 2010 and 2014, 42 of 140 of the primary regulatory items under the responsibility of DG GROW were covered by evaluations or Fitness checks = 30%	2018 Annual positive trend compared to baseline	2020 Positive trend compared to interim milestone
Latest known result at 31/12/2019: From 2014 to 2019, 41 of 122 (= 33.6%) of the primary regulatory items under the responsibility of DG GROW have been subject to finalised evaluations or Fitness checks. This is an increase by 3-percentage points with respect to the baseline of 2010-2014 (30%). Note that the number of primary legislation changes as legislation is being repealed or merged, for example from 140 in 2014 to 122 at the end of 2019. Thus the target of positive trend could be achieved.		
Cumulative number of operational satellites (Galileo and Copernicus)		
Galileo: Baseline 2013: 4	12 by 2015	30 by 2020
Copernicus: Baseline 2014: 1	2 by 2015	8 by 2020
Latest known result at the end of 2019: Galileo: The fully deployed Galileo system will consist of 24 operational satellites plus six in-orbit spares. At the end of 2019, there are 26 Galileo satellites in orbit and all of them are providing services. 22 of them are fully operational for navigation services. By the end of 2020, it is expected that 2 additional satellites of the Batch#3 will be launched, reaching a total count of 28 satellites in-orbit. The deployment of the constellation will not reach 30 satellites by the end of 2020 as initially anticipated. This is due to the signature date of the Batch#3 contract in June 2017. It took place a few months later than anticipated, in order to properly assess all implications on the programme of the decision and award of the contract. The 30 satellites in-orbit target (including the two satellites on the elliptical orbit) will be reached by mid-2021. Copernicus: Following the successful launch of 1 further satellite in 2018, 7 Copernicus Sentinels deliver data to more than 300,000 registered users (up from 200 000 in 2018), while the six services are all operational (including Climate Change that was planned for 2019). More than 12 million data products are published and the users download has reached a volume of more than 200 PetaBytes (up from 112 in 2018).		
Duration of infringement procedures in areas under DG GROW's responsibility		
24.4 months on average by end 2014	21 months on average by end 2016	18 months on average by end 2017
Latest known result at 01/12/2019: With an average duration of 16.3 months at the end of 2019, DG GROW slightly increased its 2018 results (15.5 months) but still met its final target set for 2017 of 18 months duration compared to 26.5 months at the end of 2017. The considerable decrease in 2018 and 2019 is mainly due to the high number of new procedures initiated in these two years.		
Result indicator relating to Internal Control: Multiannual residual error rates per Activity Based Budgeting (ABB) chapters and/or per distinct control system, sources: Grow control results		
2018 High residual error rates for FP7 (2.98%) and CIP (5.50%). All other Activity based Budgeting (ABB) are below materiality.	2019 Multiannual residual error rates per programme below the materiality level. For Space programmes at 0.5%.	2020-2022 Multiannual residual error rate at the end of the lifecycle of the expenditure programmes is expected below the materiality level.

c) Key conclusions on Financial Management and Internal control (executive summary of section 2.1)

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

To ensure the achievement of policy and management objectives, the Commission has adopted a set of internal control principles, based on international good practice. The financial regulation requires that the organisational structure and the internal control systems used to implement the budget be set up in accordance with these principles. DG GROW has assessed its internal control systems during the reporting year and has concluded that it is effective and the components and principles are present and functioning as intended. Please refer to AAR section 2.1.3 for further details.

In addition, DG GROW has systematically examined the available control results and indicators, including those for supervising entities to which it has entrusted budget implementation tasks, as well as the observations and recommendations issued by the internal auditor and the European Court of Auditors. These elements have been assessed to determine their impact on management's assurance about the achievement of the control objectives. Please refer to Section 2.1 for further details.

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

d) Provision of information to the Commissioner

In the context of the regular meetings during the year between the DG and the Commissioner on management matters, the main elements of this report and assurance declaration, have been brought to the attention of Commissioner Breton, responsible for DG GROW at end 2019.

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

1.1. Priority - A New Boost for Jobs, Growth and Investment

- **Specific objective: To support SME creation and growth**
- **Specific objective: To achieve full capacity for Galileo and Copernicus**

A. Programmes

1. Competitiveness of Enterprises and SMEs (COSME)

Two financial instruments are established under COSME: the Loan Guarantee Facility (LGF) and the Equity Facility for Growth (EFG). They offer loans and equity for riskier SMEs. These instruments are managed by the European Investment Bank (EIF):

- The LGF is supported by the European Fund for Strategic Investments (EFSI). In 2019, a pilot on digitalisation was launched, enabling traditional SMEs to receive support to digitise in line with the Commission Single Market Communication of November 2018. Between the start of COSME and September 2019, the LGF had provided more than 500,000 SMEs with ca. € 30 billion support in 31 countries.
- By September 2019, the EIF had invested € 216 million through the EFG in 16 risk capital funds. Signing agreements for the EFG continues to take long because of complex due diligence processes. Between the start of COSME and September 2019, these funds had invested € 600 million into ca. 100 companies in 14 countries.

In 2019, Erasmus for Young Entrepreneurs (EYE) reached a total of 8,300 exchanges between newer and more experienced entrepreneurs. New entrepreneurs participating in the programme between 2014 and 2016 have created 251 new companies so far, and over 1 000 new jobs. Host entrepreneurs also confirmed the positive effects - as well as over 1 100 new jobs created on their side. The pilot project *EYE Global* continued to offer European entrepreneurs exchanges outside Europe. By end 2019, around 50 matches took place, with Singapore being the most popular destination so far.

The Enterprise Europe Network (EEN) helps SMEs to internationalise by offering advisory services and finding business partners abroad. It is present in 66 countries with 603 partner organisations. One major achievement in 2019 was the implementation of EEN Scale-Up Advisors to tailor Network services to the needs of scale-ups, for example with tailored advice on access to finance and organising pitching events with investors. An EEN survey on participating SME shows that nearly 90% of them expect their market situation to improve thanks to Network support.

COSME supported the improvement of framework conditions for competitiveness in a number of ways:

- The European Cluster Excellence Programme brings together 69 cluster organisations from 21 countries to improve competences to better serve their cluster members, mainly SMEs. 13 European Strategic Cluster Partnerships for Excellence were selected in 2019. The European Cluster Collaboration Platform includes 1,039 organisations reaching out to 109,741 SMEs, ca. 12,000 large firms and 10,000 research or technology centres. They act as multipliers and serve as policy accelerators for Europe's industrial strategy.
- The work on the Blueprint for Skills Cooperation in tourism continued. In October, the European Tourism Forum gathered 200 stakeholders to discuss the potential of digitalisation for tourism. The March meeting of this Network looked into conditions

enabling tourism SMEs' digital transformation. The European Capitals of Smart Tourism initiative awarded two outstanding cities, Gothenburg and Malaga.

- COSME supported the SME Conflict Minerals Due Diligence Support System to build capacity of SMEs to deal with sourcing risks and increase their competitiveness in global value chains. The tool was launched in November 2019.

The European Agency for Small and Medium-Sized Enterprises (EASME) manages part of the COSME programme. In 2019, the evaluation of its first three years concluded that the agency has performed in conformity with its mandate, with effectiveness and cost-efficiency. It contributed to create synergies between various programmes and its work was appreciated by the beneficiaries. COSME explored synergies with other programmes including the European Maritime and Fisheries Fund, Horizon 2020 and LIFE at multiple events to provide an added value for potential beneficiaries. Events included Ecomondo, Blue Invest and the European Maritime Day 2019, where potential applicants were also introduced to the Enterprise Europe Network. The evaluation concluded that EASME should improve its policy feedback to the parent DGs.

The pilot action ESCALAR (European Scale-up Action for Risk Capital) aims to double the investment capacity of venture capital for the financing of businesses who want to scale-up. In 2019, negotiations with the European Investment Fund (EIF) were largely completed and the first call will be launched in early 2020. A budget of up to € 300 million will be deployed in 2020, provided by the European Investment Bank (EIB) and guaranteed under the European Fund for Strategic Investments (EFSI). In the future, the new InvestEU programme (2021-2027) could provide the guarantee with the aim to raise finance from private investors (e.g. pension funds). The EIF will carry out due diligence on interested funds.

2. European Satellite Navigation: GALILEO & EGNOS

Galileo is the EU navigation satellite system. EGNOS [*European Geostationary Navigation Overlay Service*] is a system to augment navigation signals. Ensuring the continuity of Galileo and EGNOS services, the preparations for full operational capability of Galileo services and promotion of market uptake of Galileo and EGNOS were priorities in 2019.

The deployment of the Galileo space infrastructure continued with the aim of reaching full operational capability. The fully deployed Galileo system will consist of 24 operational satellites plus six in-orbit spares. At the end of 2019, there are 26 Galileo satellites in orbit and all of them are providing services. 22 of them are fully operational for all services. Additional satellites and an ongoing major upgrade of the ground infrastructure pave the way for developing new functionalities and service improvements in 2020 and beyond. This will prepare for the full operational capability of Galileo.

In 2019, the back-up site of the *Galileo Security Monitoring Centre* was transferred from the United Kingdom to Spain following the decision of the UK to leave the Union.

The three services (Open Service, Public Regulated Service and Search and Rescue Service) offered by Galileo were continuously provided most of the time throughout 2019. The performance levels of the Galileo Open Service and the Galileo Search and Rescue Service in terms of availability and accuracy continuously exceeded the Minimum Performance Level targets defined in the Service Definition Documents.

In July 2019, the provision of Galileo Initial Services was impacted by a technical incident in the Galileo ground infrastructure. Despite intense recovery efforts, the incident led to a six-day interruption of the Galileo initial navigation and timing services. The Galileo Search and Rescue Service was unaffected. The Commission set up an independent Inquiry Board, which analysed the causes of the incident and provided recommendations. The Commission has put in place a process for implementation of these recommendations to ensure that Galileo is a stable, robust and resilient system. For example, some measures establishing a unique end-to-end maintenance and configuration management are being introduced and operational procedures and

processes have been updated. One of the priorities for 2020 is to carry out all activities to deal with the impact of this incident.

Preparations have started for defining new Galileo services to be developed as of 2021. Also, the impact assessment has started on the use of Galileo in Critical Infrastructures.

The continuity and quality of all three EGNOS services were ensured in 2019. In order to guarantee the continuity of services beyond 2020, the development of a major EGNOS release version has continued in 2019.

Aviation is a key segment for EGNOS. At the end of 2019, 350 EGNOS-enabled airports operate in 23 countries in Europe. The objective of an annual increase in the number of airports has been achieved for each consecutive year since 2014. The figures are: 2014: 129 airports, 2015: 173, 2016: 230, 2017: 251 and 2018: 315.

In terms of market-uptake, the estimated number of Galileo-enabled smartphones in use worldwide has reached one billion in 2019. Another achievement is the use of satellite signals for locating people calling the EU-wide emergency number 112. A major step in enhancing the market uptake of EGNOS was the adoption of airspace usage requirements and procedures for performance-based navigation in 2018. In agriculture, more than 80% of European farmers using satellite navigation for tractor guidance rely on EGNOS.

In the field of international cooperation, negotiations with the US and Norway for access to the Galileo Public Regulated Service continued. Progress was made with regard to the extension of EGNOS to European Neighbourhood Policy countries (South).

3. European earth observation: Copernicus

Copernicus is the European system for monitoring the earth. It offers six free-of charge services to EU, national and regional institutions, as well as to the private sector: atmosphere monitoring, marine environment monitoring, land monitoring, climate change, emergency management and security. It relies on seven dedicated satellites, and the six Copernicus Services are now all operational. A great surge in the uptake was registered during the year, bringing the number of users to more than 300,000.

In 2019, all the set priorities have been reached. Preparations for the 8th satellite have been completed. The satellite will be particularly useful for high-precision measurement of the sea level, essential data for climate change monitoring. Construction and preparations for launches and operations of the first Sentinel C and D Units (units A and B are in orbit and will need to be replaced at the end of their service life) have proceeded as planned. Dissemination of Copernicus data and information has been strengthened. International activities have been pursued with old and new agreements.

Copernicus is producing high quality, free, and open observation data every day reaching more than 300,000 registered users. More than 12 million data products are published and the users' download volume has reached more than 200 Petabytes (200 million GigaByte).

The Rapid Mapping component assists civil protection authorities in the immediate response activities in Europe and the world. Disasters covered include the forest fires in Greece and Italy, but also the on-going wildfires in Australia. Other disasters are storms, floods, earthquakes, and volcanic eruptions.

Data released by the Copernicus Climate Change Service show that 2019 was the second warmest year in a series of exceptionally warm years across the globe, as CO2 concentrations continue to rise. Many organisations and institutions, like the US National Oceanic and atmospheric administration or the Group on Earth Observation use Copernicus data and information.

Cooperation arrangements have been concluded with the United States, Australia, Brazil,

Chile, Colombia, the African Union, India, Serbia and Ukraine. Negotiations are ongoing with Argentina, Indonesia and with the United Nations Environment programme. With Japan, New Zealand, Singapore, Thailand, Vietnam, as well as the Food and Agriculture Organisation and the World Meteorology Organisation initial discussions are starting. The European Commission is now recognised as a major space player and Copernicus is regarded as the global benchmark for earth observation. The agreements aim at promoting the uptake of Copernicus data and, on the basis of reciprocity, integrating international partners data into European Earth Observation systems. They also help facilitating international cooperation and access to international markets for European researchers and industry.

