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ANNEXES 1 to 3

CORRIGENDUM

This document corrects document COM (2022)401 final of 7 June 2022

Concerns the English language version.

Correction of few errors in annex 1.

The text shall read as follows:

ANNEXES

to the

REPORT FROM THE COMMISSION

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

Annual Management and Performance Report for the EU Budget - Financial Year 2021



Annual Management and Performance Report for the EU Budget

Volume II
Annexes

#EUBUDGET

FINANCIAL YEAR

2021

INTEGRATED FINANCIAL AND
ACCOUNTABILITY REPORTING 2021

Budget

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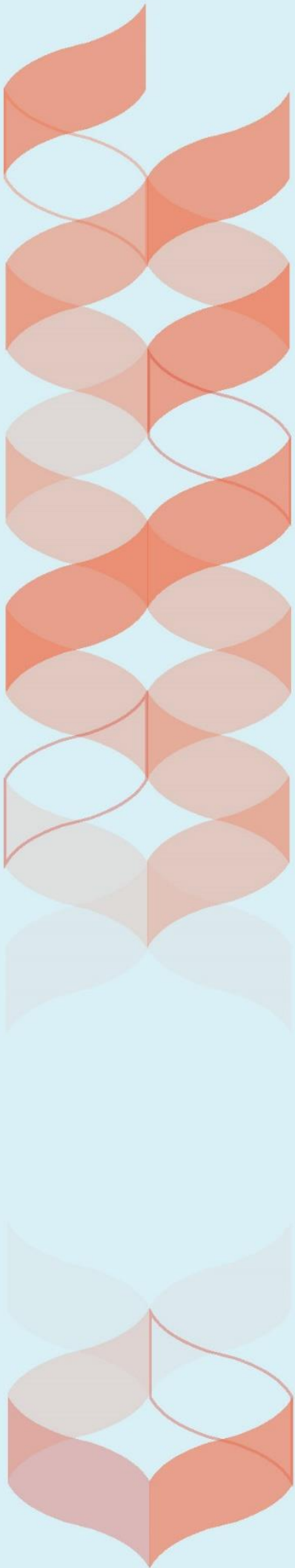
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Annex 1 – Horizontal priorities in 2021

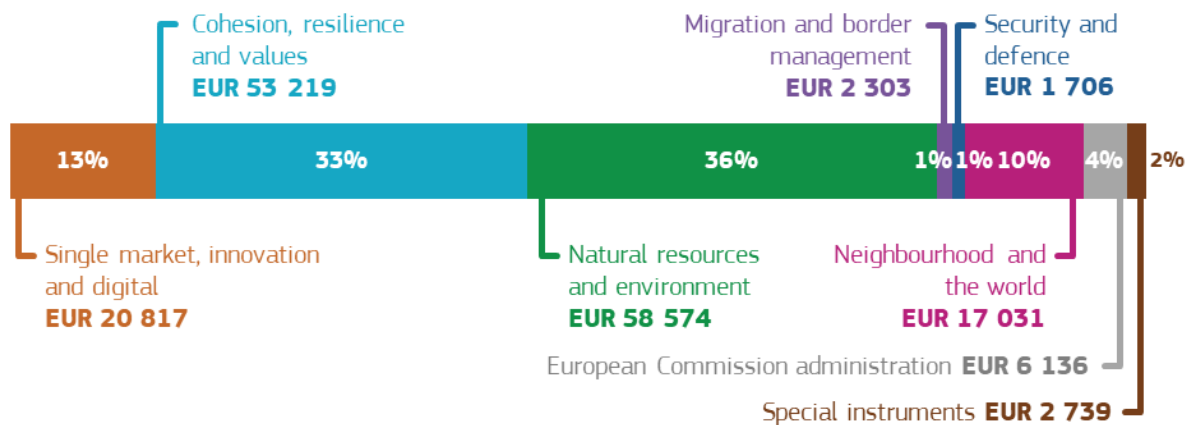
Horizontal priorities in 2021

The EU budget is an increasingly important tool for delivering on the EU's priorities. Through its programmes, the budget supports the EU's internal and external policies and creates European added value by delivering results that uncoordinated national spending could not. The EU's programmes are designed to work together to unlock synergies, catalyse private and public funding and provide a coordinated boost to a number of overarching political priorities, which are central to the headline ambitions of the von der Leyen Commission ⁽¹⁾.

The 2021 budget was the first under the 2021-2027 multiannual financial framework. It was at the heart of the EU's comprehensive response to the COVID-19 pandemic, allowing it to respond quickly and flexibly to urgent needs. It also continued to lay the foundations for the EU's future sustainability and prosperity, in particular by investing in a green and digital recovery. This will allow the European social economy to become more resilient and will strengthen job creation. The 2021 EU budget amounted to EUR 164 billion in commitments allocated under the following headings.

Multiannual financial framework in 2021

Total **EUR 162 526**



Multiannual financial framework: 2021 EU budget commitment appropriations by budget heading (in million EUR).

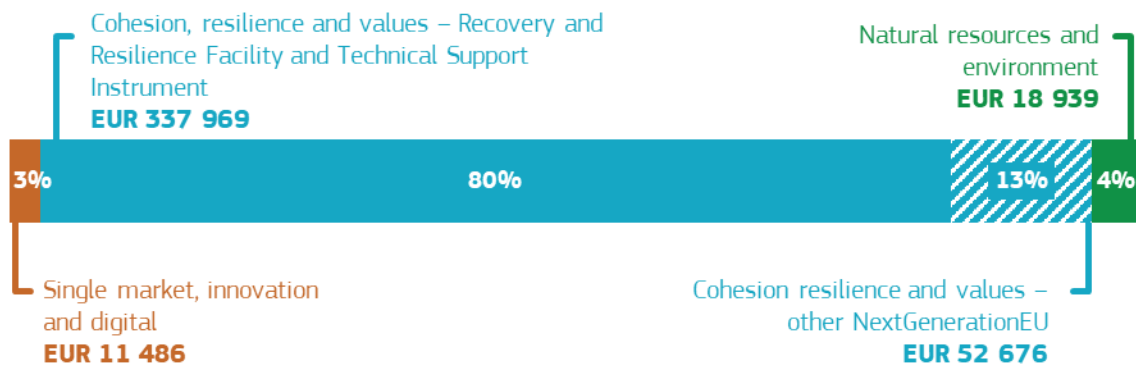
Source: European Commission.

The EU budget is boosted by NextGenerationEU to address the economic and social impact of the pandemic. NextGenerationEU is a EUR 807 billion ⁽²⁾ temporary recovery instrument consisting of support in addition to the EU's long-term budget, with a focus on the crucial first years of recovery. Funding from NextGenerationEU is invested across several programmes and is therefore described throughout this annex.

⁽¹⁾ https://ec.europa.eu/info/sites/default/files/political-guidelines-next-commission_en_0.pdf

⁽²⁾ EUR 807 billion in current prices, EUR 750 billion in 2018 prices.

NextGenerationEU in 2021

Total **EUR 421 070**

NextGenerationEU commitment appropriations by budget heading (in million EUR).

Source: European Commission.

The performance analysis in this annex describes how EU programmes have contributed to several cross-cutting and interconnected policy priorities. It is structured around four key themes:

- recovering and becoming more resilient;
- driving the twin transitions for a sustainable future;
- building an economy that works for people;
- strengthening Europe as a geopolitical actor.

This summary complements the programme-by-programme reporting in Annex 4, which the European Commission presents as a website [\[link\]](#).

1. Recovering and becoming more resilient



NextGenerationEU is much more than recovery, it will shape our continent for decades ahead. We will be equipping our societies and our economies to be stronger and to be more resilient.

Ursula von der Leyen

President of the European Commission

The COVID-19 crisis has highlighted the strategic importance of reinforcing the economic, social and institutional resilience of the EU. It has also underlined the urgent need to increase the EU's crisis preparedness and response capacity, including through investing in strong health systems and stepping up the EU's ability to respond to natural disasters and other emergencies.

This section covers the main components of the EU's response, first in terms of supporting the recovery and then with respect to laying the foundations for a stronger and more resilient EU.

Supporting the recovery in the immediate aftermath of the pandemic

A key goal of EU budgetary action in 2021 was to sustain the recovery from the economic shock caused by the COVID-19 pandemic and the restrictions put in place to contain its spread. This was achieved essentially through a two-pronged approach: (1) giving Member States as much flexibility as possible to redirect all available resources under the 2014-2020 long-term budget to tackling the health and economic consequences of the pandemic; and (2) providing new EU resources to underpin the recovery in the short term until the longer-term response (described below) has taken root.

The following provisions enabled Member States to redirect the remaining resources from the 2014-2020 long-term budget to fund their response to the pandemic.

- **The Coronavirus Response Investment Initiative** provided about EUR 8 billion of immediate liquidity to mobilise investments to mitigate the impact of the COVID-19 pandemic, granting greater flexibility in applying EU spending rules and extending the scope of the EU Solidarity Fund.
- The **Coronavirus Response Investment Initiative Plus** similarly introduced extraordinary flexibility by allowing the full mobilisation of all non-utilised support from the European Structural and Investment Funds, offering to cover 100% of the expenditure from the EU budget for one accounting year, and simplifying the procedural steps linked to programme implementation, the use of financial instruments and auditing.

New resources amounting to EUR 50.6 billion were made available by the recovery assistance for cohesion and the territories of Europe (REACT-EU) initiative ⁽³⁾. REACT-EU is one of the largest programmes under NextGenerationEU. It was designed to provide funding for projects that foster crisis repair capacities in the context of COVID-19, along with investment in operations contributing to preparing a green, digital and resilient recovery. Operationally, REACT-EU reinforced relevant 2014–2020 programmes and is in addition to the 2021–2027 cohesion allocations. In 2021, it helped provide continued support for the health sector, small and medium-sized enterprises and short-term employment schemes, while at the same time focusing on long-term recovery through digital and green investment as part of crisis repair.

The EU budget also played a key role in directly addressing the health emergency, in particular through the financing of a part of the upfront costs from the EUR 2.7 billion Emergency Support Instrument. The EU negotiated advance purchase agreements with eight vaccine manufacturers (AstraZeneca, BioNTech–Pfizer, CureVac, Johnson & Johnson, Moderna and Sanofi–GlaxoSmithKline, Novavax and Valneva) as part of a diversified vaccine strategy aiming at securing access to safe and effective vaccines as early as possible. Through this coordinated EU approach, Member States were able to share the inherent risk of investing in what was at that point unproven vaccine development, and had access to a broad portfolio of potential vaccine technologies and companies.

The EU budget partially paid for these vaccines through the Emergency Support Instrument. This is an instrument designed to support, partly through fast procurement mechanisms, a variety of targeted measures when the scale, speed or cross-border nature of the need is best addressed through coordinated EU intervention.

Today, the EU has one of the highest vaccine penetration rates in the world, with 82% ⁽⁴⁾ of the EU adult population being vaccinated at least once.

The Emergency Support Instrument also financed ⁽⁵⁾ the infrastructure for issuing and verifying interoperable COVID-19 vaccine, testing and recovery certificates (at a cost of EUR 16 million). The EU digital COVID certificate regulation entered into force on 1 July 2021, and has been instrumental in facilitating the safe, free movement of citizens within the EU during the pandemic, and thus the reopening of the EU – a precondition for economic recovery.

Building a stronger and more resilient EU for the long term

The crisis also highlighted the importance of taking decisive steps to build a stronger, more resilient and more sustainable future. For that reason, the majority of funds from NextGenerationEU (up to EUR 724 billion) ⁽⁶⁾ are assigned to the Recovery and Resilience Facility. This is an innovative instrument, of an exceptional and temporary nature, designed to help Member States implement investment and reforms to shape their long-term economic growth trajectory in line with the EU's key priorities, in particular by accelerating the green and digital transitions. The facility is structured around six pillars: the green transition; digital transformation; economic cohesion, productivity and competitiveness; social and territorial cohesion; health, economic, social and institutional resilience; and policies for the next generation.

⁽³⁾ REACT-EU is divided into two tranches: the majority is available for programming in 2021 (EUR 39.6 billion), and the rest in 2022 (EUR 10.8 billion).

⁽⁴⁾ As per 13 May 2022, full vaccination of adult population reached 62.4%.

⁽⁵⁾ Other initiatives financed through the Emergency Support Instrument are mentioned here:

https://ec.europa.eu/info/live-work-travel-eu/coronavirus-response/emergency-support-instrument_en.

⁽⁶⁾ This consists of grants (EUR 338 billion) and loans (EUR 386 billion), with amounts in current prices.

The regulation establishing the Recovery and Resilience Facility invited Member States to submit national recovery and resilience plans to the Commission. In these plans the Member States put forward their reform and investment agendas to support recovery and strengthen resilience, in particular by addressing challenges identified by the country-specific recommendations in the context of the European semester, and by contributing appropriately to the six policy pillars set out in Article 3 of the regulation. The regulation also requires Member States to explain how their plans are expected to contribute to climate and digital targets, gender equality and equal opportunities for all. Annex III to this report explains the procedure for assessing the plans.

In 2021, 22 recovery and resilience plans were approved by the Council, based on a Commission proposal. These approved plans account for a total allocation of EUR 291 billion in non-repayable financing and EUR 154 billion in loans ⁽⁷⁾. Two thirds of the amount of financing and loans relates to investments and one third includes measures that concern reforms. The measures are tracked through a set of milestones and targets to be fulfilled by August 2026. In an important innovation, funding under the Recovery and Resilience Facility will be disbursed in several instalments upon the achievement by Member States of agreed milestones and targets.

In December 2021, the Commission made the first payment – in line with milestones and targets – to Spain, of EUR 10 billion. This non-repayable financial support was paid upon Spain's achievement of the relevant 52 milestones, covering reforms in the areas of sustainable mobility, energy efficiency, decarbonisation, connectivity, public administration, skills, education and social aspects, research and development, labour and fiscal policy, along with the reinforcement of Spain's audit and control system for the implementation of the Recovery and Resilience Facility.

Resilience in relation to future health emergencies has been improved through the establishment of the Health Emergency Preparedness and Response Authority. A key pillar of the European health union announced by President von der Leyen in her 2021 State of the Union address, the authority's goals are to anticipate, prevent, detect and respond to threats and potential health crises through intelligence gathering and capacity building. It is working closely with EU and national health agencies, industry and international partners to improve the EU's readiness for health emergencies. To fulfil its objectives, the authority has been given a budget of roughly EUR 6 billion to implement from various programmes (such as EU4health, Horizon Europe and the EU Civil Protection Mechanism) over the 2022-2027 period.

Building resilience also requires stepping up preparedness to deal with disasters. To this end, the EU Civil Protection Mechanism strengthens cooperation on civil protection between EU Member States and six other participating states. While recognising that the primary responsibility for civil protection lies with the Member States, the European Commission provides complementary support to national authorities with the ultimate goal of improving prevention, preparedness, and response to disasters by boosting capacities to respond to crises (be they forest fires, health and medical emergencies or chemical, biological, radiological or nuclear incidents) that overwhelm a country's individual response capability. Therefore, the Commission plays a key role in coordinating the response to disasters worldwide, contributing at least 75% of the transport and/or operational costs of deployment. A new proposal, adopted in April 2021, will allow the EU to have a more active role, while the mechanism will be more flexible in supporting Member States, especially when they are affected at the same time by large-scale and complex emergencies.

(7) Six Member States requested loans (Greece, Italy, Cyprus, Portugal, Romania and Slovenia).

- In preparation for the 2021 forest-fire season, the Commission co-financed the standby availability of a **rescEU firefighting fleet** to address potential shortcomings in responding to forest fires. Six EU Member States (Greece, Spain, France, Croatia, Italy and Sweden) put a total of 11 firefighting planes and six helicopters at the disposal of other Member States in case of an emergency, in exchange for a financial contribution to the standby costs of these capacities. Preparations are currently ongoing for the 2022 forest-fire season.
- Under the umbrella of the EU Civil Protection Mechanism, the Commission created a **strategic rescEU medical reserve and distribution mechanism**, the stockpile of which is hosted by nine Member States. The reserve enables the swift delivery of medical equipment (such as ventilators and personal protective equipment) anywhere in the EU and in third countries.
- The Emergency Support Instrument was also used in the procurement of **healthcare-related material, assistance for medical personnel and operational support for mobile medical-response capacities**. This makes medical personnel and teams available where they are most needed in Europe and assists with transporting cargo.

2. Driving the twin transitions for a sustainable future



We want to leave the next generation a healthy planet as well as good jobs and growth that do not hurt our nature.

Ursula von der Leyen

President of the European Commission

The green and digital transitions are at the core of EU policy and its recovery strategy. Putting the protection of the climate and biodiversity as well as the digital transition at the centre of the EU's social and economic growth model is essential to ensure its sustainability. With increasingly fierce global competition for control of digital technologies, it is of paramount importance that EU businesses, public sectors and researchers have access to computing data, artificial intelligence and digital infrastructure from within the EU. Moreover, in order to achieve the target of a 55% reduction in greenhouse gas emissions by 2030, there is a need to support and incentivise innovative and low-carbon technologies. The EU budget plays a vital role in all these areas.

The European Green Deal is a blueprint for sustainable growth

The green transition is at the core of the EU's growth strategy. The key to a sustainable future, the green transition is instrumental in decarbonising the European economy and driving the competitiveness of EU industry, while underpinning the long-term energy independence of the EU. This entails efforts in relation to climate and biodiversity objectives, while ensuring a fair transition for all.

The fight against climate change by its very nature transcends national boundaries, calling for action at the EU and international levels. EU action can exploit significant economies of scale, pull together resources to reach critical mass and contribute to strengthening the EU in the international arena.

Climate	Biodiversity
By the end of 2020, an increase of over 2 735 megawatt hours of additional capacity for renewable energy production was achieved thanks to regional funds.	By the end of 2020, more than 15 000 km ² of habitats had been restored or had had their conservation status improved thanks to LIFE programme funding.
In partner countries, 18 000 megawatts of renewable energy generation capacity were planned to be installed with EU support over 2014-2020.	909 620 km ² of biodiversity-rich and forest areas were protected in partner countries with the support of EU development projects between 2013 and 2021.

The EU is committed to devoting a significant share of its budget to financing climate-relevant interventions. The latest available information shows that, between 2014 and 2020, the EU devoted the equivalent of EUR 221 billion, or 20.6% of its overall multiannual budget, to climate-related measures ⁽⁸⁾. For the 2021-2027 period the Commission has increased its overall target for the contribution to climate mainstreaming from the EU budget (as augmented by NextGenerationEU) to 30%. This target is also supported through regional policy, for which a legally binding budget share of 30% for the European Regional Development Fund and 37% for the Cohesion Fund has been established. Finally, the Commission has developed and published a new methodology based on EU coefficients to ensure an effective and sound approach to calculating the achievement of this target.