4. Horizon 2020: research relating to enterprises

Space Research

The operational budget for 2019 was € 207 million for projects delegated to the Research Executive Agency (REA), the European Global Navigation Satellite Systems Agency (GSA), the European Space Agency (ESA) or directly managed by the Commission. In 2019, the programme funded the following research activities:

- New applications and downstream services with a focus on Copernicus services like climate change, security, emergency response, land, marine, CO2 monitoring;
- Next generation of Galileo satellites and the evolution of EGNOS, carried out by ESA on behalf of the Commission; new projects on green and smart mobility, digitisation and societal resilience started;
- Security and protection from space threats including space debris, space weather, near earth objects and a user networking activity on secure governmental satellite communication (Govsatcom);
- Electric propulsion, earth observation technologies, access-to-space and critical technologies in relation to the strategic objective of European independence;
- In-Orbit-Demonstration/Validation was launched together with ESA to achieve cost-effective regular flight opportunities for experiments in orbit.

SMEs and Innovation

The total 2019 budget of DG GROW for this objective is € 47.23 million. A major feature in 2019 was the continuation of the Clusters facilitated projects for new industrial value chains. For example, the smartX project launched in 2019 will establish a novel industrial value chain composed of SMEs and start-ups from textiles, designers, (micro)electronics, data processing, manufacturing technology, distributors, funding providers and end users. Another main feature was the support by the Enterprise Europe Network to help SMEs to enhance their innovation management capacity, which was delivered to more than 7,000 SMEs in 2017-2018.

Raw Materials

Horizon 2020 includes a part on the sustainable supply of raw materials, with a funding of ca. € 600 million. Between 2014 and 2019, 76 projects with over 1,024 participations from 50 countries were selected. 54% of the participating entities are private for-profit, with SME participation at 23%. In 2019, 10 projects were selected totalling over € 85 million. 96% of the 2019 budget was allocated to activities potentially generating patents. One highlight is UNEXMIN (Autonomous Underwater Explorer for Flooded Mines) for the exploration and mapping of Europe's flooded mines using 3D sensors and cameras to explore the future usage of flooded mines.

5. Preparation of the new programmes for 2021-2027

In mid-2018, the Commission proposed new programmes for the next financial period 2021-2027. Their adoption by the legislator, initially foreseen for 2019, was impacted by the elections to the European Parliament and its subsequent set-up. Consequently, trilogues took place for the proposals and a common understanding has been reached for

most of them. DG GROW was the lead service in the negotiations of the following proposals in 2019:

The Single Market Programme will improve the functioning of the Single Market with a proposed budget of € 4.1 billion. It will bring together six predecessor programmes from different policy areas, notably COSME, programmes on consumer protection, customer and end-users in financial services, emergency measures along the food chain and European statistics.

For the Space Programme, the Commission proposed € 16 billion to enhance EU leadership in space. The proposal brings all existing and new space activities under one single EU space programme. It maintains the existing infrastructure and services and introduces a number of new features such as fostering a strong and innovative space industry in Europe, maintaining Europe's autonomous access to space.

The European Defence Fund will support cooperation on research and capability development between defence industries and research organisations with a proposed budget of € 13 billion. It will encourage participation of SMEs. In early 2019, co-legislators reached a partial agreement on the Fund. K.

DG GROW contributed to the following proposals from a competitiveness perspective:

Horizon Europe will support EU research and innovation with a proposed budget of circa € 100 billion. Key novelties stem from the interim evaluation of the predecessor Horizon 2020 including the European Innovation Council. The aim is to better match EU research and innovation with societal needs. In 2019, DG GROW together with other Commission services helped to prepare orientations for the first strategic implementation plan.

The InvestEU Fund/programme will bring under one roof the multitude of EU financial instruments currently available and expand the Investment Plan for Europe. The recommendations of the European Court of Auditors in its 2019 Special report on the EU centrally managed venture capital market will flow into the implementation of InvestEU. It will consist of a single budgetary guarantee of € 38 billion expected to leverage public and private investments for a total of € 650 billion. Of the € 38 billion guarantee ca. 30 % (i.e. € 11.25 billion) will support access to finance of SMEs.

B. Policies

European Semester to foster investments and structural reforms

DG GROW promoted the strengthening of the sustainable competitiveness and investment pillar in the European Semester. To support the analysis within the European Semester, two studies were completed in 2019. One on the performance of the Single Market and the second on the wholesale trade and logistics. The Single Market Performance Report was integrated into the Semester cycle for the first time in 2019.

Circular economy

In 2019, DG GROW continued to implement the Circular Economy Action Plan of 2018 which aims to improve the waste management in Europe. To implement the plan, DG GROW prepared standardisation mandates and technical specifications for secondary raw materials. On the plastics strategy, DG GROW received pledges from 70 companies and business associations, sufficient to reach the 10 million tonnes target of recycled plastics by 2025. The DG contributed to the finalisation of the Ecodesign Regulations on servers and data storage products as well as on welding equipment, both addressing material efficiency aspects. In March 2019, the Commission reported that all 54 actions in the Circular Economy Action Plan were delivered. In December 2019, the Commission published a roadmap for the development of the new Circular Economy Action Plan in line with the 2020 Commission Work Programme.

Low-carbon economy

In November 2019, the High Level Group on Energy-Intensive Industries published a masterplan for a competitive transformation of these industries enabling a climate-neutral economy by 2050. The plan provides recommendations to build the enabling policy framework to manage this transition while keeping the industry competitive. It is a contribution to the European Green Deal and the new EU Industrial Strategy. In November 2019, DG GROW organised the annual Raw Material Week, where the enabling role of raw materials in the transition to the low-carbon industry was discussed. Finally, DG GROW participated in the revision of the EU Emission Trading Scheme (ETS).

Industrial transformation

DG GROW initiated the European Advanced Manufacturing Support Centre. It supports SMEs in assessing their potential to adopt advanced manufacturing solutions that bring them towards more competitive, modern and sustainable production.

The Digital Cities Challenge (DCC) ended in August 2019. It offered strategic advice to 41 small to medium EU cities to develop innovation ecosystems based on advanced technologies. The success of the DCC led to upscaling it with the 100 Intelligent Cities Challenge (€ 7.5 million over 30 months) that will expand the existing network.

In 2019, DG GROW prepared the website Advanced Technologies for Industry (ATI), which from 2020 on will enable users to create their own analysis by choosing the type of advanced technology and sector.

The European Observatory for Clusters and Industrial Change published in 2019 overviews of the European cluster landscape and a summary report on lessons learnt from fostering modern cluster policy in 10 pilot regions in industrial transition.

Artificial intelligence (AI)

Several initiatives to help SMEs pick up AI and Big Data were organised. One is the Critical Industrial AI applications to anticipate AI opportunities for SMEs. Another one is the identification of the most relevant industrial AI applications in three Strategic Value Chains namely Industrial Internet of Things, Smart health and future mobility. Finally, the business-to-business platforms project explores the innovative potential of new business models based on opening access for SMEs to big data platforms in two fields, connected automotive and smart health.

DG GROW facilitates investments in AI through the Smart Specialisation Platform on Industrial Modernisation 100 via a partnership focusing on Human-Machine Interface and Human-AI interactions. It will develop joint investment projects with industry and academia with a focus on industrial research, e.g. patent exploitation, and identify funding opportunities, in collaboration with other industrial and academia partners.

DG GROW prepared a report on the safety and liability implications of AI, Internet of Things and robotics that accompanied the Commission White Paper on AI of February 2020. Based on this, the DG will prepare guidance on the Product Liability Directive. The DG also launched the impact assessment study in view of a possible revision of the Machinery Directive to address the new safety risks from AI, Internet of Things and the new generation of robots.

Collaborative Economy

DG GROW initiated discussions with cities around Europe to address issues that have arisen as a result of the rapid growth of collaborative short-term accommodation rentals. In this context, possible policy actions and good practices for consideration by public authorities and other stakeholders were addressed. Data sharing agreements were signed by EUROSTAT and the major platforms.

Social economy

In 2019, the DG worked to promote the visibility of social economy enterprises and to foster their access to markets. More than 50 local and regional authorities participated in the “European Social Economy Regions” project. A study was released to promote the cooperation between traditional and social economy enterprises. Members of the expert group on social economy and social enterprises delivered first recommendations on clusters of social and ecological innovation. Several projects were implemented to encourage public authorities to use public procurement to pursue social objectives.

1.2. Priority - A Deeper and Fairer Internal Market with a Strengthened Industrial Base

- **Specific objective: To ensure safe products and competitive sectors**

A. Cross-sectoral actions

Industrial Policy Strategy

The Commission continued to implement the “Renewed EU Industrial Policy Strategy” of September 2017. The main implementation activities during 2019 were:

- The EU Industry Days between 5-6 February gathered 2,000 participants to discuss the implementation of the industrial policy strategy.
- The Strategic Forum for Important Projects of Common European Interest published its report in November. The report includes recommendations for each selected key strategic value chain in the form of action plans for EU, Member States, regions, industry and other stakeholders.
- The Industry 2030 High-Level Industrial Roundtable developed recommendations on the future of EU industrial policy strategy until 2030 in its final report of June.
- The Smart Specialisation Platform on Industrial Modernisation supports inter-regional investment in innovation. In June, the DG organised a joint investment day for the partners in Warsaw. Between 2017-2019, the Commission facilitated 23 inter-regional partnerships involving more than 120 regions.

The Commission Expert Group on Clusters discussed clusters as a strategic industrial policy tool. The group will present its recommendations by the end of 2020, including for the Joint Cluster Initiatives proposed under the future Single Market Programme.

In 2019, the Council and the European Council requested a new comprehensive long-term industrial policy strategy with a vision for 2030. In line with the headline ambition “Europe fit for the digital age”, the Commission put forward such a vision in the Industrial Strategy, which was prepared in 2019 and adopted on 10 March 2020.

SME Policy

DG GROW worked to ensure that the SME test is consistently applied across EU policies and monitored the implementation of the Late Payment Directive where new infringements were detected. DG GROW is in continuous dialogue with concerned actors to improve the enforcement of the Directive.

DG GROW developed and drafted the new SME strategy, adopted on 10 March 2020 as planned in the 2020 Commission Work Programme. The annual SME Performance Review was presented at the SME Assembly in Helsinki on 25-27 November. One of its main findings is that for the first time since 2008, the SME sector in all EU countries expanded in terms of both employment and value added.

Standardisation

The implementation of all actions announced in the Standardisation Action Plan is either finished or ongoing (some actions are open-ended). The backlog of harmonised standards that are not yet published in the EU Official Journal has been reduced, but not yet fully eliminated. Work on this action will continue. An informal consultation was carried out to improve the guidance on the implementation of the Standardisation Regulation. The results will be part of a guidance document. A study was launched on the implementation of the Regulation to be concluded by mid-2020. The Union work programme on standardisation for 2020 was adopted in October.

Services Directive

DG GROW continued to push for structural reforms to open services markets to competition in the context of a more ambitious implementation of the 2006 Services Directive. The DG worked with the Member States Expert Group to foster peer learning and gather political momentum for reforms. The DG launched a number of studies, including the study on the legal mapping of the removal of barriers in the services sector and sectoral studies in insurance and construction, contributing to an evidence base for services reforms. Enforcement of the existing Services Directive remains important to ensure the full potential of the services market liberalization.

In 2019, DG GROW negotiated with the legislator the proposal to make more effective the notification of draft national laws on services. Its aim is to provide the EU executive and other Member States with the opportunity to raise potential concerns about possible inconsistencies with EU legislation early in the process.

Also in 2019 DG GROW continued negotiations with the legislator on a proposal for the Services e-card. Its aim is to introduce a simplified electronic procedure to make it easier for providers of business services (e.g. engineering firms, IT consultants) and construction services to complete the formalities required to provide services abroad.

Professional qualifications

The Directive on the recognition of professional qualifications, provides for automatic recognition of qualifications in a number of health-related professions (e.g. doctors, dentists, nurses). Responding to Member States and stakeholders, DG GROW launched stocktaking exercises and studies on the situation in the concerned professions. In 2019, DG GROW worked on the compliance with this Directive. It identified a number of non-conformity issues and launched infringement procedures against almost all Member States.

Postal Services

In 2019 the process to prepare the evaluation of the Postal Services Directive was launched. The evaluation, scheduled for adoption 2020 will assess whether the Directive is still fit for purpose considering the substantial changes towards digitalisation and e-commerce. DG GROW also contributed to the reform of the remuneration agreement at the international level (Universal Postal Union – UPU).

Intellectual property (IP)

In May 2019, the Regulation on the Supplementary Protection Certificate (SPC) for medicinal products was adopted. EU companies are now entitled to manufacture a generic version of an SPC-protected medicine during the term of the certificate, either for exporting to a non-EU market or for stockpiling during the final six months of an SPC ahead of entry into the EU market. Thus, EU companies get more return on their research in medicines.

In the context of monitoring the Trade Mark Package and the Trade Secrets Directive, DG GROW started infringement actions against those Member States, which did not notify

the full transposition of the directives in time. The DG also held public consultations and commissioned studies to ensure that the EU framework for protecting and managing IP meets the standards. The DG collected evidence for the evaluation of the Community framework for design protection. Preparatory work was performed to evaluate the SPC Regulation and the economic benefits of a possible EU sui-generis Geographical Indications system for non-agricultural products. Studies were also issued to assess the impact of new technologies, such as 3D printing, on the EU laws for IP.

B2B (Business-to-Business)

DG GROW continued to follow-up on the Communication "A European Retail Sector fit for the 21st century". In a high-level conference in June, Commissioner Bieńkowska highlighted that reducing restrictions on the retail sector would have a positive impact on the sector itself and would bring benefits to the whole economy. It would allow EU retailers to strengthen their global presence and have a positive impact on consumers.

The Regulation on fairness and transparency for business users of online intermediation services (P2B) was adopted by the legislator in June 2019. It will apply from July 2020.