The Recovery and Resilience Facility will make a key contribution to the climate target. The facility has been designed to help the EU achieve its target of climate neutrality by 2050 by allocating 37% of its envelope to climate-relevant investment and reforms. Across the 22 recovery and resilience plans approved in 2021, Member States have allocated almost 40% of the spending to climate, well in excess of the target of 37%. Investments covered by the recovery and resilience plans approved by the Council cover a broad range of sectors. For instance, some EUR 70.7 billion is planned to be spent on improving the sustainability of the European mobility system, including by upgrading and modernising railway networks and building new alternative fuel infrastructure.



Climate contribution in 2021 (in million EUR).

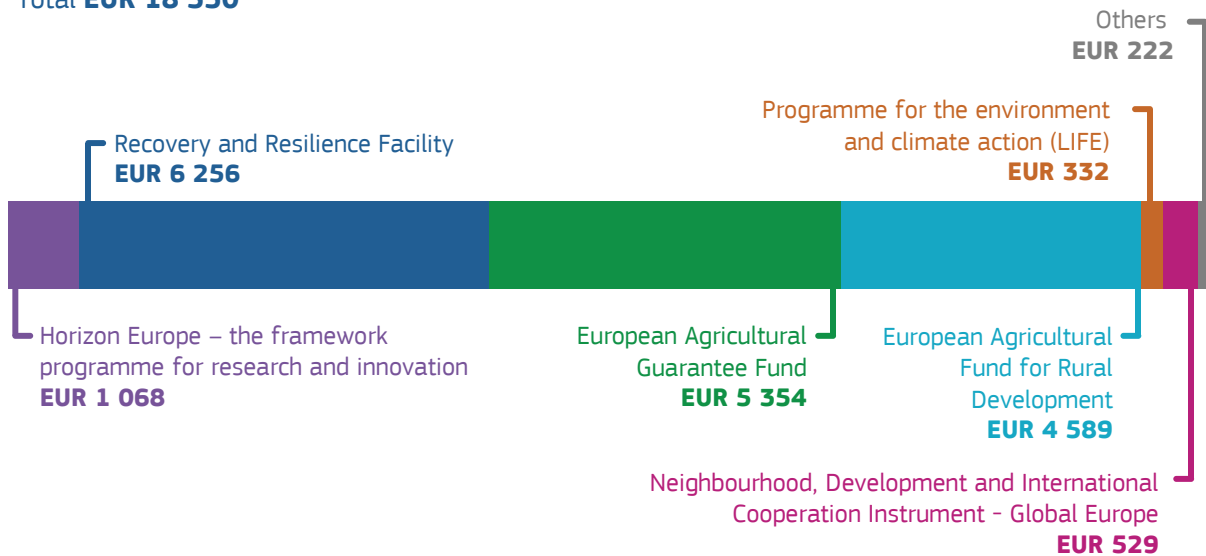
Source: European Commission.

⁽⁸⁾ This is an update of the figure provided in the 2020 annual management and performance report, reflecting newly available information on the destination of EU funds spent under shared management and for technical corrections (including the counting of co-financing in the European Social Fund, as identified by the European Court of Auditors in its latest special report on the climate).

The Commission calculates that the EU budget financed climate-relevant interventions worth around EUR 138 billion in 2021 (32% of the total budget). Examples include the following.

- **Continued support for the structural changes that the EU economy needs to reach climate neutrality and energy independence** via cohesion policy funds and the [Connecting Europe Facility](#).
- **New research and innovation projects** launched in 2021 from both Horizon 2020 and Horizon Europe, including landmark projects on green airports and ports, new partnerships / joint undertakings (e.g. concerning SESAR 3, Europe's rail, clean aviation, clean hydrogen, zero-emission road and waterborne transport), as well as the launch of climate-relevant missions (e.g. regarding climate adaptation, climate-neutral and smart cities, clean oceans).
- **Support for radical innovation.** The European Innovation Council Accelerator launched a call in 2021 specifically designed to support European Green Deal innovations. The call focuses on the EU's priorities for transitioning to a green, digital and healthy society, with special attention paid to innovations in one of the following areas: low-carbon industries; deep renovation of buildings; renewable energy; batteries and other energy storage systems. The deployment of innovation is the driver to achieve the EU's targets.
- **Support for small and medium-sized enterprises.** As of 30 September 2021, the equity facility for growth under the EU programme for the competitiveness of enterprises and small and medium-sized enterprises had invested EUR 6.7 million in a [venture capital fund that focuses its activities on clean technologies](#) to ensure that small and medium-sized enterprises can grow towards a sustainable future.
- **Acquisition of skills that support the EU's mitigation objectives.** Several Erasmus Mundus joint master's degrees relate directly to climate-change issues, for example the [master of urban climate and sustainability](#), which produces high-calibre graduates who can understand, assess and manage climate resilience in cities to live in a world that is 1.5 °C warmer, and the [master in renewable energy in the marine environment](#), which is tailored to meet companies' needs in the area of offshore renewable energy, and will have an international orientation underpinned by the direct participation, as associate partners, of world-renowned research centres, small and medium-sized enterprises and large companies within the industry. Another example is the support provided by the European Social Fund since 2016 in Sardinia Italy to over 5 000 jobseekers, helping them to find work in Europe's green and blue economy; first by strengthening their skills through job coaching, internships and training leading to certification, and then helping them to start up their own business.
- **Support and investment in innovative and low-carbon technologies needed for the EU's low-carbon transition.** The [Innovation Fund](#) creates the financial incentives and supports projects with highly innovative technologies, processes or products that are sufficiently mature and have a significant potential to reduce greenhouse gas emissions. More than 540 proposals were received in the first two calls for projects and the first 30 grant agreements were signed in 2021 to scale up small clean tech projects.

The 2021-2027 multiannual financial framework also has an enhanced focus on protecting biodiversity. Through its ambition to devote 7.5% of its annual resources to this end as early as 2024, and 10% of its annual resources from 2026 onwards, the EU budget is doing its part to achieve the EU biodiversity strategy goals for 2030. In 2021, the Commission calculates that EUR 18 billion was dedicated to biodiversity mainstreaming, or 4.3% of the EU budget including NextGenerationEU.

Total **EUR 18 350**

Biodiversity contribution in 2021 (in million EUR).

Source: European Commission.

- The European Environment Agency provides **geospatially detailed products on pan-European and local land-cover and land-use** information as part of the Copernicus land monitoring service. The local component focuses on areas that are prone to specific environmental challenges and issues in the EU. Under this local component, the European Environment Agency offers information on hotspots protected under Natura2000, which is used to assess the preservation and status of these sites and whether the decline in grassland cover is evident. The status of Natura2000 hotspots ensures that they are accurately mapped, and can be used to draw attention to events that threaten the preservation of the sites.
- In terms of biodiversity protection, the **LIFE – MarHa nature integrated project for effective and equitable management of marine habitats in France** aims to improve the conservation status of all French marine habitat types listed in the habitats directive. The project is working towards the short-term goal of at least half of the habitats having good conservation status by 2025. In addition to LIFE, the project facilitates the coordinated use of about EUR 50 million in complementary funding from the European Agricultural Fund for Rural Development, the European Regional Development Fund and national funds.
- Ireland will support the **restoration of peatlands**, a measure which has the potential to promote and encourage the return of flora and fauna in these areas. It is estimated in the Irish plan that over a 30-year timescale, 3.3 million tonnes of CO² emissions should be avoided thanks to the implementation of the enhanced rehabilitation measures.

The alignment of the EU budget with the EU environmental objectives has been strengthened by a requirement to comply with the ‘do no harm’ principle. As per the [interinstitutional agreement](#) between the European Parliament, the Council of the European Union and the Commission, the implementation of the 2021-2027 budget needs to comply with this principle, as enshrined in the European Green Deal. It aims to ensure that no part of the budget – regardless of whether it is considered climate relevant or not – will harm, or go against, the EU’s climate and environmental objectives.

The EU budget also reflects the importance that the societal and economic effects of the transition towards a climate-neutral economy need to be addressed in a fair way, again in line with the European Green Deal and the European Pillar of Social Rights action plan⁽⁹⁾. The new Just Transition Mechanism is designed to assist by supporting regions, industries and workers adversely impacted by the transition. The support from the Just Transition Fund is available to the regions most affected in each Member State, upon submission of territorial plans which are approved by the Commission as part of the cohesion policy programmes. Because of its late adoption, Just Transition Fund programmes have not yet been adopted, and implementation is delayed⁽¹⁰⁾. When running, the mechanism is expected to mobilise around EUR 55 billion between 2021 and 2027 through three different pillars.

Just Transition Fund	Just Transition Scheme	Public Sector Loan Facility
<ul style="list-style-type: none"> The fund will finance actions such as investment in small and medium-sized enterprises, research and innovation activities, rehabilitating and upgrading district heating networks, digitalisation, digital innovation and digital connectivity, and enhancing the circular economy. 	<ul style="list-style-type: none"> The scheme will mobilise resources in the private sector, partly thanks to an InvestEU advisory hub, which will act as a central entry point for advisory support requests. 	<ul style="list-style-type: none"> The facility will finance investment in renewable energy, green and sustainable mobility, environmental infrastructure for smart waste and water management, and urban renewal, among other areas.

The proposal for a new Social Climate Fund is designed to help address the social and distributional impacts of the climate transition according to ‘Fit-for-55’⁽¹¹⁾. More specifically, the fund intends to mitigate the effects on the most vulnerable people in society of the proposed introduction of emissions trading for buildings and road transport. The Social Climate Fund proposal complements the measures under the Just Transition Mechanism and the European Social Fund+.

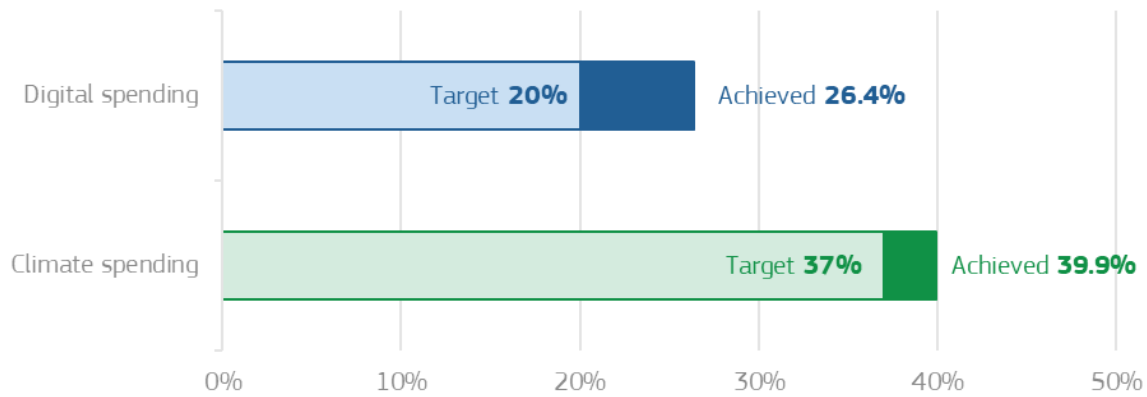
A digital transition to boost EU growth potential

The roll-out of digital technologies offers significant growth opportunities for the EU. The Commission’s goal is to deliver a Europe fit for the digital age by empowering citizens, businesses and administrations with a new generation of digital technologies and appropriate upskilling and reskilling that will benefit everyone. For this reason, the legislators agreed to dedicate at least 20% of the funds under the Recovery and Resilience Facility to reforms and investments supporting digital objectives. The early indications are promising, as the 22 recovery and resilience plans adopted by the end of 2021 devote 26% of the funds to reforms and investments supporting the digital transformation.

⁽⁹⁾ [European Pillar of Social Rights action plan](#).

⁽¹⁰⁾ As of 2021, no payments for the Just Transition Fund have been done.

⁽¹¹⁾ Commission communication – ‘Fit for 55’: delivering the EU’s 2030 climate target on the way to climate neutrality ([COM\(2021\) 550 final](#)).







Visual representation of the Recovery and Resilience Facility's contribution to the different priorities. Calculations are based on the methodologies set out in annex VI and VII of the Recovery and Resilience Facility regulation.

Source: European Commission.

- The key achievements included the investment reflected in the **Italian plan on grid reinforcement and the digitalisation of the electricity network** to increase network capacity, allowing for the further integration of renewable energy production. This is an example of a project combining both aspects of the twin transitions, where both climate and digital are envisaged as major parts of the recovery of post-pandemic Europe.
- Continuing the deployment of local wireless connectivity through the **WiFi4EU scheme**, which now exceeds 8 000 installed networks and has more than 83 000 active access points in Europe.
- In June 2021, the **new fibre submarine cable EllaLink** connecting Europe and Latin America was inaugurated and went into operation. Through a true digital partnership, this 6 000 km underwater data highway brings the two regions closer than ever before. Thanks to the BELLA programme ⁽¹²⁾, co-funded by the European Commission, research and education communities on both sides of the Atlantic Ocean have started making use of this high-capacity, low-latency network connection.

The digital Europe programme shapes the digital transformation of Europe. The programme's mission is to enhance the EU's open strategic autonomy and competitiveness and to reinforce EU critical digital capacities by focusing on the key areas of: high performance computing; cloud-to-edge infrastructure; data spaces and artificial intelligence; cybersecurity; the necessary upskilling to provide a workforce for these advanced technologies; the deployment of these technologies and their best use for critical sectors like energy or climate; and support to industry, small and medium-sized enterprises and public administrations in their digital transformation. In spite of the later-than-expected adoption of the establishing regulation, the Commission still managed to hit the ground running and adopt a set of work programmes in 2021, followed immediately by a first set of calls for grants.

⁽¹²⁾ BELLA stands for 'building the Europe link to Latin America' and provides support for the long-term interconnectivity of European and Latin American research and education communities, significantly improving the collaboration between researchers and academics across the two regions.

 <p>High-performance computing</p> <p>Deploy world-class exascale and post-exascale supercomputing capacities and ensure access to them.</p>	 <p>Artificial intelligence</p> <p>Deploy EU-wide common data spaces based on a cloud-to-edge federated infrastructure and promote the testing and adoption of artificial-intelligence-based solutions.</p>
 <p>Cybersecurity</p> <p>Build up advanced cybersecurity capabilities, ensuring wide deployment of state-of-the-art cybersecurity solutions throughout the European economy.</p>	 <p>Advanced digital skills</p> <p>Boost academic excellence in digital, by increasing the education offer in technologies, such as high-performance computing, cybersecurity and artificial intelligence and promote digital literacy.</p>

Accelerating the best use of technologies



Deploy a network of European digital innovation hubs supporting the digital transformation of European public and private organisations. It will also address key societal challenges through high-impact deployments, while enabling cross-border interoperable digital public services and promoting an inclusive and trustworthy digital space.

Digital Europe programme, examples of actions.

Source: European Commission.

Technological advances and research allow for innovative space-based applications that are benefiting our daily lives. Progress has been achieved with Galileo and EGNOS⁽¹³⁾, the EU's global satellite navigation systems, and Copernicus, the EU's Earth observation system, promoting the reliability and performance of the services provided. End users benefit from more accurate and reliable positioning and robust and reliable full, free and open Earth monitoring data and information, modernising transport, enabling precision farming and promoting sustainability. Copernicus helps in assessing the impact of climate change, also by supporting actions during major disasters. Galileo can be instrumental in promoting fuel-efficient transport, helping sailors and pilots in their normal activities or when searching for people in distress.

Space programme: key achievements in 2021

- 2.5 billion Galileo-enabled devices were in use at the end of 2021.
- Galileo performance on positioning accuracy is three times better than other systems of its kind.
- Two new Galileo satellites were launched in 2021, bringing the number of satellites in orbit to 28.
- There were eight Copernicus satellites as of 2021.
- The Copernicus climate change service has 100 000 users.

⁽¹³⁾ European Geostationary Navigation Overlay Service

3. Building an economy that works for people



The EU’s policy framework and its unique single market form the bedrock of a strong economy that works for EU citizens. The EU’s social market economy model targets both economic growth and the reduction of poverty and inequalities across EU regions. Strengthening the single market and small and medium-sized enterprises is essential to allow the EU economy to respond to the needs of its citizens. A strong economy is also a prerequisite to tackling the most important challenges of our time, including the twin transitions and enhancing the EU’s open strategic autonomy and global role. Knowledge and solutions arising from research and innovation can help improve competitiveness, thus promoting growth, creating jobs and addressing societal challenges.

The EU budget contributes through its many programmes covering several dimensions. Continuous investment efforts ensure the further deepening of the single market, yielding significant gains for EU consumers and businesses. Cohesion policy enables hundreds of thousands of projects to help small and medium-sized enterprises in all EU regions. Through quality education and training, many actions invest in people and support their (re)integration in employment, encouraging important projects on the real economy and contributing to structural change, research and innovation in EU Member States. In a society facing complex business, political, scientific, technological, health and environmental challenges, this multifaceted support is a crucial driver of economic growth, leading to breakthroughs that generate both profits and the well-being of the EU economy. These investments in infrastructure and human capital are playing a leading role in catalysing the transition towards an environmentally and economically sustainable Europe, in promoting equality of opportunities regardless of gender and in pursuing the three EU-level headline targets to be achieved by 2030 on employment, skills and poverty reduction set out in the **European Pillar of Social Rights action plan** ⁽¹⁴⁾.

Towards a stronger and fairer economy

The EU economy got back to its pre-pandemic output level in summer 2021, following a strong recovery of 5.3% in 2021 ⁽¹⁵⁾. In 2021, headcount employment in the EU increased by 0.9%, with the addition of around 1.8 million jobs. Employment increased across almost all education, age and gender groups, with approximately 1 million people coming out of unemployment towards the third trimester of 2021. This led the size of the EU’s labour force to exceed its pre-pandemic level by 0.3% in the third quarter of 2021. However, employment fell in the sectors most affected by lockdown measures, such as the accommodation, food and travel sectors. In addition, the increasing price of raw materials and energy –

⁽¹⁴⁾ [European Pillar of Social Rights Action Plan](#).

⁽¹⁵⁾ See [European Economic Forecast – Winter 2022](#).

greatly exacerbated by Russia's unjustified and unprovoked war of aggression against Ukraine – has lowered ⁽¹⁶⁾ growth expectations considerably.