Public procurement

DG GROW continued to implement the Public Procurement Package of October 2017. It prepared guidance on strategic procurement, including socially responsible procurement, public procurement of innovation and fighting collusion in public procurement as well as the use of the European Competency Framework. The guidance on cooperative defence procurement will help Member States apply the Defence Procurement Directive consistently and make use of all the cooperation possibilities it offers. Furthermore, guidance was prepared on the participation of third country bidders and goods in the EU Procurement market, a first deliverable of the EU-China Communication.

Work was done to support the digitalisation of procurement, in particular through:

- implementing the electronic European Single Procurement Document (eESPD);
- helping Member States to implement the eProcurement provisions of the public procurement Directives and of the eInvoicing Directive; and
- promoting a data-based policy through legislation simplifying the eForms and the development of contract records.

A study was carried out on the SMEs participation in public procurement and the measures to support it. The DG also progressed in its compliance assessment of the measures adopted by the Member States to transpose the new legislative framework. An evaluation will be carried out on certain aspects starting in 2021.

B. Sectoral actions

Automotive

In the context of developing a new vision for the EU car industry, DG GROW drafted the guidelines for the approval of automated vehicles, which were endorsed in February 2019. A roadmap of work on automated/connected vehicles was agreed in June 2019 with main trading partners such as China, USA and Japan. The EU platform on large scale testing of automated vehicles was launched. The legal framework on access to vehicle data for repair services is being reviewed to extend it to new services. In line with the Vehicle General Safety Regulation of December 2019, the DG will develop technical rules for automated driving and cybersecurity rules for cars.

The new Regulation on the pollutant emissions of heavy-duty vehicles of November 2019 concerned the measurement of emissions during cold engine start and the use of portable emissions measurement systems in those vehicles. The European Court of Justice, on behalf of three cities, had to reverse a decision that allowed car manufacturers to exceed emission limits during on-road tests. Finally, DG GROW started preparing the

future emission regulations, planned to be adopted in 2021 as part of the Green Deal.

In cooperation with the UN Economic Commission for Europe, the DG drafted new requirements to reduce the sound emissions of vehicles under real driving conditions.

A study was launched on future sound emissions of passenger and goods transports vehicles. A new Regulation introduced stricter emission and sound level requirements (Euro 5 limits for two- or three-wheel vehicles and quadricycles).

From September 2020, a new Regulation will apply to the approval and market surveillance of motor vehicles and units intended for such vehicles. In 2019, the Commission started the preparations required by that framework, including secondary legislative acts, 12 of which have been prepared during 2019.

The General Safety Regulation for cars, adopted by the legislator in 2019 will apply as of July 2022. DG GROW has started working on the secondary legislation, defining the detailed technical specifications and the test procedures for the approval of new vehicle safety systems. The safety package will help reduce road accidents and better protect passengers, pedestrians and cyclists.

The Commission authorised the first Batteries Important Project of Common European Interest (IPCEI) in December 2019 leading to the first European battery consortium with 17 companies from seven Member States. In 2020, DG GROW with DG COMP will help to set up a second Batteries IPCEI. DG GROW started preparations for a legislative proposal on batteries performance and sustainability criteria. Work was done on the ethical sourcing of battery raw materials, including the development of sustainable mining principles and of a commitment by companies on responsible sourcing. A call for proposals was published on the "Blue Print" for sectoral cooperation for skills on batteries.

In January 2019, a Regulation was adopted which clarified that vehicles and their components produced on the basis of a UK type-approval can be placed on the EU market until their type approval legislation ends. In March, DG GROW published a list of questions and answers on how to handle the type approvals in the context of Brexit.

Chemicals

In 2019 work continued to implement the Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH) Regulation. Thirty authorisation decisions and one restriction Regulation were adopted. A joint action plan addressing the non-compliances in registration dossiers submitted to European Chemicals Agency (ECHA) was initiated together with DG ENV and ECHA.

During the second REACH Review, 16 actions were identified on how to improve the implementation of the Regulation. In 2019, DG GROW, together with DG ENV, ECHA, Member States and the industry, prepared those actions, including on Safety Data Sheets and restrictions procedures. Further activities concern the interface between REACH and the Safety and Health at Work Directive and ways to enhance the enforcement.

The Fitness Check of the most relevant chemicals legislation (excluding REACH) of June 2019 assessed the 40+ pieces of EU chemicals legislation in terms of effectiveness, efficiency and coherence. It concluded that a number of challenges need to be addressed: the complexity of the regulatory framework, inconsistencies in the risk management processes, inefficient communication of safety information to consumers, EU chemicals industry's capacity to remain competitive globally and overcome sustainability and digital challenges, knowledge on long term and complex environmental impacts, address endocrine disruptors, and deal with emerging risks.

The evaluation of the Detergents Regulation of July 2019 concluded that the aims of the Regulation are still relevant and largely achieved. Some improvements can be made to create more synergy with other EU legislation on chemicals. It concluded that the costs involved in implementing the Regulation are justified, and that the Regulation resulted in levelling the playing field for detergents' manufacturers.

DG GROW with ECHA alerted stakeholders and Member States about the consequences of Brexit on the authorisation procedure, including letters to authorisation holders and applicants in the EU27 and the UK to draw their attention to necessary adaptations to authorisations held by UK companies in case of a Brexit without agreement.

Radio equipment

In 2019, the DG started its impact assessment work to prepare three Delegated Acts linked to the Radio Equipment Directive, which are planned to be adopted in 2020: The Act on common chargers for mobile telephones and other compatible devices aims to limit fragmentation of the charging solutions. The Act on reconfigurable radio system (the upload of software into radio equipment) will ensure that radio equipment is fitted with features to prevent the upload of non-compliant software. The Act on internet-connected radio equipment and wearable radio equipment aims to ensure that radio equipment is fitted with features to protect the privacy of users and prevent fraud.

Construction products

The evaluation of the Construction Products Regulation (CPR), published in October 2019, assessed its performance. The main findings were related to the underperformance of the standardisation system and the ineffectiveness of market surveillance. A supporting study was launched in August to explore options and potential elements of a revision of the CPR. DG GROW is finalising the implementation of the Construction 2020 Strategy Communication Action Plan to support the competitiveness of the construction sector. In 2019, the DG continued with the preparation of a new policy framework beyond 2020.

Toys safety

The DG continued to work on strengthened limit values for hazardous chemicals in toys, notably those that are carcinogenic, mutagenic or toxic. More stringent limit values for aluminum and formaldehyde in toys were adopted in November 2019. The evaluation of the Toy Safety Directive is planned to be finalised by Q3 2020.

Metrology

Modern technologies require increasingly accurate measurements and the International System of Units is being regularly updated. In 2018, the International Committee for Weights and Measures revised the definition of the seven base units (kilogram, metre, second, ampere, kelvin, candela and mole). DG GROW prepared the legal act to introduce the new definitions into the EU, which was adopted in July 2019.

Light/creative industries (Textiles, Clothing, Footwear and Leather)

The Commission developed technical guidelines for EU laboratories to support Member States and economic actors in homogenous implementation of the Textile Regulation. These focused on aligning the assessment methods for textile products. In the framework of the European Strategy for Plastics in a Circular Economy, the Commission worked with the industry and the European Committee for Standardization (CEN) to establish test methods to measure microplastics losses from washing of synthetic textiles. The COSME programme funded cross-border schemes for accelerating innovation applications in a sustainable and circular fashion. Finally, two stakeholders meetings were held with cultural and creative industries to explore the links with the broader industry.

Cosmetics

An impact assessment for the labelling of fragrance allergens in cosmetics started in 2019. In April, DG GROW published a Commission Decision establishing a glossary of common ingredient names for use in the labelling of cosmetics as well as two Commission Regulations, one authorising a new UV filter for use in sunscreen products, the other one banning a hair dye substance. In May, a regulatory update was adopted on the use of numerous substances evaluated as carcinogenic, mutagenic or toxic for

reproduction in cosmetic products. In October, the annual report to the European Parliament and the Council on the development, validation and legal acceptance of methods alternative to animal testing in the field of cosmetics was published. In November the updated catalogue of nanomaterials in cosmetic products as well as a Commission Regulation with the inclusion of three combinations of coatings for use with titanium dioxide (nano) as a UV-filter was published.

Medical Devices

The focus in 2019 was on implementing the new Regulation on medical devices and in-vitro diagnostic (IVD) medical devices. Significant progress was achieved in line with the legal timeline. For instance, the designation of Notified Bodies and Expert Panels, the decisions on the issuing entities and the choice of the EU nomenclature for the Unique Device Identifier, the preparation of several implementing acts on standards, reprocessing, non-medical devices, the new Eudamed database, and the reference laboratories for IVDs. Media interest remained high, which resulted in a large number of replies and explanations to be provided to the media. DG GROW worked on the clarification of the authorisations for medical devices in the context of Brexit. The aim was to avoid any shortages of such products on the market.

Food

In 2019, the High Level Forum on Better Functioning Food Supply Chain published its final report. DG GROW was actively involved in the draft Vision Paper and Action Plan on the Farm to Fork Strategy. The DG launched the project of an EU Food price indicator tool - the "Foodeuro"- for price transparency in the food supply chain. DG GROW led on the pilot project on the 'Differences in composition of seemingly identical products'. It contributed to the Commission proposal for a Directive to tackle unfair trading practices as part of the 'New Deal for Consumers' and pan-European testing campaign.

Machinery

DG GROW started the work for the revision of the Machinery Directive to address the issues identified by the evaluation of the Directive. An impact assessment study has been launched in Q1 2019. Possible legislative changes will take account of the challenges and the new safety risks of Artificial Intelligence, Internet of Things and robotics. Adoption of the initiative is foreseen in Q4 2020.

- **Specific objective: to create a culture of compliance and smart enforcement**

Better Regulation and REFIT

DG GROW continued to apply Better Regulation to its legislative work. This means that EU actions are based on evidence and understanding of the impacts, that citizens and stakeholders can contribute to the law-making process and that regulatory burdens on businesses, citizens or public administrations are kept to a minimum. Furthermore, DG GROW is a major contributor to the Regulatory Fitness (REFIT) programme of the Commission. Evaluations and Fitness Checks assess if EU laws are fit for purpose. More information is provided in section 2.2 below and in Annex 2.

Enforcement of EU law

In 2019, DG GROW focused on systemic breaches of EU legislation. In less important cases of incorrect application, complainants were re-directed to appropriate mechanisms, e.g. SOLVIT. The DG explored further areas where enforcement could have a meaningful impact, i.e. free movement of goods and services, emissions from motor vehicles, public procurement, recognition of professional qualifications and intellectual property rights.

In some cases, the Commission initiated infringement procedures. While recognizing the effectiveness of the EU Pilot problem-solving mechanism, in order to accelerate the process, the Commission decided to launch infringement procedures in some cases without systematically relying on EU Pilot. In addition, delays in transposing new directives may be a source of new infringement procedures. These facts resulted in an increase of new infringement procedures on legislation under DG GROW responsibility to 147 in 2019, compared to 104 in 2018 and 35 in 2017. The DG launched 84 procedures for non-conformity of national transposition measures with EU legislation, e.g. packages on Professional Qualifications Directive and Public Procurement Directives.

A short duration of infringement procedures assures legal certainty. With an average duration of 16.3 months, DG GROW achieved its target (see table of key performance indicators in the summary), In order to decrease the lengthy procedures, DG GROW has engaged in a dialogue with Member States and will reinforce it in 2020.

Single Market Service Centre

The Single Market Services centre supports citizens and enterprises. Its use is increasing thanks to awareness raising activities.

- The Your Europe Portal informs about the rights in the Single Market and explains the EU rules. It had 35.9 million visits, a 48% increase compared to 2018
- Your Europe Advice service provides personal advice to citizens and business on their rights in the Single Market.
- SOLVIT helps citizens and companies when national authorities deny their EU rights. It closed 2,380 cases in 2019, which is an increase from 2018.
- The Internal Market Information System (IMI) is an online tool, which supports the administrative cooperation between public authorities. In 2019, nearly 58,000 information exchanges were sent in the system, 50% more than in 2018. IMI is used by more than 34,000 uses of 12,000 public authorities across Europe.
- The Single Market Scoreboard informs about the practical management of the Single Market. There were 64,476 visits to the scoreboard in 2019.

The single digital gateway will help EU citizens and businesses by reducing administrative complexity. It will be launched in December 2020.

Market surveillance

In order to improve the surveillance of products in the EU, the new Regulation on market surveillance and compliance of products was adopted in June as part of the "goods package". Work has started on its implementation through the set-up of the EU Product Compliance Network. Engagement with different products sectors and with the expert group on the internal market for products has resulted in initial priority areas for the work under the Network, in particular joint actions, capacity building, cooperation with customs, indicators and benchmarks, and data and information exchange.

Mutual recognition

The DG worked on the implementation of the new Regulation on the mutual recognition of goods lawfully marketed in another Member State adopted in March 2019. A Guidance on the application of the mutual recognition principle will be submitted for adoption in the first quarter of 2020. After its adoption, the work will focus on the Train the trainer package and the new SOLVIT procedure.

Prevention of regulatory barriers

In 2019, 694 draft technical regulations concerning products and information society services were notified to the Commission under the Single Market Transparency Directive (SMTD). The Commission reacted on 195 occasions, with 42 detailed opinions, 150 comments and three decisions to postpone adoption. The focus was on the most widespread concerns and most significant areas in the Member States.

Under the international Technical Barriers to Trade Agreement (TBT), the Commission notified 58 proposals. For their part, EU Member States notified 62 draft technical regulations, standards and conformity assessment procedures. The Commission reacted to 104 notifications made by WTO-TBT members and replied to 66 comments submitted with regard to EU notifications.