The 2014-2020 European Social Fund has continued to make a positive contribution to lowering unemployment and poverty rates, which remain among the highest concerns for EU citizens. While the implementation of the European Social Fund Plus has been delayed due to the late adoption of its legal basis, as is the case for all other cohesion policy funds, its predecessor programme has, since 2014, helped 45.3 million people, of whom 5.4 million people have found a job, including self-employment, while the rest achieved other milestones as presented in the following sections.

The European Globalisation Adjustment Fund for Displaced Workers contributes to a more dynamic and competitive EU economy by improving the skills and employability of displaced people. Thanks to the enlarged scope of the fund in the 2021-2027 programming period, in 2021, eight applications were submitted by four Member States in order to assist 3 500 dismissed workers. In five of these cases, the COVID-19 pandemic was the main factor that led to the dismissals. Furthermore, six applications received in 2020 under the previous regulation were approved by the budgetary authority in 2021. Four of these applications related to the economic crisis stemming from the pandemic. Assistance from the fund includes packages of personalised services to reintegrate dismissed workers into sustainable employment as quickly as possible.

The EU budget contributes to strengthening the single market through the single market programme. Created to strengthen the governance of the single market, the EUR 4.24 billion budget for this programme covers a large range of different activities that were previously financed under separate programmes (the EU programme for the competitiveness of enterprises and small and medium-sized enterprises, the European statistical programme, financial and non-financial reporting and audit standards, consumer involvement in policymaking in the area of financial services, the consumer programme and food and feed) **and the Commission's prerogative budget lines.** Despite the late adoption of its legal basis, the Commission managed to cover all strands of the programme in 2021.

The EU budget seeks to mobilise public and private investment by guaranteeing investment from implementing partners such as the European Investment Bank Group and other financial institutions. This is the role of the InvestEU Fund, which also includes a small and medium-sized enterprises window. Through an EU budget guarantee of EUR 26.15 billion, underpinned by EUR 10.46 billion from the EU budget, it will address the large investment gaps in areas that are key for the future. Moreover, at least 30% of the InvestEU Fund is expected to contribute to fighting climate change. Despite advanced negotiations on the InvestEU guarantee agreement with the European Investment Bank Group, along with the launch of the first call for expressions of interest in April 2021, no guarantee agreements had been signed with implementing partners as of the end of 2021. The guarantee agreement with the European Investment Bank Group was signed in March 2022, and further agreements are expected in the future.

⁽¹⁶⁾ In the Spring 2022 economic forecast, the real growth of gross domestic product in both the EU and the euro area is now expected at 2.7% in 2022 and 2.3% in 2023, down from 4.0% and 2.8% (2.7% in the euro area), respectively, in the [Winter 2022 interim forecast](#).

Cohesion policy: addressing inequalities while responding to the pandemic

In addition to their traditional role of supporting investment and addressing inequalities across EU regions, cohesion policy funds have continued to play a key role in helping Member States address the immediate economic, social and health fallout from the COVID-19 crisis. Cohesion policy funds traditionally support all regions and cities in the EU, boosting job creation, business competitiveness, economic growth and sustainable development, and improving citizens' quality of life. As was the case in 2020, the Commission also extended greater flexibility in the implementation of cohesion policy funds in 2021, so as to provide additional liquidity to Member States as they strived to contain the adverse implications of the COVID-19 pandemic.

The 2014-2020 Fund for European Aid to the Most Deprived helped alleviate the worst forms of poverty in the EU by assisting the most deprived persons with food, basic goods and social inclusion support. In 2020 ⁽¹⁷⁾, almost 428 000 tonnes of food were distributed to approximately 15 million people, 1.96 million people received material assistance and 30 000 people benefited from social inclusion support. This is an increase compared to previous years, which could be partly attributed to the impact of the COVID-19 pandemic that left many people without jobs and at risk of poverty and social exclusion.

The start of the 2021-2027 programmes has been very challenging. The preparation of the 2021-2027 national and regional programmes has been affected by the late adoption of the 2021-2027 multiannual financial framework. The Commission has worked intensively with the Member States to prepare and finalise the new programmes as swiftly as possible. Preparations in the Member States have taken place in parallel with, for example, the preparation of the recovery and resilience plans, which has posed an operational challenge in some Member States.

Implementation in 2021 mostly reflected projects and resources from the previous multiannual financial framework ⁽¹⁸⁾. In addition to speeding up payments under the previous cohesion policy funds, results from the previous programmes are now accruing quickly.

With support from the regional fund since 2014 ⁽¹⁹⁾:

- 4.4 million tonnes of CO₂ were saved;
- 5.5 million houses obtained access to broadband speeds of at least 30 megabytes per second;
- 238 000 jobs were created in supported enterprises;
- 52 million people benefited from new or modernised health services.

⁽¹⁷⁾ Latest known data, as for European Social fund and Youth Employment Initiative.

⁽¹⁸⁾ EUR 350 billion under the 2014-2020 long-term budget and EUR 392 billion under the 2021-2027 long-term budget.

⁽¹⁹⁾ These figures are cumulative achievements for 2014-2020 up to the end of 2020, for the European Regional Development Fund and the Cohesion Fund.

Supporting education and training

Beyond investment in physical infrastructure, the EU budget also provides essential support for building human capital and providing opportunities, for example through the European Social Fund and the Youth Employment Initiative, which had supported 45.3 million people by 2020. By the end of 2020, 7.4 million people had gained a qualification, 2.2 million people were in education or training as a result of the European Social Fund's and the Youth Employment Initiative's support and 3.4 million young people had benefited from the Youth Employment Initiative. By the end of 2021, Member States had received EUR 4.5 billion in relation to the Youth Employment Initiative.

EU research and innovation helps to protect citizens and EU values and plays an increasing role in the EU economy. It provides benefits for both consumers and workers, creating better jobs, building a greener society and improving the quality of life in the EU. It is also key in maintaining the EU's competitiveness in the global market. With innovation policy as the interface between research and technological development and industrial policy, it aims to create a conducive framework for bringing ideas to market. The EU budget provides research and innovation funding, including targeted support for small and medium-sized enterprises, which represent 99% of businesses in the EU ⁽²⁰⁾. One of the objectives of Horizon Europe is to foster all forms of innovation, facilitating technological development, demonstration, knowledge and technology transfer while strengthening the deployment and exploitation of innovative solutions.

In 2021, the Commission presented the first work programme under Horizon Europe. In this context, it has selected 65 innovative start-ups and small and medium-sized enterprises to receive EUR 363 million in funding for breakthrough innovations through the European Innovation Council Accelerator, to help them to bring their innovations to market and to scale up.

- In November, the Commission announced the winner of the 2021 EU Prize for Women Innovators and the European Capital of Innovation. The woman entrepreneur celebrated in 2021 was Merel Boers (Netherlands), co-founder and chief executive officer of NICO-LAB, a company offering cutting-edge technology to help physicians improve emergency care. The city of Dortmund in Germany was recognised as the 2021 European Capital of Innovation for its promotion of innovation in the community.

Improving the integration of the gender-equality dimension

In 2021, the Commission took further steps to implement its 2020-2025 gender equality strategy ⁽²¹⁾, which sets out the Commission's strengthened commitment to achieving a Union of equality. In particular, the Commission strengthened the identification and analysis of gender equality impacts in better-regulation procedures (for both impact assessments and evaluations).

The EU budget makes an important contribution to equality objectives. NextGenerationEU and the 2021-2027 long-term budget provide a wide range of EU funding and budgetary guarantee instruments to support actions promoting women's labour-market participation and work-life balance. Investing in care facilities, supporting female entrepreneurship, combating gender segregation in certain professions and

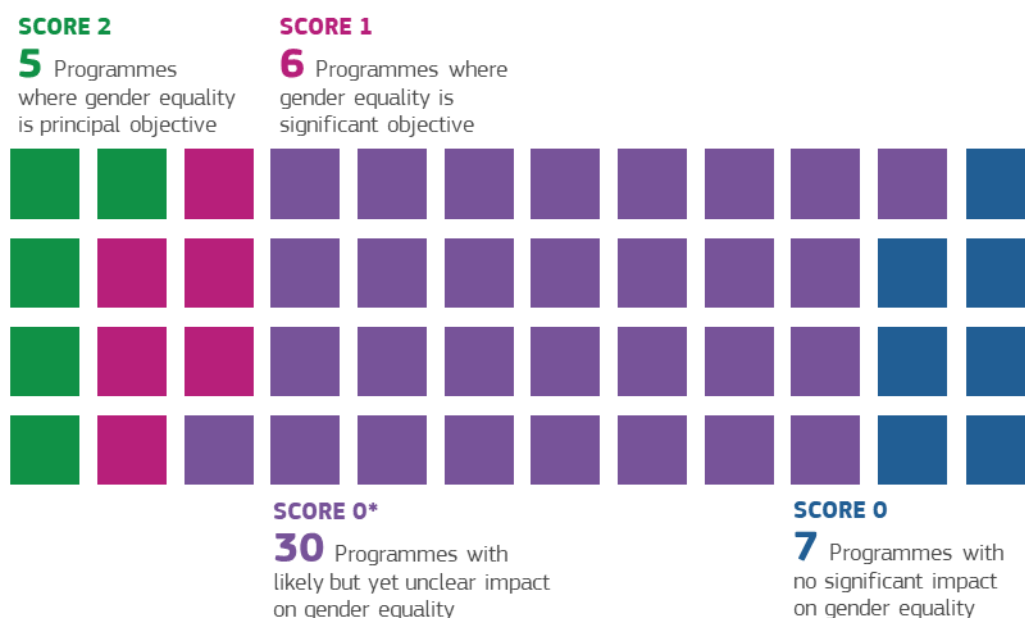
⁽²⁰⁾ See <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv%3AOJ.LI.2020.433.01.0028.01.ENG&toc=OJ%3AL%3A2020%3A433%3ATOC>.

⁽²¹⁾ See https://ec.europa.eu/info/policies/justice-and-fundamental-rights/gender-equality/gender-equality-strategy_en.

addressing the imbalance in the representation of girls and boys in some sectors of education and training are of utmost importance. Through certain initiatives, such as the Daphne strand of the citizens, equality, rights and values programme, dedicated funding is provided to civil-society organisations and public institutions supporting the equality objective, including in specific areas of high relevance, such as tackling gender-based violence.

The Commission has developed – ahead of schedule – a pilot methodology to measure

expenditure related to gender equality. Under the interinstitutional agreement accompanying the 2021–2027 multiannual financial framework, the Commission had committed to develop such a methodology. For each programme, at the most granular level possible, interventions are given a score of 0, 1, 2 or 0*. Scores 0, 1 and 2 reflect the extent to which gender equality is targeted through EU budget interventions. Score 0* is attributed to those interventions that may have an impact on gender equality, but where the Commission is currently not in a position to assess and substantiate that impact. This score will be updated if and when sufficient information becomes available. The Commission is reporting on the results of the application of this pilot methodology in this package. The graph below presents the distribution of programmes based on the maximum score attributed to (some of) their interventions.



Number of programmes qualifying for each of the four scores (0, 0*, 1 and 2) proposed by the methodology. A programme may qualify for more than one score. In this case, its implemented annual commitments are broken down by score.

Source: European Commission.

The Recovery and Resilience Facility is also designed to promote the principles of gender

equality. The 22 recovery and resilience plans adopted in 2021 include 115 measures with a focus on gender equality. Such measures include reforms to reduce the gender pay gap, combat inequality between women and men, support the upskilling of women and encourage flexible working arrangements. As regards investments, the facility contributes through a wide range of interventions. For example, the approved recovery and resilience plans contain measures to improve social and early-childcare infrastructure, introduce gender-equality certificates for companies, deliver training to boost women's entrepreneurial skills, establish a support line for women in rural and urban areas and improve the regulation of professions traditionally taken up by women (such as domestic work and social care).

Delivering the 2030 agenda for sustainable development

The EU budget and NextGenerationEU contribute significantly to the targets stipulated in the United Nations' 2030 agenda for sustainable development, aiming to achieve a transformative shift by 2030 that leaves no one behind. The 2030 agenda is the shared road map adopted under the auspices of the United Nations for a peaceful and prosperous world, and is of paramount importance to the values of the EU and the future of Europe. Since the adoption of the agenda in 2015, the EU has made significant progress in delivering on the sustainable development goals, implementing the sustainable development goals in both its internal and its external policies, and is continuing to strengthen its efforts. The COVID-19 pandemic has shown that the full implementation of the 2030 agenda is crucial in order to build back better after the crisis. The sustainable development goals provide the universal blueprint for a sustainable recovery.

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

In the light of the interlinked nature of these goals, most of the EU's budgetary programmes are designed to address multiple sustainable development goals. Currently, more than 85% of programmes (41 out of 48) contribute towards these goals. Those 41 programmes represented 96% of the entire EU budget. Examples of the EU budget's contribution to the agenda for sustainable development can be found below.



From March 2020 to December 2021, the **Fund for European Aid to the Most Deprived** co-funded the 'Distribution of food parcels to students' project to the amount of EUR 1.4 million. The project targeted the most disadvantaged students in third-level education in the Nouvelle-Aquitaine region of France.



The **common agricultural policy** contributes to the objective of achieving improved nutrition. Through its EU school scheme, it supports the distribution of fruit, vegetables and milk to schools across the EU together with educational measures on EU agriculture and the benefits of healthy eating. For 2017-2023, the total EU budget allocated amounts to EUR 220.8 million per school year.



In 2021, some EUR 16 million was mobilised under the **Emergency Support Instrument** to establish the necessary infrastructure for the issuance and verification of interoperable EU digital COVID-19 certificates, with the aim of facilitating the safe, free movement of citizens within the EU during the pandemic.



The '**Education cannot wait**' initiative, supported by the EU since its inception in 2016 with EUR 27.5 million, has enabled the provision of education to 4.6 million children and young people, half of whom are girls, in 34 crisis-affected countries, and of training to more than 70 000 teachers. Under targeted COVID-19 response actions, this initiative reached 29.2 million children and young people and supported more than 88 000 teachers.



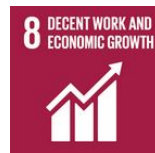
In Sweden, a project that ran from 2016 to 2019 and was funded with EUR 1.6 million from the **European Social Fund Plus** helped around 700 newly arrived migrant women to speed up the process of finding work or training while also breaking down gender stereotypes.



In 2021, the **Copernicus** land monitoring service systematically provided near-real-time information on global inland water bodies and their seasonal replenishment, including potential water availability from snow and ice cover.



The **Connecting Europe Facility** provided financial assistance amounting to EUR 1 052 million by the end of 2020 to the Baltic synchronisation project, which will allow the three Baltic states to gain full control of their electricity networks and to strengthen energy security.



Since 2020, under support from the **Instrument for Pre-accession Assistance** to the 'Social inclusion' programme in Albania, 173 091 employees and 65 574 individuals benefited from measures to mitigate the impact of the COVID-19 pandemic on the economy.



As of 31 December 2020, the **European Fund for Strategic Investments** had supported transport infrastructure investment amounting to approximately EUR 9.3 billion to promote transport networks and cleaner fleets and to reduce congestion and bottlenecks.







In 2020, the **humanitarian aid** programme provided EUR 900 million in aid to forcibly displaced populations and their host communities.



Between 2021 and 2024, **Erasmus+** provided EUR 1 million in support to the 'Urban resilience and adaptation for India and Mongolia' project. This project aims to promote green and blue infrastructure through information-technology-enhanced tertiary education linked to labour markets.



Under **LIFE's** Ecotex project in Spain, an innovative, eco-efficient and highly replicable recycling system was developed for polyester textile waste. The system increased the circularity of the shoe industry and reduced greenhouse gas emissions.

 <p>13 CLIMATE ACTION</p>	<p>Under the EU's support for overseas countries and territories, the EUR 4 million in financing to be provided between 2021 and 2027 in the context of the EU's cooperation with the French Southern and Antarctic Lands has the protection of biodiversity as a priority.</p>	 <p>14 LIFE BELOW WATER</p>	<p>Over the 2021-2027 period, the European Maritime, Fisheries and Aquaculture Fund provides EUR 6.1 billion in support of making fishing and aquaculture activities in EU waters sustainable, as well as of progressively restoring and maintaining fish populations and the biodiversity of our marine habitats.</p>
 <p>15 LIFE ON LAND</p>	<p>From 2016 to 2019, the European Regional Development Fund provided EUR 763 292 in support to the 'Polish atlas of rains intensities' project. This is an online, digital and comprehensive rainfall mapping system designed to better protect Polish towns and cities against the effects of heavy rainfall.</p>	 <p>16 PEACE, JUSTICE AND STRONG INSTITUTIONS</p>	<p>The European e-Justice Portal, established with funding from the justice programme, facilitates access to justice throughout the EU and served 4.4 million visitors in 2021.</p>



The EU civil protection knowledge network was set up in December 2021 under the **EU Civil Protection Mechanism**. Its aim is to facilitate the sharing of experiences and lessons learned, and better-informed decision-making for more efficient and effective prevention, preparedness and response.

Source: European Commission.

4. Strengthening Europe as a geopolitical actor



The EU supports multilateralism and a rules-based global order through a more active role and a stronger voice for the EU in the world. It seeks a coordinated approach to external action – from development cooperation to the common foreign and security policy – that secures a stronger and more united voice for Europe in the world. One of the EU's goals is to support its values, liberty and democracy in neighbouring countries and the world at large. Recent developments only serve to underscore the need for a coordinated European approach to urgent geopolitical challenges.

In 2021, the Commission used all of the flexibility provided by the EU budget to respond to what was already an extremely volatile geopolitical environment. The instrumentalisation of migration at the EU's eastern borders required an immediate response, and the EU was fully engaged in helping neighbouring countries and international partners to strengthen their resilience in the face of a range of other challenges, including in particular the COVID-19 pandemic, humanitarian crises and the resulting migratory movements.

The EU budget is at the forefront of the European Union's efforts to support partner countries, promote its wider geopolitical objectives and uphold its values globally. The new integrated Neighbourhood, Development and International Cooperation Instrument reinforces the EU's capacity as a geopolitical actor at a time of exceptional challenges in Europe's neighbourhood and beyond. The need for this is starkly illustrated by Russia's unprovoked and unjustified invasion of Ukraine, which demands a strong and coordinated European response. The EU budget has been mobilised both to provide immediate assistance to Ukraine and its people and to help Member States support those fleeing Ukraine.