1.3. Contributing to Priority - A Connected Digital Single Market

- **Specific objective: To increase the total intra-EU parcel flow**

DG GROW checked the implementation by Member States of the Geo-blocking Regulation of 2018. First assessments on the compliance with the Regulation by traders has been carried out. The DG started the analytical work for the first short term Report (for March 2020), focusing on assessing the possibility of extending the scope of the Regulation to non-audio-visual and audio-visual copyright protected services and transport services. This included the launch of studies in 2019.

Following the entry into force of the Regulation on cross-border parcel delivery services in April 2018, an implementation report is planned in 2020 to check the implementation by Member States, and the effects of increased regulatory oversight and transparency on cross-border parcel activity. The information collected in 2019 and 2020 following the provisions of the new Regulation will be used in this assessment.

1.4. Contributing to Priority - A balanced and progressive trade policy to harness globalisation

DG GROW participated in international free trade negotiations with the aim to remove barriers for EU enterprises to access markets in third countries. The DG worked on the implementation of CETA with Canada and the EPA with Japan, with the help of EU-Japan Centre for Industrial Cooperation. The agreement in principle on the EU-Mercosur Free Trade Agreement was reached in June 2019. The DG was involved in negotiations with Chile, Indonesia, Australia and New Zealand, as well as the Investment Agreement with China. It participated in the negotiations on a Deep and Comprehensive Free Trade Area with Tunisia and the Association Agreements with Andorra, Monaco and San Marino. The DG contributed to the negotiations with the Asian, Caribbean and Pacific countries as well as the Economic Partnership Agreement with Eastern and Southern Africa.

DG GROW contributed to trade negotiations on processed agricultural products with Mercosur, Chile, Indonesia, Australia and New Zealand. The DG helped to implement various free trade provisions for these products, e.g. with Euromed, the Western Balkans and Switzerland. Discussions with Norway were initiated.

The DG continued the industrial policy dialogues with China, Japan, South Korea, Taiwan and Ukraine with the aim to create a level-playing field for EU businesses. It contributed to cooperation with the US in the frame of the Executive Working Group, notably in the area of conformity assessment and standards. The DG often steered the global regulatory dialogue in the automotive sector in the context of UN Economic Commission for Europe.

The DG co-chaired the Platform on "Economic Development and Market Opportunities" of the Eastern Partnership and monitored the application of the Association Agreement with Ukraine, Georgia and Moldova. Under the Union for the Mediterranean, the DG coordinated a regional industrial cooperation process. It played a key role in developing the network of EU business associations and national trade promotion organisations.

In 2019, DG GROW started to implement the screening mechanism for foreign direct investments (FDI) into the EU. The DG identified the key areas/sectors where FDI might pose a risk to security and public order. The mechanism will start in October 2020.

DG GROW worked for an opening of the public procurement markets of third countries. In 2019, bilateral agreements were negotiated with Mexico and Mercosur. The DG also conducted regulatory dialogues with key trading partners on procurement. The DG continued to encourage third countries, notably China, Brazil and India, to join the Government Procurement Agreement. In 2019, Australia acceded, the UK's accession was agreed and China submitted a new market access offer. The DG accompanied the adoption of modern procurement legislation in Serbia, Ukraine and Georgia. It promoted cooperation on public procurement in the context of the Alliance for Sustainable Investment and Jobs between Europe and Africa.

The Cluster Go international initiative supported 134 clusters helping 3,800 SMEs to access global value chains. The 2019 call for proposals will lead to 22 new strategic partnerships, including the space and digital sector. The European Cluster Collaboration Platform attracted ca. 200 clusters from outside Europe, in addition to 1,039 European ones. In 2019, matchmaking events took place with Canada, Morocco and Taiwan.

The contribution that international cluster collaboration can deliver was illustrated by the Low Carbon Business Action, run in Mexico and Brazil with € 12 million funding and managed by DG GROW. The idea was to speed up SME involvement in international partnering as part of the EU climate economic diplomacy. It led to more than 700 partnership agreements leading to an added value of ca. € 300 million. A new Low Carbon and Circular Economy Business Action covering Canada, Colombia, Chile, Brazil, Mexico and Argentina will be launched in spring 2020 with € 20 million funding.

SME Policy Dialogues were carried out in 2019 with USA, China, Korea, and others to develop framework conditions conducive for the development of small businesses. Actions to support SMEs protecting their intellectual property in international markets continued through the SME IPR Help-Desks covering China and South-East Asia. The Enterprise Europe Network is also present in 27 third countries to facilitate the access of European SMEs to international growth markets.

1.5. Contributing to priority - A Stronger Global Actor

○ **Specific objective: To achieve closer co-operation in European defence**

Under the current budgetary period until 2020, the Commission is implementing two test programmes to gain experience on defence research and capability development projects:

- The Preparatory Action for Defence Research (PADR) for 2017-2019 with a budget of 90 million € to test defence cooperation in the field of research. The Preparatory Action is implemented by the European Defence Agency except one call on disruptive technologies, implemented by the European Commission.
- The European Defence Industrial Development Programme (EDIDP) with a budget of € 500 million for 2019-2020 offers co-financing for collaborative defence development projects. EDIDP is implemented directly by the European Commission.

The 2018 calls resulted in three projects on critical defence technologies and on strategic technology foresight (with focus on critical technologies). Two grant agreements have been awarded and the projects kicked off in the spring of 2019: TALOS, a project on the development of a high-power laser effector and SOLOMON, a project mapping critical defence technologies, components and materials with a focus on ITAR-related components in Europe's armament systems. In March 2019, the last four calls of the Preparatory Action for Defence Research were launched. In total close to 100 proposals

were submitted to these calls. The total budget for the 2019 calls is € 23 million. The technical evaluation of the projects is expected to be finalised by April 2020. One call implemented directly by the Commission is an open topic on Future Disruptive Technologies inviting high-impact research proposals. Outputs of PADR by the end of 2019: Seven collaborative projects are already running, for a total EU budget of € 50.3 million, including the large demonstrator project Ocean 2020 (EU budget of € 35.5 million). The project "GOSSRA" on standardisation of soldier systems will finish by the end of March 2020.

The European Defence Industrial Development Programme is still in its early days of operation with a first round of calls for project proposals launched in spring 2019. DG GROW launched the calls with a deadline for submission on 20 September 2019. This resulted in 40 proposals in answer to the nine competitive calls including around 15 proposals for a specific SME call. The identified categories of projects target capabilities that involve multinational collaboration of undertakings and Member States throughout the Union. Some categories target large and complex capability development projects, such as the European Command and Control system or a European Galileo PRS navigation receiver. The Work Programme foresees to support two projects that could receive direct awards: € 100 million to support the development of the Medium Altitude Long Endurance Remotely Piloted Aircraft System and € 37 million to support the development of interoperable and secure defence communication systems for operations.

2. ORGANISATIONAL MANAGEMENT AND INTERNAL CONTROL

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

The first subsection reports the control results and other relevant information that supports management's assurance on the achievement of the financial management and internal control objectives⁷. It includes any additional information necessary to establish that the available evidence is reliable, complete and comprehensive. It covers all activities, programmes and management modes relevant to the DG.

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

2.1. Financial management and internal control

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

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

- the annual reports from Authorising Officers by Sub-Delegation (AOSDs), submitted by the Directors, which include the outcome of internal control monitoring within each Directorate;
- the reports from Authorising Officers by Delegation in other DGs managing budget appropriations in cross-delegation;
- the reports on control results from entrusted entities in indirect management, as well as the results of the DG's supervisory controls on the activities of these bodies;
- the contribution by the Director in charge of Risk Management and Internal Control, including the results of internal control monitoring at DG GROW;
- the reports on recorded exceptions, non-compliance events and any cases of 'confirmation of instructions' (Art 92.3 FR);
- the results of ex-ante and ex-post controls;
- the limited conclusion of the Internal Auditor on the state of internal control, and the observations and recommendations reported by the Internal Audit Service (IAS);
- the observations and the recommendations reported by the European Court of Auditors (ECA).

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

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

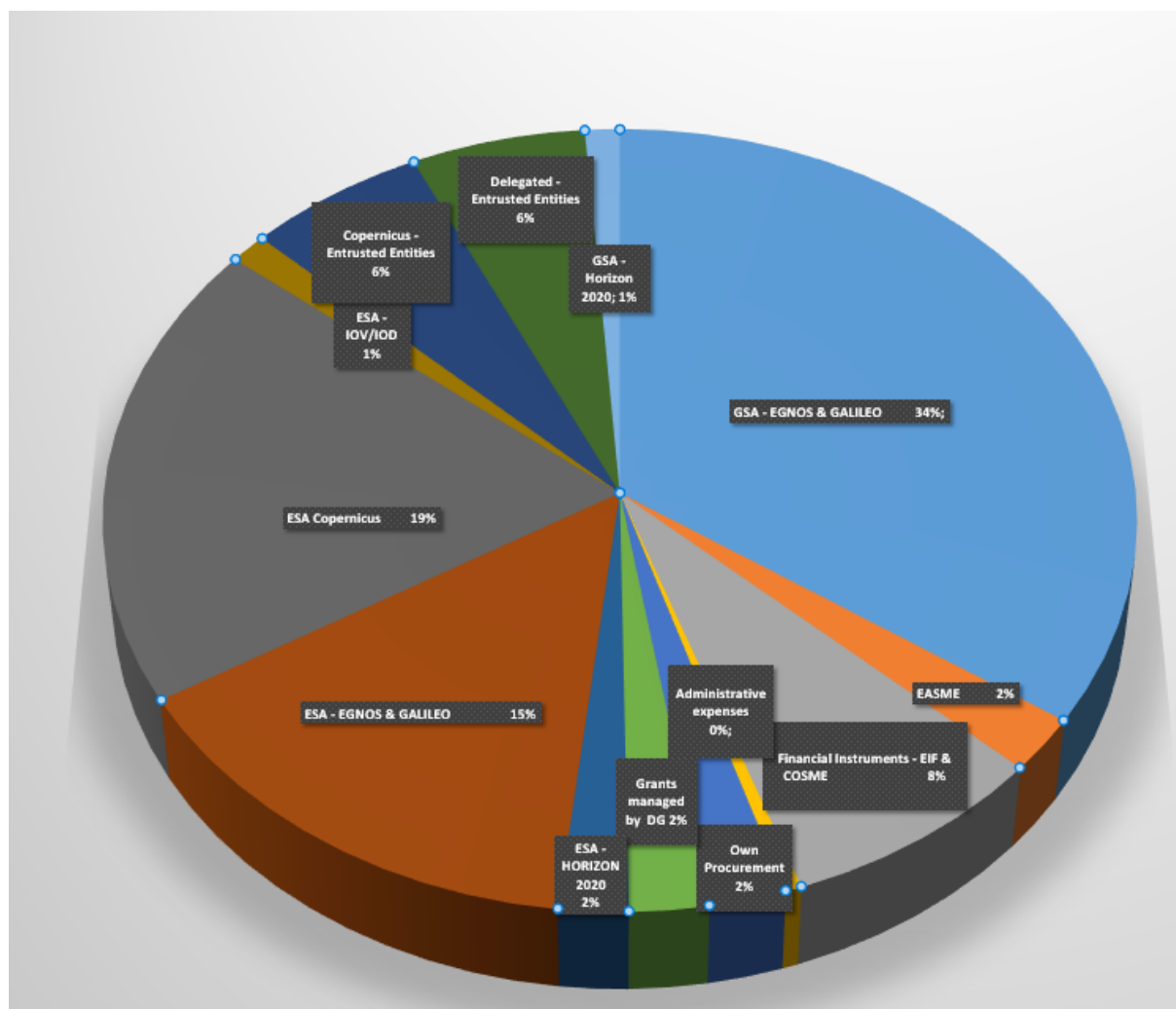
⁷ Art 36.2 FR: a) effectiveness, efficiency and economy of operations; b) reliability of reporting; c) safeguarding of assets and information; d) prevention, detection, correction and follow-up of fraud and irregularities; and e) adequate management of risks relating to the legality and regularity of underlying transactions

2.1.1. Control results

This section details the elements supporting the assurance on the achievement of the DG GROW internal control objectives⁸. In the light of the new Commission, DG GROW went through a reorganisation at the end of 2019, which took effect as of 1/1/2020, when Defence Industry and Space activities were taken over by DG DEFIS and pharmaceuticals and medical devices by DG SANTE. The present AAR covers the transferred activities since at end 2019 these were still part of DG GROW portfolio.

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

DG GROW transactions are carried out under both direct and indirect management modes. The following chart gives an overview of the types of payments made in 2019⁹:



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

⁹ This chart represents the outturn on payment appropriations made in 2019, i.e. € 2,154 million, including the administrative expenditure and expenditure under cross-delegation executed by other DGs. The reader is referred to Table 2 in Annex 3.

The following table shows that in 2019, the largest part of DG GROW expenditure was implemented in indirect management through contribution agreements (especially for Space activities).

In direct management, DG GROW implements its own budget with procurements and grants.

Activity		Entity / Subsidy	Payments 2019	% on total payments	Main ICO Indicator
Direct Management	Grants	EASME	48.597.665	2,26%	Time to pay; Time to grant; Overall cost of Control; No Olaf Cases; Clean opinion on accounts; Detected or estimated error rate
		GROW	50.087.795	2,33%	
	Procurement	GROW	48.865.363	2,27%	
Indirect Management	Grants	ECHA	61.450.737	2,85%	DA objectives achieved; Time to pay; Overall cost of control; No Olaf Cases; Clean opinion on accounts; Detected or estimated error rate
		Delegation Agreements	ESA	803.090.023	
	GSA		767.960.875	35,65%	
	MERCATOR		27.565.321	1,28%	
	ECMWF		55.834.272	2,59%	
	EUMETSAT		45.400.000	2,11%	
	FRONTEX		15.093.000	0,70%	
	EMSA		9.646.000	0,45%	
	EDA		29.349.600	1,36%	
	EEA		6.846.000	0,32%	
	SATCEN - EAS		3.278.000	0,15%	
EIF	170.609.514	7,92%			
Administrative Expenses			10.357.386	0,48%	
Total			2.154.031.551	100%	

DG GROW does not have to disclose any case of financing not linked to costs (Financial Regulation (FR) art 125.3¹⁰), nor any cases of flat rates >7% for indirect costs decided by Commission Decisions (FR art 181.6¹¹) or cases of derogations from the principle of non-retroactivity principle for of grants" (FR art 193.2). The cases of 'confirmation of instructions' (FR art 92.3¹²) are listed in the DG GROW register of exceptions and non-compliance events. The list of signed Financial Framework Partnerships >4 years (FR art 130.4) is in annex 3 table 15.

¹⁰ The authorising officer responsible shall report on financing not linked to costs pursuant to points (a) and (f) of the first subparagraph of paragraph 1 of this Article in the annual activity report referred to in Article 74(9).

¹¹ The authorising officer responsible may authorise or impose, in the form of flat-rates, funding of the beneficiary's indirect costs up to a maximum of 7 % of total eligible direct costs for the action. A higher flat rate may be authorised by a reasoned Commission decision. The authorising officer responsible shall report in the annual activity report referred to in Article 74(9) on any such decision taken, the flat rate authorised and the reasons leading to that decision.

¹² An authorising officer by delegation or sub-delegation who receives a binding instruction which he or she considers to be irregular or contrary to the principle of sound financial management, in particular because the instruction cannot be carried out with the resources allocated to him or her, shall inform the authority from which he or she received the delegation or subdelegation about that fact in writing. If the instruction is confirmed in writing and that confirmation is received in good time and is sufficiently clear, in that it refers explicitly to the points which the authorising officer by delegation or subdelegation has challenged, the authorising officer by delegation or subdelegation shall not be held liable. He or she shall carry out the instruction, unless it is manifestly illegal or constitutes a breach of the relevant safety standards. The same procedure shall apply in cases where an authorising officer considers that a decision, which is his or her responsibility to take, is irregular or contrary to the principle of sound financial management or where an authorising officer learns, in the course of acting on a binding instruction, that the circumstances of the case could give rise to such a situation. Any instructions confirmed in the circumstances referred to in this paragraph shall be recorded by the authorising officer by delegation responsible and mentioned in his or her annual activity report.

1. Effectiveness = the control results and benefits

- **Legality and regularity of the transactions**

DG GROW is using internal control processes to ensure the adequate management of the risks relating to the legality and regularity of the underlying transactions it is responsible for, taking into account the multiannual character of programmes and the nature of the payments concerned. The control objective is to ensure that the residual error rate or the risk of error does not exceed 2 % cumulatively by the end of the programme implementation or annually, depending from the distinct control system, as determined in the materiality criteria in Annex 4.

For the 2019 reporting year, no serious control issues were signalled by the operational units. From the monitoring and supervision work done, which includes regular contacts and monitoring of relevant management reports and audit reports, there are no indications that their reporting would not be reliable.

In 2019, DG GROW updated its control strategy¹³ that reinforces the existing monitoring already applied to its entrusted entities (mainly ESA and GSA) in indirect management.

Regarding the EU funds managed directly by the Directorate-General via grants and procurement, including the administrative related expenditures (direct management), there were no major control weaknesses affecting assurance (no reservations for 2019).

In the context of the protection of the EU budget, the DGs' estimated overall risk at payment, estimated future corrections and risk at closure are consolidated at Commission level. DG GROW's data is shown in the Table below and its accompanying notes below. The estimated overall risk at payment for 2019 expenditure is 12.8 M€. This is the AOD's best, conservative estimation of the amount of *relevant expenditure* during the year (2.1 M€) not in conformity with the contractual and regulatory provisions applicable at the time the payment was made. It diminished compared to 2018 mainly because in 2019 the detected error rate following audits on the space programmes decreased. There is no more risk at payment on the legacy programme FP7 (both grants and GSA), since no payment on this programme has been processed in 2019.

DG GROW expenditure will be subject to ex-post controls and a proportion of the underlying errors will be detected and corrected in successive years. The conservatively estimated future corrections for 2019 expenditure amount to 1.8 M€. This estimation of errors is supposed to be corrected by controls and audits planned to be carried out in succeeding years. This amount slightly decreased with comparison to 2018 mainly due to the decrease of the average error rate (from 0.8% in 2018 to 0.7% in 2019). The difference between those two amounts leads to the estimated overall risk at closure for the 2019 expenditure of 11 M€.

The error rates for the 2019 AAR have been calculated based on the total expenditure audited. However, this methodology has been challenged by the Court of Auditors on Horizon 2020 expenditure, stating that the error rate has to be calculated based only on the sampled items. Although this recommendation does not concern DG GROW expenditure, it might have an impact in the future on the error rates. As a bridging solution, following ECA recommendation, DG GROW has checked whether the impact of this recommended calculation has an impact on the error rate of the Space activities (main part of the DG GROW budget). In conclusion, with this calculation, there would be no impact on the assurance in 2019 as the detected error rate remains below materiality. The table on the following page shows the estimated overall amount at risk.

¹³ [Ares\(2019\)6860436](#)

Estimated overall risk at closure

DG GROW 2019	Program	Scope: Payments made in 2019	Pre-financing made in 2019 [a]	Cleared pre-financing [b]	Relevant expenditure [c]	Average Error rate (range in %) [d]	Estimated overall risk at payment	Average Recoveries and Corrections [e]	Estimated future corrections	Estimated overall amount at risk at closure [f]	Percentages
		As per AAR annex 3 and ABAC DWH BO reports	As per ABAC DWH BO reports	As per ABAC DWH BO reports	(2)-(3)+(4)	Detected or estimated	(range in €) = (5) x (6)		(5)x (8)	(7)-(9)	
		(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	
Administrative credits	DG GROW ADMIN	10.357.386	393.344	0,00	9.964.042,48	0,50%	49.820,21	0,50%	49.820,21	0,00	0,48%
Own Procurement	Own procurement	48.865.363	3.777.385,92	2.955.419	48.043.396,25	0,50%	240.216,98	0,50%	240.216,98	0,00	2,27%
Grants	Standardisation	21.878.976	8.678.541,06	13.706.201	26.906.636,08	0,50%	134.533,18	0,70%	188.346,45	-53.813,27	1,02%
	CIP grants	661.868	0,00	1.855.231	2.517.099,07	6,95%	174.938,39	0,70%	17.619,69	157.318,69	0,03%
	Other grants	27.546.951	13.584.038,43	10.849.560	24.812.472,06	0,50%	124.062,36	0,50%	124.062,36	0,00	1,28%
International organisations	ESA Copernicus	416.940.000	416.940.000	479.032.580	479.032.580,14	0,50%	2.395.162,90	0,00%	0,00	2.395.162,90	19,36%
	ESA IOV/IOD	26.800.000	26.800.000	0,00	0,00	0,50%	0,00	0,00%	0,00	0,00	1,24%
	ESA GNSS Galileo	315.240.405	315.240.405	404.344.608	404.344.607,52	0,50%	2.021.723,04	0,00%	0,00	2.021.723,04	14,63%
	ESA Horizon 2020	44.109.618	44.109.618	39.578.028	39.578.028,29	0,50%	197.890,14	0,00%	0,00	197.890,14	2,05%
	MERCATOR (Copernicus)	27.565.321	27.565.321	24.579.863	24.579.863,09	0,50%	122.899,32	0,00%	0,00	122.899,32	1,28%
	ECMWF (Copernicus)	55.834.272	55.834.271,66	54.439.685	54.439.685,20	0,50%	272.198,43	0,00%	0,00	272.198,43	2,59%
	EUMETSAT (Copernicus)	45.400.000	45.400.000,00	34.483.005	34.483.005,08	0,50%	172.415,03	0,00%	0,00	172.415,03	2,11%
Agencies	GSA	767.960.875	768.025.557,32	699.777.837	699.713.155,04	0,50%	3.498.565,78	0,00%	0,00	3.498.565,78	35,65%
	FRONTEX	15.093.000	15.093.000	11.117.311	11.117.311,45	0,50%	55.586,56	0,00%	0,00	55.586,56	0,70%
	EMSA	9.646.000	9.646.000	7.488.124	7.488.124,30	0,50%	37.440,62	0,00%	0,00	37.440,62	0,45%
	EDA	29.349.600	29.349.600	13.384.172	13.384.172,18	0,50%	66.920,86	0,00%	0,00	66.920,86	1,36%
	EEA	6.846.000	6.846.000	16.912.013	16.912.012,87	11,99%	2.027.750,34	0,00%	0,00	2.027.750,34	0,32%
	SATCEN -EAS	3.278.000	3.278.000	7.825.785	7.825.785,01	0,50%	39.128,93	0,00%	0,00	39.128,93	0,15%
	ECHA	61.450.737	61.450.737	22.846.387	22.846.386,79	0,50%	114.231,93	0,50%	114.231,93	0,00	2,85%
Executive Agency	EASME	48.597.665	48.597.665	42.646.133	42.646.133,47	0,50%	213.230,67	0,50%	213.230,67	0,00	2,26%
Specialised Union body / COSME	EIF	170.609.514	0,00	0,00	170.609.514,00	0,50%	853.047,57	0,50%	853.047,57	0,00	7,92%
Total		2.154.031.551	1.900.609.484	1.887.821.943	2.141.244.010	0,60%	12.811.763		1.800.575,87	11.011.187	100%

[1] Several heterogeneous grants related to space programmes, internal market, COSME 2014-2020, pilot projects and preparatory actions.

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

[a] New PF actually paid by out the DG itself during the FY (i.e. excluding any PF received as transfer from another DG) The "Pre-financing" is covered as in the context of note 2.5.1 to the Commission (provisional) annual accounts (i.e. excluding the "Other advances to Member States" (note 2.5.2) which is covered on a pure payment-made basis).

Pre-financings paid/cleared are always covered by the Delegated DGs, even in the case of Cross-SubDelegations.

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

[c] For the purpose of equivalence with the ECA's scope of the EC funds with potential exposure to L&R errors (see the ECA's AR methodological Annex 1.1 point 15), also our concept of "relevant exposure" includes the payments made, subtracts the new pre-financing paid out (& adds the retentions made), and adds the previous pre-financing actually cleared (& subtracts the retentions (partially) released and any deductions of expenditure made by MS in the annual accounts) during the FY. This is a separate and 'hybrid' concept, intentionally combining elements from the budgetary accounting and from the general ledger accounting

[d] Although detected error rates following audits in 2019 for some international organisations were 0% (ESA and GSA), we used 0.5% as a conservative estimate, according to central services recommendation. This is also the case for the administrative expenditure, operating subsidies to agencies, as well as all entrusted entities not being audited in 2019.

[e] The historic average of recoveries and financial corrections (ARC) received from the central services is 0.7% for 2019. However, further to ECA/IAS recommendations, DG GROW adjusted this value for grant management expenditure and used as best estimation the difference between overall representative detected error rate and the residual error rate. Even though to some extent based on the 7 years historic Average of Recoveries and financial Corrections (ARC), which is the best available indication of the corrective capacity of the ex-post control systems implemented by the DG over the past years, the AOD has adjusted this historic average from 0.7% to 0.5% or 0,0%.

Any ex-ante elements, one-off events, (partially) cancelled or waived Recovery Orders, and other factors from the past years that would no longer be relevant for current programmes (e.g. higher ex-post corrections of previously higher errors in earlier generations of grant programmes, current programmes with entirely ex-ante control systems) have been adjusted in order to come to the best and most conservative estimate of the ex-post future corrections to be applied to the reporting year's relevant expenditure for the current programmes.

This includes considering that the ex-post future corrections would be 0.0% for DA with International organisations and Decentralised agencies involved in the Space programmes as we perform the clearing of the pre-financing after audits or desk checks. The 0.5% was applied to administrative expenditure, own procurement, other grants, as well as to executive agency, EIF and ECHA. A conservative approach regarding corrections was taken regarding the latter, hence 0.5% would be more relevant instead of 0.7%.

DG GROW has entrusted the majority of its budget implementation to international organisations, executive agencies and decentralised agencies. In all these cases, the Directorate-General's supervision arrangements are based on the principle of intensive controlling of the relevant entity and where applicable participation in the entities' steering committees.

The cost of controls is highly outweighed by their benefits. The European space programmes are major industrial programmes of significant size and complexity. It is the first time that the EU, in particular the Commission, implements such programmes.

For the ongoing multiannual European Space programmes, the detected annual error rates could be rectified via the future clearings on pre-financings, ensuring there will be no error at the end of the programmes.

(A) International Organisations

European Space Agency (ESA)

In 2019, the biggest part of DG GROW expenditure was delegated to the European Space Agency (ESA) for the implementation of the GNSS (Galileo and EGNOS), the Copernicus space programmes as well as the H2020 programme, totalling 803.1 M€ (37.3% of the total DG GROW 2019 payments).

The assurance on the effectiveness of the internal control systems with regard to the legality and regularity of the costs reported is built on:

- ESA's control results and/or assurance:
 - Opinion of the external auditor – unqualified audit opinion
 - Statement of Internal Control of the Director-General - clean
 - Reporting quality control at ESA - considered sufficiently reliable to draw conclusions on assurance.
- Authorising Officers by Delegation's own control results on the ESA's operations:
 - Results of the audits of the 2019 reports and implementation of corrections – no error was found on the audited costs claimed (see further details in Annex 6).

The DG GROW ex-post audit team continued to audit all the Annual Implementation Reports (AIRs) and Annual financial reports (AFRs) submitted by ESA in 2019. The results of the previous financial audits have been implemented. These corrections have been made at the time of the annual clearing of pre-financing payments to ESA. The overall residual error rate is below the 2% materiality threshold.