Neighbourhood, Development and International Cooperation Instrument

- EUR 60 billion for **geographic programmes**, including at least EUR 19 billion for the neighbourhood and EUR 29 billion for sub-Saharan Africa.
- EUR 6 billion for **thematic programmes** (human rights and democracy; civil-society organisations; peace, stability and conflict prevention; and global challenges).
- EUR 3 billion for a **rapid response mechanism** that allows the EU to respond swiftly to crises, contribute to peace, stability and conflict prevention, and strengthen the resilience of states, societies, communities and individuals, linking humanitarian aid and development action. It also ensures early action to address EU foreign policy needs and priorities.
- EUR 10 billion for a **'cushion' of unallocated funds** to top up any of the abovementioned programmes and the rapid response mechanism in case of unforeseen circumstances, new needs, emerging challenges or new priorities.

The EU budget as a catalyst for strengthened resilience in partner countries

Beyond the emerging crisis at the EU's borders, in 2021 the EU continued to support partner countries to maintain stability and promote their development. The primary concern during the year was the COVID-19 pandemic and the ensuing impacts on multiple societal and economic sectors. The pandemic came on top of existing crises, creating a highly challenging environment. Strengthening the resilience of partner countries was therefore of the utmost importance for the EU's external actions. This was achieved through a variety of means of financial assistance to combat the economic effects of lockdowns and to increase the resilience of health sectors.

Using a Team Europe approach ⁽²²⁾, the EU's global response to COVID-19 amounts to EUR 46 billion and has touched more than 130 countries worldwide. The funds were used to help countries address the health emergency, strengthen their health systems, set out water and sanitation measures and mitigate the socioeconomic consequences of the pandemic. The Team Europe approach has helped the EU and its Member States to become the biggest donor to the COVID-19 Vaccines Global Access (COVAX) initiative in 2021 with over EUR 3 billion provided for the purchase of COVID-19 vaccines. As a result, the target set to share over 250 million vaccine doses with low and middle-income countries by the end 2021 was achieved. In addition, the Commission supported research and innovation for therapeutics, diagnostics and vaccines and launched a Team Europe initiative to boost local production of health products and vaccines in Africa, as a key deliverable of the European Union–African Union Summit. In enlargement and neighbourhood countries, the EU has mobilised over EUR 4.5 billion to help alleviate the effects of the pandemic. In Ukraine alone, before the start of Russia's unjustified and unprovoked invasion, the EU had disbursed EUR 600 million in macro-financial assistance for this purpose.

The EU has a robust humanitarian partnership with the United Nations and was a leader in global humanitarian donations in 2021, with operations in affected countries such as Afghanistan, Ethiopia, South Sudan, Syria, Turkey, Ukraine, Venezuela and Yemen, along with the Sahel region. During the year, the EU mobilised EUR 2.19 billion for humanitarian aid thanks to sizeable budgetary reinforcements.

The humanitarian situation in Afghanistan and in the region deteriorated drastically in 2021, requiring the adaptation of priorities and urgent assistance. Even before the current crisis, the ongoing conflict, insecurity, extreme drought and the COVID-19 pandemic had caused large-scale suffering and displacement of people in Afghanistan and the region. The takeover of Kabul by the Taliban on 15 August has added an additional layer of complexity. The European Union quadrupled its humanitarian funding in 2021 to a total of EUR 222 million, expecting to reach at least 5 million beneficiaries in extreme need. Also, between September and December, 280 tonnes of cargo – mainly medical equipment, COVID-19 supplies and food items – was transported to Kabul through the EU's humanitarian air bridge. In addition, the Commission focused its efforts on preventing the collapse of the country and on socioeconomic repercussions inside and outside Afghanistan's borders, with particular attention to women and girls' rights. Projects that were ongoing were reoriented and EUR 250 million was allocated to basic needs and livelihoods support (initially referred to as humanitarian+ assistance) aimed at keeping minimal essential services (including education and maintaining basic livelihoods). In regard to recent developments around equal access to secondary education,

⁽²²⁾ The Team Europe approach consists of the European Union, the EU Member States – including their implementing agencies and public development banks – as well as the European Investment Bank (EIB) and the European Bank for Reconstruction and Development (EBRD). The Team Europe approach applies both internationally and at country level and is an inclusive process open to all EU Member States, their implementing organisations and financing institutions.

most teachers targeted by EU support received emergency cash support during the winter months (where they did not get paid salaries).

Other support in 2021

- **EUR 3 billion was provided in emergency macro-financial assistance to limit the economic fallout of the COVID-19 pandemic** in 10 enlargement and neighbourhood partner countries.
- **A total of 82 countries received support for humanitarian cooperation** from the EU.
- **2.3 million young people** living in humanitarian crises benefited from access to education.
- **5.5 million vaccination doses** were provided to refugee infants in Turkey under the Facility for Refugees in Turkey.
- **4.2 million doses** of COVID-19 vaccines were provided by Member States, and 2.2 million through COVAX in the western Balkans.
- **A EUR 3.4 billion package** of financial assistance was put in place to combat the COVID-19 pandemic and its socioeconomic effects in the western Balkans.
- **EUR 1 billion** was made available to purchase vaccines through the COVAX Facility.
- **500 tonnes** of essential medical supplies and humanitarian cargo were delivered to support some of the world's most vulnerable communities using the humanitarian air bridge.
- There were 78 calls to use the **EU Civil Protection Mechanism** to respond to **forest fires** in the western Balkans, the **earthquake** and **hurricane** in Haiti and the **COVID-19 pandemic** in non-EU countries.

Supporting EU values in the neighbourhood and beyond

The EU budget helps to promote EU values abroad, support partner countries' economies and stabilise neighbouring countries by strengthening their resilience to current and future challenges. Strengthening the rule of law, democracy and human rights and promoting good governance and overarching priorities such as the twin transitions are therefore the leading objectives of the Commission's external action policy. With an allocation of EUR 80 billion for 2021-2027, the Neighbourhood, Development and International Cooperation Instrument – Global Europe will help to stimulate sustainable long-term socioeconomic recovery and job creation in the EU's neighbourhood.

For Georgia, Moldova and Ukraine, the events of 2021 and 2022 – in particular Russia's war of aggression against Ukraine – have reinforced their aspirations to join the Union even more. They have already submitted their membership applications, and the Commission will provide its opinions shortly. Other accession candidates have largely shown progress, with some exceptions. Rewarding progress where due, by moving ahead to the respective next stage of their respective processes, is key for the Union's credibility and geopolitical clout. With a programming budget for 2021 of EUR 1.9 billion, the Instrument for Pre-accession Assistance III is an essential facilitator for the adoption and implementation of the political, institutional, legal, administrative, social and economic reforms needed in candidate and

potential candidates such as Albania, Bosnia and Herzegovina, Kosovo ⁽²³⁾, Montenegro, North Macedonia, Serbia and Turkey.

Achievements in the immediate EU neighbourhood by the end of 2021

- 8 826 housing units had been built.
- 75 water monitoring stations were built in line with the EU water framework directive.
- 400 organisations were working on preventing and tackling violence against women.
- 12 000 educational facilities had been upgraded in Turkey.

Further afield, the **EU budget supported vulnerable people by providing life-saving assistance in countries overcome by conflict, such as Afghanistan, Ethiopia and Yemen**. The EU continued to support vulnerable people inside Syria, along with Syrian refugees in Turkey and other countries in the region. To address an unprecedented set of challenges facing humanitarian efforts, in March 2021 the Commission adopted a renewed strategic outlook to strengthen the EU's global humanitarian impact and continue to provide leadership. These initiatives will allow a more efficient use of resources; ensure faster delivery of humanitarian aid by supporting humanitarian partners – including by setting up a European humanitarian response capacity using a Team Europe approach; expand the donor base inside and outside Europe; and address the root causes of crises by delivering humanitarian aid in close collaboration with development and peacebuilding organisations.

The EU dedicates around 10% of its budget to external action, providing funding to partner countries in the form of grants, public procurement, financial instruments, budgetary guarantees and budget support. The Commission works hand in hand with international organisations, private bodies and Member States to increase the impact of EU support. Examples include the following.

- In the crucial area of climate change, the EU provided technical support to 60 partner countries in 2021, for the upgrade and implementation of their nationally determined contributions, with a particular focus on the sustainable energy sector.
- The implementation of the NaturAfrica initiative started in 2021 in six regional landscapes and in several countries (Benin, Burundi, Cameroon, Congo, the Democratic Republic of the Congo and Togo). NaturAfrica aims to improve the livelihood of 65 million people, sequestering up to 21 billion tonnes of carbon, stabilising 3 million km² of land and ensuring water security. The Commission also pledged an unprecedented EUR 1 billion to protect, restore and sustainably manage forests for 2021-2024.
- Multi-scale flood monitoring and assessment services for West Africa is a project sponsored through the collaboration between the African Union Commission and the European Commission. The project has seven implementing partners spread across five African countries: Benin, Burkina Faso, Côte d'Ivoire, Ghana and Nigeria.
- The EU's global Technical Assistance Facility is a long-standing EU programme that assists partner countries in improving regulatory frameworks, enhancing institutional capacities and mobilising investment in sustainable energy.

⁽²³⁾ This designation is without prejudice to positions on status, and is in line with UNSCR 1244/1999 and the ICJ Opinion on the Kosovo declaration of independence.

- The gender-responsive teaching and learning in the early years project, co-funded by the EU, has transformed preschools in 15 mountainous districts in central Vietnam into environments of gender-responsive play-based learning, involving parents to the fullest in the process.

In April 2021, the EU and the members of the Organisation of African, Caribbean and Pacific States (OACPS) concluded the negotiations of the draft agreement renewing their strong partnership, known as the post-Cotonou agreement. Before the agreement can be applied and come into effect, the respective parties will need to complete their internal approval procedures.