During the monitoring, errors detected ex-ante in the AIRs and the AFRs, have no impact on the legality and regularity of the amounts paid to ESA because the amounts paid depend both on costs declared and on cash-flows forecasts. There remains still the possibility to rectify them via future clearings of the pre-financings until the end of the delegated programmes.

In the framework of the regular working arrangement and top-level meetings between DG GROW and ESA, the Directorate-General closely monitors ESA's progress with the implementation of the programmes and the related reporting. Ensuring business continuity is a priority and in case of incidents¹⁴, intense efforts are deployed and measures put in place to prevent such critical situations in the future.

The Relevant Control System Template (RCS) for indirect management in Annex 5 demonstrates how the control system put in place in the Directorate-General, addresses the risks related to this type of expenditure.

¹⁴ For example, the incident occurred in July 2019 when the provision of Galileo Initial Services was impacted by a technical incident in the Galileo ground infrastructure, cfr. supra point 1.1 p.11.

DG GROW considers that the error rates detected by its ex-post audits are a reliable indicator for the legality and regularity of the transactions not covered by the sampling made by the auditors (non-audited part). The detected error rate on the audited delegation agreements signed with ESA is 0% for 2019. In order to mitigate the risk that the actual error rate could be higher on the non-audited part than on the audited one, DG GROW decided to apply a conservative approach and to declare an error rate of 0.5% for the budget delegated to ESA.

More detailed information is provided in Annex 6.

Other international organisations, e.g. MERCATOR, ECMWF and EUMETSAT

The elements that provide assurance on the effectiveness of the internal control system with regard to the legality and regularity are mostly the same as explained under ESA.

In 2019, an audit on the 2018 Annual Implementation Report of Mercator was carried out by DG GROW. The error rate following the audit performed amounts to 0.14% over a total cost claimed of 24.6 M€. No audits were performed on ECMWF nor on EUMETSAT. These entrusted entities are audited every two years, according to the audit guidelines established at DG GROW¹⁵, unless risks are identified.

DG GROW considers that the error rates detected by its ex-post audits, are a reliable indicator for assurance level on the funds delegated. Furthermore, based on its monitoring and supervision, the Directorate-General considers that the level of error remains relatively stable over the years. Therefore, the error rates detected previously on the 2018 costs for the non-audited international organisations in 2019, can be used as an reliable indicator for the error rate in 2019. In order to mitigate the risk that the actual error rate could be higher on the non-audited entities, DG GROW decided to apply a conservative approach and to declare an error rate of 0.5% for the budget delegated to these non audited organisations in 2019.

(B) EU Agencies

Decentralised Agencies, e.g. GSA, EEA, FRONTEX

Besides the above mentioned contribution agreements, similar agreements have been concluded with the **GNSS Supervisory Agency (GSA)** in the area of GNSS exploitation activities. In 2019, GSA constituted the second biggest part of DG GROW expenditure, totalling 767.9 M€ (35.7% of the total DG GROW 2019 payments). Although DG GROW remains ultimately accountable for the legality and regularity of these expenditures, it is the responsibility of GSA to set up the appropriate controls to provide the necessary assurance to its parent Directorate-General. The Commission exercises the supervisory tasks provided for in the existing delegation agreements through ex-ante controls over the regular implementation reports and procurement documentation submitted by the Agency. GSA is audited annually by the European Court of Auditors (ECA) and the submitted annual financial/implementation reports (AFRs/AIRs) are also audited by external independent auditors. DG GROW ex-post control team audited all annual financial/implementation reports (AFRs/AIRs) submitted by GSA. The overall detected error rate for 2019 following the DG GROW audits is -0.1% (positive adjustment).

According to the DG GROW audit guidelines and the 2019 audit Work Programme¹⁶, the entities other than ESA and GSA are audited every two years.

¹⁵ Ares(2018)2148288 - 23/04/2018

¹⁶ [Ares\(2019\)1458739](#)

However, the **EEA** has been audited again in 2019 since risks and errors have been identified during the 2018 audit. The trend was confirmed during the 2019 follow-up audit as well, concluding on an error rate of 11.99% in 2019. Considering the payments made to EEA (6,8M€ in 2019) represents only 0,32% of the total 2019 DG GROW payments and that the error has been already rectified through the clearing of the pre-financing, there is no impact on the overall DG GROW assurance for the year 2019 even if the detected annual error rate for EEA is above materiality. Monitoring measures and recommendations for improvement have been issued to the Agency. Additionally, the Agency carries out its own ex- ante and ex-post controls. EEA has to comply with strict reporting obligations while the annual accounts are accompanied by an opinion an independent audit body. Besides, the Agency activities are in their turn subject to checks, audits, investigations and evaluations by the Commission, OLAF and the European Court of Auditors. All these measures contribute to the supervision of the Agency's implementing activities.

FRONTEX was in a similar case and a follow-up audit was carried out in 2019. The audit concluded on an error rate of -0.21% (positive adjustment), which means the mitigating measures and recommendations provided during the previous audit of 2018, already benefitted the Agency. Considering that DG GROW is not the parent DG of FRONTEX, its supervision activities are focused on the implementation of the tasks delegated to Agency under the signed Delegation Agreement (DA). The DA ensures that the Commission, the European Anti-fraud Office and the Court of Auditors or their authorised representatives, may at any time during the implementation of the entrusted tasks and up to five years after the payment of the balance carry out checks and audits on the implementation of the entrusted tasks.

The rest of the Decentralised Agencies, which were not part of the ex-post control in 2019, were given a "theoretical" error rate of 0.5%, following the conservative approach mentioned above. It is to be mentioned that according to DG GROW audit guidelines, these Agencies are audited every 2nd year, unless a specific risk is raised. Ex-ante desk checks and regular monitoring are performed on these entities over the year to ensure legality and regularity of the transactions.

Based on the declarations of assurance provided by the Executive Directors of these decentralised agencies and the results of the performed ex-post audits, DG GROW considers the implementation of the delegated funds to be legal and regular.

We refer to Annex 8 for more detailed information.

Executive Agencies

In its capacity of parent DG, DG GROW supervises the control systems¹⁷ of EASME and REA in the context of their direct delegations as Authorising Officers by Delegation (AOD). Both agencies performed their ex-post audits in the context of a common audit strategy. The executive agencies' control results are either in line with those within the policy family or are slightly modified to correspond to the different profile of its sub-population of beneficiaries. EASME and REA produce their own AARs. The supervision of the Executive Agencies continued throughout 2019. The preparation of the Annual Activity Reports of these Agencies was supervised by DG GROW and by the Steering Committees of the Agencies.

DG GROW contributes to EASME's operating budget, together with other parent DGs. The consumption of this budget is duly monitored, and after the final closure of EASME's accounts, any surplus is recovered pro-rata by the agency's parent DG.

¹⁷ The control systems of the Executive Agencies are similar to those of their parent DGs.

Overall, DG GROW considers that its supervision of its two executive agencies is effective and appropriate.

(C) Specialised Union bodies

In line with the Financial and Administrative Framework Agreement (FAFA) between the EU and the European Investment Fund, the COSME Delegation Agreement (DA) entrusts budget implementation of the COSME financial instruments to the European Investment Fund (**EIF**). The DA covers the implementation of the two financial instruments under COSME, i.e. the Loan Guarantee Facility (LGF) and the Equity Facility for GROW (EFG).

A pillar assessment of the EIF was carried out in 2015, providing reasonable assurance to the Commission that the EIF meets the requirements of Article 154 of the FR and confirming that the EIF can be entrusted with budget implementation tasks under indirect management.

Controls during the implementation of the COSME financial instruments relate to the selection of financial intermediaries, fund allocation between the LGF and the EFG, remuneration of the EIF, assessment of the effectiveness and efficiency of the internal control systems as well as the follow-up of any observations by internal or external auditors. The respective LGF and/or EFG steering committees ensure that the policy objectives are met and will regularly review the progress of implementation. The reader is referred to Annex 5 Relevant Control System template (RCS) on Financial Instruments for details on the control strategy.

Moreover, DG GROW performs ex-post controls on the COSME programme. In 2019 two assignments were performed together with EIF and no finding was reported. Ex-ante controls and regular monitoring are ensured all over the year by the responsible services in DG GROW.

Based on the Declarations of Assurance on both financial instruments and the respective reports on audits and controls, which are submitted by the EIF, DG GROW has reasonable assurance in all material aspects that the EU funds delegated to EIF are used for the intended purposes, including regarding legality and regularity. DG GROW also considers that the operational and financial reporting requirements set out in the COSME Delegation Agreement provide sufficient and relevant information and figures to ensure sound and efficient management of the policy aspects of these financial instruments.

(D) Procurement

Procurement under direct management represents 2.27 % of the total 2019 DG GROW expenditure. The payments made in 2019 on own procurement amount to 48.9 MEUR.

The Relevant Control System template (RCS) n°4 for procurement in Annex 5 demonstrates how the control system in place in the Directorate-General addresses the risks related to this type of expenditure.

In 2019, 21 contracts with a value exceeding EUR 60,000 were awarded directly by DG GROW, representing a total contract value of EUR 42.08 million. The reader is referred to Annex 3, table 12 (0.87 % of this amount was awarded following a negotiated procedure without prior publication). These contracts do not include, however, contracts signed by the European Space Agency (ESA) in the name and on behalf of the Commission under ESA Delegation Agreements.

The procurement procedures applied in DG GROW involve a number of specific controls, which are fully in line with the applicable regulatory requirements. The benefit of these specific controls provides assurance on legality and regularity, transparency, equal

treatment and proportionality of the public procurement and mitigates the risk of reputational damage.

Given the low error rate, there are no indication that a higher level of checks and controls would produce any supplementary benefits.

(E) Grants directly managed by DG GROW

DG GROW has set up internal control processes aimed to ensure the adequate management of the risks relating to the legality and regularity of the underlying transactions, taking into account the multiannual character of programmes as well as the nature of the payments concerned. Whereas DG GROW applies consistently controls to all grants in line with its procedures, ex-post controls for grants were dedicated to payments, which have higher risk than the average.

Key DG indicators on control <u>effectiveness</u>	DG results for the reporting year
Value of errors detected in cost claims through targeted risk-based in-depth <i>ex ante</i> desk checks to EU contributions before being paid by the DG to beneficiaries.	€ 166,140
Percentage of the errors value detected in comparison to the total value of cost claimed by the beneficiaries	2.8%
Number of ex-post audits finalised in 2019:	3
Key DG indicators on control <u>effectiveness</u>	Multiannual Results
<u>% of population covered:</u>	
CIP:	21 %
Standardisation:	24 %
<u>€ value coverage:</u>	
CIP:	€ 30 million
Standardisation:	€ 43 million
<u>Most Likely Error Rates:</u>	
CIP:	
<i>Cumulative detected error rate from non risk-based audits:</i>	6.95 %
<i>Residual error rate:</i>	5.51 %
Standardisation:	0.27 %

Standardisation

As part of its political objectives in the area of **standardisation**, DG GROW (and other DGs) conclude operating and action grants with European standardisation organisations (ESO) which function in a monopoly situation, e.g.: European Committee for Standardisation (CEN), European Committee for Electrotechnical Standardisation (CENELEC) and European Telecommunications Standards Institute (ETSI).

In 2019, three audits were performed. The overall detected error rate for 2019 amounts to 0.27%, which is below materiality. This amount was calculated on the basis of the total audited sampled transactions. In order to mitigate the risk that the actual error rate could be higher on the non-audited part than on the audited one, DG GROW decided to

apply a conservative approach stating the error at 0.5% in the table "*estimated overall risk at closure*".

Based on the results of the performed ex-post audits (low cumulative detected error rate), combined with the ex-ante controls performed before final payment, management considers to have reasonable assurance on the total amount of costs paid.

Competitiveness and Innovation Framework Programme (CIP) grants

In 2019, DG GROW did all the final payments in the legacy programme Competitiveness and Innovation Framework Programme (CIP), which ran from 2007-2013 (total amount paid 662 K€, which represents 0.03% of the total DG GROW payments). No ex-post controls have been performed in 2019 nor in 2018, as it is planned to close definitively the CIP programme in 2020. The error rate displayed in the table "*estimated overall risk at closure*" represents the cumulative detected error rate and takes into account data from previous years since no audits have been performed in 2019. The error rate is higher than the materiality level but following the "de minimis" rule, it has no impact on the assurance.

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

DG GROW has developed and implemented its own Anti-Fraud Strategy (AFS) since 2011, elaborated on the basis of the methodology provided by OLAF. It is updated every two years. It was last updated in February 2018. It is an essential element in the development of a strong anti-fraud culture within the Directorate-General. DG GROW puts a strong emphasis on fraud prevention by encouraging proportionate and targeted preventive ex-ante controls.

Since 2013, the fraud risk assessment is integrated in the annual risk assessment exercise. As the Directorate-General externalised the majority of its budget implementation, the AFS has been re-targeted towards the supervision of the implementation of anti-fraud strategies by the DG GROW's entrusted entities.

The updated Anti-Fraud Strategy has been advertised on DG GROW Intranet (GROWnet, including a video from senior management).

One potential case was transferred to OLAF in February 2019. DG GROW was informed in January 2020 about OLAF decision to dismiss the case. No open OLAF financial recommendations have been identified.

DG GROW is an active member of OLAF's Fraud Prevention and Detection Network (FPDNet) and participates occasionally to the Research Directorate-General family's Fraud and Irregularities in Research Committee (FAIR).

To conclude, the controls aimed at preventing and detecting fraud are similar to those intended to ensure the legality and regularity of the transactions. They are effective and no weakness has been identified in 2019.

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

Reliability of reporting

DG GROW delegates most of its budget implementation to external entities. In addition to the pillar assessment of these entities prior to the delegation, it also relies on the declarations of assurance provided every year. These consist of signed declarations by the director of these entities, providing assurance on the overall sound financial management of the delegated resources whilst highlighting key issues and describing the efficient functioning, cost-effectiveness and benefits of the entities internal control systems.

As a result of the efforts deployed by the DG in the past, the reliability of the financial data provided by the entrusted entities under the space programmes in 2019, is considered reliable. All controls performed by DG GROW on ex-ante and ex-post level revealed overall no material misstatements on the accounts presented by the entrusted entities under the space programmes managed by DG GROW.

Valuation and Safeguarding of assets and information

The total asset value on the Balance Sheet at end 2019 is EUR 8.909 million. The non-current assets cover EUR 6.899 million of intangible assets, property plant and equipment and long-term pre-financing. Furthermore, EUR 2.010 million of current assets consists predominantly of pre-financing managed and controlled in the context of the DG's direct and indirect management, and the EUR 416 million cash and cash equivalents located on the accounts of EIF.

Regarding property, plant and equipment, the EGNOS, Galileo and Copernicus assets represent the most important position on the balance sheet of DG GROW. The accounting treatment of these assets is a complex task requiring tailored procedures and systems to ensure proper valuation and control.

By end of 2019, 26 Galileo satellites had passed in-orbit testing and had started to incur depreciation cost. Their gross book value is EUR 2.276 million. Together with the rest of the satellites that are currently under construction (358 million), their total value is EUR 2.635 million. The gross book value of the Galileo Ground Segment in 2019 is EUR 2.123 million.

With regard to Copernicus, by end of 2019, 7 Copernicus satellites had passed in-orbit testing and had started to incur depreciation cost and other 12 satellites and instruments are currently under construction. The gross book value for the 7 operational satellites is EUR 2.116 million. Together with the rest of the satellites that are currently under construction (1.453 million), their total value is EUR 3.570 million.

During 2019, the controls performed on the data provided by ESA and GSA for the valuation of the space assets were maintained. Specific workshops on the operational stages of asset development were organised by DG GROW to discuss per programme the costs to be capitalised and the stages of operational development. A detailed reconciliation was made with the contractual milestones and their acceptance, allowing in-depth analysis of the data provided by the space delegated bodies.

In 2019, with the assistance of DG BUDG, DG GROW implemented the Asset Under Construction module in ABAC SAM, thus completing the last phase of using fully automated accounting for space programmes. The manual space accounts have been emptied, and the depreciation costs are calculated by ABAC SAM.

For EGNOS, on-the-spot physical inspections have been performed by DG GROW and GSA, covering RIMs sites and assets deployed on the premises of some industrial suppliers. The results of these inspections allow reasonable assurance as to the existence and safeguarding of the assets. A 3-year inspection programme covering 2018-2019-2020 has been issued to lay the basis for the assurance of the asset valuation for EGNOS.

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

DG GROW manages a large portfolio of heterogeneous activities in various domains, involving different ways of implementation.

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

Procurement

For DG GROW own procurements, the number of internal positive opinions issued on the launch and evaluation of procurement procedures are very high (84%) and improved compared to 2018. In addition, the average time to publication decreased in 2019 (96.59 days in 2018 to 86.6 days in 2019). It shows the efficiency in the procurement process.

One complaint was received regarding a low-value procurement that was consequently cancelled and relaunched a second time.

Grants

Regarding grants, DG GROW received in 2019 one Ombudsman case with Ref/1274/2014/DR concerning a grant procedure where an external expert was mandated to evaluate the case. He reached the same conclusions as DG GROW on the implementation of the project. The Ombudsman advised to perform a new external evaluation that confirmed the outcomes of previous one. The consortium was informed on the outcome of the additional evaluation but has not taken any further step.

DG results for the reporting year		
Key DG indicator on control efficiency	Grants	Procurements
Complaints received from unsuccessful economic providers		1
Number of new cases received by the Ombudsman in 2019 relating to grant / procurement procedures	1	0
Number of legal proceedings initiated by contractors or economic providers against the Commission relating to grant / procurement procedures	0	0
Number of instances of overriding of controls in relation to grant / procurement procedures	0	0
Past due critical and/or very important audit recommendations	0	0
Average time to publication of selection results (days)		86,6
Coverage of first level ex ante controls		100 % of all commitments and payments
		100 % of all tender documents and evaluation reports
Coverage of second level ex ante controls		100 % of all tender documents and evaluation reports
Number of positive / suspensive / negative opinions issued on the launch and evaluation of procurement procedures	107/21/0	
Average time to grant (TTG) (days)	93,0	
Average time to pay (TTP) (days)	15,0	
Average time to inform applicants of the outcome of the evaluation of the application (TTI) (days)	103,9	
Average days of suspension (days)	39	
Percentage of payments suspended in comparison to all payments executed	18,3%	

In the context of Synergies and Efficiencies, DG GROW is continuously working on optimising its financial processes. Three waves of simplification measures with financial implications took place in the period 2016-2018¹⁸.

¹⁸Note [Ares\(2016\)6525287](#) dated 21/11/2016
Note [Ares\(2017\)1202427](#) dated 07/03/2017

On 19 March 2019, a workshop was held in DG GROW with the participation of the DG GROW Financial Community. Various ideas were proposed on further optimisation of the financial management¹⁹.

The financial monitoring of operations improved in 2019 by providing a weekly follow-up of open invoices.

The "GROW Light" workflow was one of these key measures to reduce the administrative burden with a simplified workflow for approval of all payments below 5.000€. Ex-post controls of sampled GrowLight transactions were performed in 2019, global results of these checks being very positive.

This proves again efficient workflows for financial transactions in DG GROW are in place helping to achieve optimal results in the most efficient way.

3. Economy = the cost of controls

Following the Commission central services' guidance, the cost of the controls at Commission level is assessed by the cost of the different control stages. The overall assessment for each management mode is obtained from the ratio between all those costs and the total amount paid in the year for the related management mode.

The corporate methodology²⁰ for the estimation, assessment and reporting on the **cost-effectiveness of controls was revisited in November 2019**.

DG GROW Internal costs are an estimate, and may include some overstatements.

The Full Time Equivalent (FTEs) used for the calculation have been delivered by the different Directorates of DG GROW and the average FTEs costs used are the average FTEs costs communicated by DG BUDG which include 'habillage' costs.

The cost of control for assets are not reported as they are included in the supervision costs of entrusted entities.

Cost of control - direct management

The cost control for 2019 in direct management could be detailed as follows:

Note [Ares\(2017\)5886773](#) dated 01/12/2017

Note [Ares\(2018\)2413256](#) dated 07/05/2018

¹⁹ Note [Ares\(2019\)2309085](#) dated 01/04/2019

²⁰ [Ares\(2018\)4917637](#)

DG results for the reporting year - Direct management		
Common indicators on <u>cost of control</u>	Grants	Procurements
Percentage of overall cost of control of grant / procurement process in comparison to total expenditure <u>executed</u> during the year	8,31%	10,26%
Percentage of overall cost of control of grant / procurement process in comparison to total expenditure <u>executed</u> during the year - Ex Ante	7,65%	9,68%
Percentage of overall cost of control of grant / procurement process in comparison to total expenditure <u>executed</u> during the year - Ex Post	0,66%	0,58%
Overall cost of control (grant/procurement)	€ 4.055.065	€ 6.116.086
Overall cost of control (grant/procurement) - Ex Ante	€ 3.833.753	€ 5.768.989
Overall cost of control (grant/procurement) - Ex Post	€ 221.312	€ 347.097
Average number of ongoing contracts (grant/procurement) managed per full time equivalent	7,49	16,96
Percentage of costs of control related to the evaluation and selection procedure in comparison to the total value of grants / procurement contracted	1,68%	2,6%
Average value of ongoing grant / procurement agreements managed per full time equivalent	€ 14.646.272	€ 7.598.230
Average project management costs per ongoing grant / procurement agreement	€ 17.053	€ 7.950
Total Costs of ex post audits	€ 106.813	

In general, with less resources (FTEs), DG GROW managed more on-going procurement contracts in 2019 (16.96 in 2019 vs 13.08 in 2018) while keeping the same level of controls to assure the quality of the delivered services/supply.

For the 26 grants managed by DG GROW in 2019, the ex-ante and ex-post controls significantly reduced errors in the beneficiaries' cost claims.

Though the cost of control for the grants remains quite high due to limited portfolio of calls handled, it has improved in 2019 to 8.31% vs 11.52% that it was for 2018.

The overall cost of procurement still remains above the average and it has increased from 8.59% in 2018 to 10.26% in 2019 due to the limited overall number of tenders handled.

In summary, the level of control in direct management was cost-effective in 2019 for both procurement and grant processes.

Cost of control - indirect management

DG results for the reporting year - InDirect management												
Common indicators on cost of control	International Organisations				EU Agencies				Entrusted Entities (total International Organisations and EU Agencies)	EIF		
Overall cost of control of supervision process	€ 2.049.184				€ 64.272.631				€ 66.321.815	€ 8.004.904		
Percentage of overall cost of control of supervision process in comparison to the total annual amount paid in 2019 excluding any remuneration paid	0,25%				8,12%				3,99%	3,36%		
Remuneration fees paid (to international organisations, agencies, EIF)	€ 120.490.040				€ 89.873.955				€ 210.363.994	€ 16.376.215		
per International Organisation / EU Agency	ESA	Eumetsat	ECMWF	Mercator	EEA	Frontex	Satcen	GSA				
	€ 108.655.455	€ 5.910.688	€ 2.956.000	€ 2.967.897	€ 680.000	€ 405.000	€ 1.192.714	€ 87.596.241				
Percentage of cost of remuneration fees paid to entrusted entities in comparison to the total annual amount paid in 2019 excluding any remuneration paid	14,85%				11,35%				13,12%	6,88%		
% per International Organisation / EU Agency	ESA	Eumetsat	ECMWF	Mercator	EEA	Frontex	Satcen	GSA				
	15,6%	15,0%	5,6%	12,1%	11,0%	1,7%	57,2%	12,9%				
Percentage of costs of control related to the establishment or prolongation in comparison to the total annual amount paid in 2019	0,21%				0,36%				0,28%			
Percentage of costs of control related to the reporting and subsequent monitoring of the execution in comparison to all payments executed	0,003%											
Total cost of ex post audits					€ 320.438							

Overall, the cost of monitoring and supervision controls for the implementation of the space programmes, represents 0.25 % (European Commission staff costs) of the total annual amount delegated. The cost of controls is highly outweighed by their benefits. The European space programmes are major industrial programmes of significant size and complexity. In its capacity of programme manager, the European Commission is responsible for the management and coordination of these programmes. It bears the responsibility for their implementation and operation to schedule, cost and performance. Furthermore, DG GROW owns the assets of the Copernicus and GNSS programmes on behalf of the EU. Considering the above responsibilities, DG GROW implemented controls at governance, technical, operational and financial levels to ensure that the technical and security requirements are fully respected.

For EU agencies, there is a considerable increase in the overall cost of control of supervision process compared to the corresponding figure last year (64.3mio in 2019 vs 29.4mio in 2018). It is mainly due to the subsidy paid to European Chemicals Agency (ECHA) in 2019. However, the total annual amount delegated excluding any remuneration paid, remained in 2019 almost at the same percentage level as in 2018 (11.35% in 2019 vs 11.28% in 2018).

The high percentage of cost of remuneration fees paid to international organisations and to entrusted entities is mainly due to the technical specificities of the European space programmes which are major industrial programmes of significant size and diversity. They can be implemented only to entities such as ESA and GSA. The global cost of control in indirect management remains at the same level as in 2018 with the only exception of Satcen due to the decrease by 50% in payments made in 2019 compared to those of 2018.

The control strategy in indirect management is considered to be cost-effective overall.

In summary, DG GROW managed to keep the indicators stable or to improve them compared to those of last year assuring the adequate level of cost-effectiveness of the controls.

4. Conclusion on the cost-effectiveness of controls

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

DG GROW has a stable control environment and its control strategy is consistent to previous years. Overall, DG GROW has good performance indicators and acceptable error rates among all its programmes. The overall cost of control can be considered acceptable given the fact that no economy of scale can be obtained for the management of direct grants and procurement.

DG GROW is of the opinion that the current control system applied is the best suited to fulfilling the relevant control objectives efficiently and at a reasonable cost. It represents a good balance between the invested efforts (internal control costs and remuneration fees), the obtained error rates (effectiveness of controls) and delivery of objectives (efficiency).

The declaration of assurance (Section 2.1.5) includes no reservation for the expenditure categories or control systems concerned. Consequently, it is foreseen to maintain the current control strategy updated in November 2019.

2.1.2. Audit observations and recommendations

This section sets out the observations, opinions and conclusions reported by auditors – including the limited conclusion of the Internal Auditor on the state of internal control. Summaries of the management measures taken in response to the audit recommendations are also included, together with an assessment of the likely material impact of the findings on the achievement of the internal control objectives, and therefore on management's assurance. The Directorate-General is audited by both internal and external independent auditors: the Internal Audit Service (IAS) of the European Commission and the European Court of Auditors (ECA).

The Directorate-General has not received any critical recommendations arising from the IAS audits. The Director General is informed on the conclusions and the main recommendations stemming from the work of the internal and external auditors. A regular monitoring, performed by the Unit Budget, Financial Management and Assurance in 2019, ensures the timely implementation of all recommendations.

Internal Audit Service (IAS)

In 2019, the IAS launched the following assignments (no report nor recommendations received at end of the year):

- *"Audit on IT security in DG GROW": a first draft report was presented in January 2020, no critical nor very important recommendations have been issued.*
- *"Audit on the governance of GNSS programmes in DG GROW.": no findings have been received so far.*
- *"Consulting engagement on the governance and supervision of executive agencies": the final report was issued on 29/01/2020 and contains three issues of consideration addressed to the parent DGs (including DG GROW)..*
- *"Consulting on policy feedback in Research": the final report issued on 31/01/2020 contains five issues of consideration involving the research and innovation family services, including DG GROW.*

At year-end, all recommendations have been sent for review to IAS.

In its contribution²¹ to the 2019 AAR process of DG GROW, IAS states that the DG has accepted all the recommendations issued by the IAS, has adopted action plans to implement all the accepted recommendations and that those are adequate to address the residual risks identified by the auditors. DG GROW therefore concluded that the internal control systems in place for the audited processes are effective.

²¹ [Ares\(2020\)958137](#)

European Court of Auditors (ECA)

ECA's Annual Report 2018

On 8 October 2019, the Court presented its Annual Report on the execution of the Commission's 2018 budget. The 2018 report confirms that the way the EU budget is managed is generally good and steadily improving. The assessment of the legality and regularity of DG GROW transactions and the effectiveness of its supervisory and control systems, are treated in Chapter 5 - *Competitiveness for growth and jobs* - of the Court's Annual Report. The outcome was positive as no specific comments were addressed to DG GROW. The estimated overall level of error for Chapter 5 is now at 2% for the 130 transactions sampled compared to 4.2% in 2017. The materiality threshold of 2% has been reached for the Chapter 5. Another improvement is that the Court recognised that the "annual activity reports give a fair assessment of financial management".

The Court recommends mainly to reinforce the ex-ante controls for the SMEs and to simplify the rules for calculating personnel costs for the next programmes, which seems reasonable.

ECA Statement of Assurance (DAS) 2018

The Court has sampled less than ten transactions. They were mostly related to the financing of entrusted entities and executive agency. ECA did not have any specific comments on the transactions sampled in the frame of the Declaration of Assurance (DAS).

Implementation of ECA recommendations

At end 2019, all recommendations from the ECA where DG GROW is the lead Directorate-General have been implemented or partially implemented. There are no very important recommendations open at the end of 2019.

ECA Special Reports

DG GROW was involved mainly in the following Special Reports published in 2019:

- Special report on "Centrally managed EU interventions for venture capital: significant funding in need of more direction": this audit started already in 2016 and involved the COSME financial instruments.
- Special Report on "Important aspects of the European Semester need to be improved": DG GROW as lead in the European Semester was deeply involved.
- Special report on "Using new imaging technologies to monitor the common agricultural policy: steady progress overall, but slower for climate and environment monitoring". This audit also covered the Earth observation (Copernicus).

Apart from these Special Reports, DG GROW was audited for the first time in the frame of a review made by ECA about European defence (Review 09/2019). No recommendation and/or finding was mentioned in this Review reflecting only the opinion on ECA on this topic.

On 31 December 2019, some ECA Special Reports (where DG GROW is involved) were still ongoing: performance audit on the EU's space assets, Agencies performance, performance audit on Capital Markets Union, audit on energy efficiency in industry, audit on Sustainable urban mobility, audit on The European Investment Advisory Hub.

As an overall conclusion, based on the assessment of the risks underlying the auditors' observations combined with the management measures taken in response, the management of DG GROW is of the opinion that the recommendations issued do not raise any material assurance implications. Therefore, the current state of play does not lead to any assurance related concerns on the activities performed by DG GROW.

2.1.3. Assessment of the effectiveness of internal control systems

The Commission has adopted an Internal Control Framework based on international good practice, to ensure the achievement of its policy and management objectives. Compliance with the internal control framework is a compulsory requirement.

DG GROW uses the organisational structure and the internal control systems suited to achieving its policy and internal control objectives in accordance with the internal control principles and has due regard to the risks associated with the environment in which it operates.

DG GROW annually assesses the **effectiveness of its internal control system**²², including the internal control processes in place at the level of its implementing bodies in accordance with the methodology established in the "Implementation Guide of the Internal Control Framework of the Commission". The assessment relies on extensive monitoring throughout the reporting year, supported by various information sources such as: an assessment of the functioning of the components and principles of the internal control framework set up by the DG; an assessment of audit findings and the implementation of recommendations (both from IAS and ECA); a register of detected exceptions, non-compliance events and internal control weaknesses, identified both by the management and by auditors in their audit reports; management assurance declarations outlining the control environment and any control issue; and annual risk assessment. The reservations on FP7 and CIP from previous years were lifted in the AAR 2019.

The **functioning of the internal control system** has closely been monitored throughout 2019 by the systematic registration of exceptions and non-compliances with the rules and procedures and of internal control weaknesses. The underlying causes behind these exceptions and weaknesses were analysed and mitigated if necessary. All related audit recommendations were either successfully implemented as reaffirmed by auditors in their follow-ups, are ready for review or are currently under implementation, mitigating any significant risks. Further enhancing the effectiveness of the DG GROW control arrangements in place by inter alia taking into account any control weaknesses reported and exceptions recorded is an on-going effort in line with the principle of continuous improvement of management procedures, while taking into account the cost-effectiveness and risk differentiation of controls.

DG GROW's internal control assessment relies on a number of monitoring measures and sources of information to obtain a complete data set covering all aspects of DG GROW's operations. The Internal Control Monitoring Criteria (ICMC) are part of the building blocks for assurance on the functioning of the internal control system. These criteria are also the basis for the annual assessment of the DGs' internal control framework in the context of the Annual Activity Report. They provide a sound basis for effective internal control, allowing for regular monitoring and annual assessment.

DG GROW carries out a yearly review, covering all aspects of the DG's operations. One of the major element of this assessment in 2019 has been a survey conducted in October 2019 in DG GROW related to the internal control framework. Globally, the results of this assessment showed a positive opinion on the internal control framework at DG GROW. They were communicated to the Senior Management²³.

²² "State of the internal control at DG GROW for 2019" in [Ares\(2020\)1176845](#)

²³ [Ares\(2020\)1119092](#)

Based on the above, the Director in charge of Risk Management and Internal Control reported on the state of internal control and provided her opinion to the Director-General. Taking into account all these elements, no issues were raised that may impact assurance.

Concerning the overall state of the internal control system, the DG complies with the three assessment criteria for effectiveness, i.e. (a) staff has the required knowledge and skills, (b) systems and procedures are designed and implemented to manage the key risks effectively, and (c) there are no instances of ineffective controls that have exposed the DG to its key risks.

For the achievement of its objectives DG GROW largely relies on entrusted entities, executive and regulatory agencies, as well as on a close cooperation with various partners and international organisations. With the further externalisation of budget implementation, DG GROW focuses more on policy making and supervision and less on direct project management.

As a consequence, the main inherent risk endangering the achievement of DG GROW policy objectives lies in the supervision of these entrusted entities. In view of the Space programmes, the Commission acting as a programme manager has the overall responsibility for the successful building of Galileo and Copernicus systems, which by definition bear important inherent risk due to their complexity and technological uncertainties. Irrespectively of this risky environment, the DG is committed to deliver and correct any challenge in this respect.

As a result of the effective and timely implementation of mitigation measures, none of the prominent risks for the reporting year materialised. It is worth mentioning that DG GROW enhances, as a continuous effort, the management of the available resources so to ensure smooth achievement of objectives. In this context, as of January 2016, the general principle was to put in place designated cells for financial initiation in most of the Directorates with a central verification counterweight in the Unit Budget, Financial Management and Assurance (GROW.R1).

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

2.1.4. Conclusions on the assurance

This section reviews the assessment of the elements already reported above (in Sections 2.1.1, 2.1.2 and 2.1.3) and the sub-conclusions already reached. It draws an overall conclusion to support the declaration of assurance and whether it should be qualified with reservations.

The information reported in Section 2.1 results from a systematic analysis of the evidence available. This approach provides sufficient guarantees as to the completeness and reliability of the information reported and results in a comprehensive coverage of the budget delegated to the Director-General of DG GROW.

In accordance with the "De minimis" threshold rule²⁴, DG GROW lifted its reservations on the legacy programmes FP7 and CIP which were made the previous years. For FP7, there were no payments in 2019 (payments at 0 €). Regarding CIP, the percentage of the total payments made in 2019 represents only 0.03% of the total DG GROW payments. The financial impact is limited since the CIP payments amounted to 662 K€ in 2019 (estimated overall amount at risk 157 k€).

Regarding the Space programmes, the detected error rate on the EEA in 2019 (11.99% above materiality) has no impact on the assurance because the payments made to EEA (6,8M€ in 2019) represents only 0,32% of the total 2019 DG GROW payments and that the error has been already rectified through the clearing of the pre-financing.

In 2019, DG GROW has managed its resources to the best effect for the intended purposes, in line with the Financial Regulation and according to the principles of sound financial management, legality and regularity.

The internal control system in the DG is in place, and it functions effectively to the extent that it enables the Director-General to give his/her assurance on the resources used. With the help of the internal control system, weaknesses could be detected and corrected with relevant measures in place.

Overall Conclusion

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

²⁴ According to the Corporate Management Board agreement (30/04/2019), quantified reservations related to residual error rates above the 2% materiality threshold are deemed **not substantial** if they are related to segments representing, in €, **less than 5%** of a DG's portfolio **and** if their financial impact is **lower than EUR 5 million** - in such cases, reservations are **no longer needed**

2.1.5. Declaration of Assurance

DECLARATION OF ASSURANCE

I, the undersigned, Gwenole Cozigou,

Acting Director-General for DG GROW

(Internal Market, Industry, Entrepreneurship and SMEs)

In my capacity as authorising officer by delegation

Declare that the information contained in this report gives a true and fair view²⁵.

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

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

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

Brussels, 31 March 2020

(e-signed)

Gwenole Cozigou

Acting Director-General

²⁵ True and fair in this context means a reliable, complete and correct view on the state of affairs in the DG/Executive Agency.

2.2 Other organisational management dimensions

For an extensive reporting on all components, please refer to Annex 2.

2.2.1 Human resource management

A general outlook on the HR KPIs for DG GROW is in Annex 2.

The most relevant are:

- a) Percentage TA2b – The target of < 3% was not fully reached by the end of 2019. The main reason lies in the difficulty to find officials to be hired in the administrative support functions.
- b) Vacancy Rate – DG GROW was able to lower the VR to 2.3%, far below the maximum level of 5% required. An optimized recruiting process led to a better use of resources.
- c) Percentage of Managers in the post for more than 7 years – The target to reduce to zero the number of Managers in the post for more than 7 years was not reached. However, we moved to 4 HoU with more than 7 years in the post to 3 by the end of 2019. The reason behind it is linked to the need of stability in key areas for the DG during the year 2019. The same logic applies to the stable number of colleagues on the same post for more than 5 years - between the end of 2018 and the end of 2019.
- d) Percentage of woman in Middle Management posts – DG GROW reached the target since the beginning of the year, increasing it up to 45.5% by the end of 2019. This is due to a consistent effort in organizing and endorsing female talent management activities in the DG, as well as constantly promoting a gender equality culture.
- e) Number of day of trainings per year – DG GROW is moving towards the target of 7.5 days of training per year. A change of internal culture on training has been put in place in the last years inside DG GROW and the ratio of day of trainings per year moved up from 1.2 to 3.7 in the 12 months of 2019.

2.2.2 Better regulation

During 2019 Better Regulation activities in DG GROW focused on evaluations of existing rules and preparatory research for possible impact assessments in the future. Also, DG GROW remains a major provider of the REFIT (Regulatory Fitness) programme of the Commission, which looks at existing legislation to reduce burdens and increasingly simplify it

2.2.3 Information management aspects

To ensure the implementation of the revised personal data protection rules, DG GROW adopted a Personal Data Protection Action Plan (Ares(2019)275718), identifying actions to be implemented by different actors in DG GROW and the related deadlines, which execution was monitored, and actively supported by the DG GROW Data Protection Coordinator (DPC). In that context, DG GROW DPC conducted a large amount of awareness actions (including emails, notes, meetings, training, information sessions, videos, and GROWNet space), kept the inventory of processing operations, provided models, advice and contacted units in order to ensure the creation or updated of records and privacy statements (which were verified by the DPC), reported to senior

management and the DPO, followed training and attended coordination meetings with other DPCs, the DPO and the EDPS. As a result, Units nominated contact points, deleted or unpublished unnecessary personal data, most of them followed training or information sessions, created or updated procedures, records and privacy statements. DG GROW senior management promoted compliance with the rules and reported to corporate bodies upon request.

DG GROW consulted the European Data Protection Supervisor (EDPS) concerning a draft legislative act related to firearms, with a satisfactory result, and successfully verified and adjusted over 25 websites in line with the remarks made by the EDPS inspectors.

2.2.4 External communication activities

It has become a top priority for DG GROW to contribute to the corporate campaigns. DG GROW provided numerous contributions to #InvestEU, #EUandME and #EUProtects. To illustrate one of the first movies of the EUProtects campaigns was the Copernicus fire fighting movie in Italy topped up by a Galileo Web story.

DG GROW also made sure all its significant communication actions are systematically flagged under the umbrella and/or 'look and feel' of a corporate campaign. DG GROW consults DG COMM ex ante on all its communication actions procured with a budget over € 100,000. DG GROW carried out numerous communication actions and approved 21 communication actions with a budget over € 15,000. As for example for Galileo communication activities, the Raw Materials week and the Tender Electronic Daily (public procurement) promotion.

2.2.5 Internal communication activities

The Internal Communication team promotes DG GROW policies and human resource initiatives within the DG. For those tasks the Internal Communication team coordinates with the Audiovisual team (posters, videos). Content is promoted through GROWnet, newsletter Weekly Update, posters displayed in both GROW's buildings and lobby screen.