The EU kept the momentum with continued engagement with its African partners and a diverse range of stakeholders across both continents to further discuss the long-term priorities at the heart of a renewed Africa-EU Partnership. Ahead of the sixth EU-African Union Summit, which took place on 17-18 February 2022, ministers of foreign affairs met in Kigali in October 2021 to discuss the most important common priorities, opportunities and challenges for the agenda.

Launched in 2021, the Global Gateway ⁽²⁴⁾ sets out a new strategy to boost smart, clean and secure links in the digital, energy and transport sectors, and to strengthen health and people-to-people connectivity through education and research across the world. It contributes to narrowing the global infrastructure investment gap worldwide, in line with the commitment made in June 2021 by G7 leaders to launch a values-driven, high-standard and transparent infrastructure partnership to meet global infrastructure development needs. In a Team Europe approach, the EU, its Member States and European Financial Institutions will jointly mobilise up to EUR 300 billion of investments by 2027. It puts sustainability at the heart of EU action by requiring partner countries to adhere to the rule of law, and it has a strong focus on supporting expertise and creating an enabling environment to attract investment and on limiting risks of debt distress in partner countries.

Strengthening resilience extends to tackling migration challenges

Along with COVID-19, another major destabilising factor for neighbouring and partner countries was migratory movements heading for EU Member States. These pose significant challenges due to the number of people arriving and political sensitivities, resulting in an increasing need to strengthen resilience.

In 2021, the Lukashenko regime in Belarus abused the fragile status of migrants from countries in the Middle East to use them as an instrument in a hybrid attack, particularly on Latvia, Lithuania and Poland. This migratory stream came on top of those that already existed across the Mediterranean Sea and through Turkey. After evaluating the Latvian, Polish and Lithuanian proposals for specific actions to support border management, the Commission made available EUR 185 million to improve border surveillance control. The Commission acted promptly with a number of measures, including emergency aid of EUR 36.7 million for Lithuania in August, along with another EUR 14.9 million in December for enhanced border control equipment, and EUR 2.3 million for Latvia.

⁽²⁴⁾ JOIN(2021) 30 final, 1.12.2021

Additional assistance

- Deployment of officers in Latvia, Lithuania and Poland by the European Border and Coast Guard Agency.
- Support for Latvia, Lithuania and Poland from the European Border and Coast Guard Agency in the voluntary return of non-EU nationals.
- Deployment of officers in Lithuania and Poland by the European Union Agency for Law Enforcement Cooperation.
- Deployment of experts and interpreters in Latvia and Lithuania by the European Union Agency for Asylum.

In addition to the EUR 360 million envisaged for Latvia, Lithuania and Poland under the Border Management and Visa Instrument for the 2020-2027 financial period, the Commission has made available a further top-up amount of around EUR 200 million for 2021 and 2022.

The EU budget has provided significant financial support to countries on the migratory routes.

The Commission put forward a proposal for an additional EUR 3 billion for the Facility for Refugees, funded exclusively from the EU budget, to continue to support refugees and host communities, and a EUR 1 billion commitment per year, as of 2021, through the Instrument for Pre-accession Assistance. Due to the protracted nature of the refugee crisis, assistance continues to shift from humanitarian to development cooperation, which has already begun within the framework of the second tranche of the Facility for Refugees in Turkey, with the double objective of ensuring continuity of support while transitioning to national structures. The Commission continued to support refugees through this facility, which has an operational budget of EUR 6 billion. So far, EUR 4.5 billion has been disbursed, with an additional EUR 3 billion allocated for the 2021 to 2023 period. In 2021, over 1.5 million refugees received assistance under the humanitarian component of the facility. In the southern neighbourhood, the EU Regional Trust Fund in Response to the Syrian Crisis managed to reach 8.4 million people, and the EU Emergency Trust Fund for Africa improved access to essential public services for more than 4 million people.

The EU's policies for the defence industry strive to ensure competitiveness, innovation and security for all EU citizens

A common defence policy needs to be underpinned by a solid defence-industrial policy based on cooperation and focusing on strategic capabilities that meet Member States' needs, and on emerging and disruptive technologies that are critical for security and defence. With research and development lagging behind, and the cost of defence systems rising, cooperation in the EU defence industry is essential.

The European Defence Fund is an ambitious, balanced and inclusive programme that ensures a high level of Member State involvement in cooperative defence research and development projects meeting the operational needs of armed forces.

Using the EU budget to support these projects fosters collaboration, contributes to reducing market fragmentation and improving interoperability and enhances the competitiveness of the European defence industry. The fund was launched in 2021 through the adoption of its first annual work programme, and has a budget for the 2021-2027 period of EUR 7.9 billion, including EUR 2.6 billion for research and EUR 5.3 billion for capability-driven development.

Details on the European Defence Fund

- Twenty-three calls for proposals were published in 2021 for a total of **EUR 1.2 billion of EU funding in support of collaborative defence research and development projects.**
- Around **EUR 700 million has been allocated to projects addressing large-scale and complex defence platforms** and systems such as next-generation fighter systems, ground-vehicle fleets, multirole and modular offshore patrol vessels, and ballistic missile defence.
- Up to **8%** of the 2021 budget is devoted to funding **disruptive technologies** for defence, and around **6%** to open calls for **small and medium-sized enterprises.**
- Small and medium-sized enterprises represent approximately 50% of the 1 100 entities that have submitted proposals.

In 2021, 28 new projects were also awarded a total of more than EUR 291.2 million from the European Defence Fund precursor programme, the European defence industrial development programme.

The recent unprovoked and unjustified Russian aggression against Ukraine has further emphasised the need for a real EU defence policy. In recent years, the EU had already stepped up its efforts in the crucial areas of defence – including the defence industry – and space, to boost its capabilities and resilience and thus better prepare for future crises.

Concerted action to support Ukraine and front-line Member States

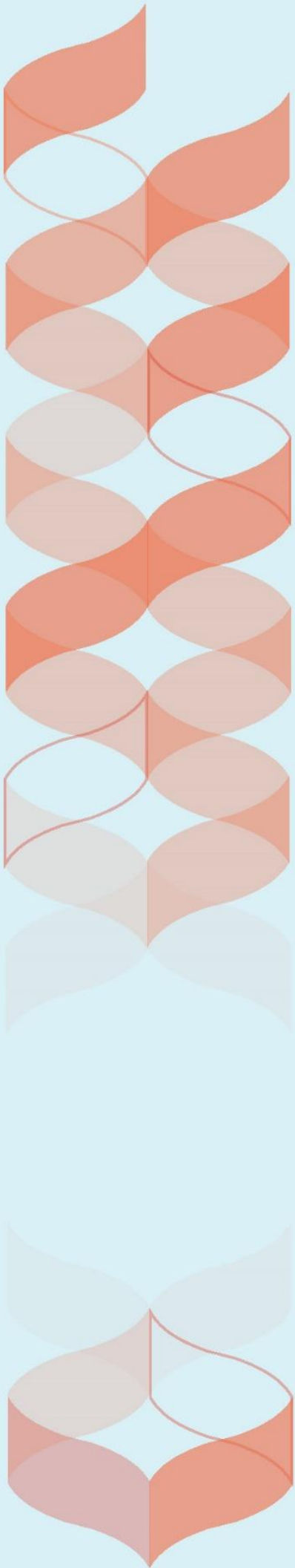


The first months of 2022 have been dominated by Russia's unjustified and unprovoked war of aggression against Ukraine. The EU has delivered a strong and unified response, encompassing robust and comprehensive financial and economic sanctions to weaken Russia's economic base and wide-ranging measures to support Ukraine and its people.

The EU budget is playing a crucial role in this response. Essential in-kind support, such as medical supplies and equipment, is being channelled to Ukraine through the EU Civil Protection Mechanism. The Commission has deployed an emergency package of EUR 550 million to provide humanitarian and emergency assistance to secure access to education, healthcare and food. Emergency macro-financial assistance will help Ukraine address its financing needs and strengthen economic stability. The Commission has stood at the forefront of global pledging events to support internally displaced people and refugees. The EU has also provided unprecedented support to Ukraine through the European Peace Facility to bolster the capabilities and resilience of the Ukrainian Armed Forces and protect the civilian population. With its communication of 18 May, the Commission has proposed corner stones and principles for short-term relief and the reconstruction of Ukraine. These will require support clearly beyond the means provided by the current multiannual financial framework.

The EU budget is also helping front-line Member States cope with the humanitarian impact of the inflow of millions of people fleeing the war and entering the EU. The temporary protection directive

was activated for the first time to offer quick and effective assistance to people fleeing the war in Ukraine. Home affairs and cohesion policy funds were mobilised to allow Member States to use available funding to deal urgently with the inflow of refugees. The cohesion's action for refugees in Europe initiative created the flexibility necessary for Member States to channel remaining cohesion policy funding and REACT-EU to quickly provide emergency support. For instance, through the European Social Fund, the Member States may provide diverse support to refugees, inter alia in finding jobs, starting or continuing education and accessing childcare.









Annex 2 – Internal control and financial management

1. Strong tools to manage and protect the EU budget in a complex environment

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

1.1. The EU budget: a wide variety of areas, recipients and spending managed in a complex environment

In 2021, the expenditure managed by the Commission amounted to EUR 172 billion ⁽²⁵⁾ (see chart below). This encompasses the share of the EU budget managed by the Commission, along with the European Development Fund ⁽²⁶⁾ and the EU trust funds. This expenditure corresponds to more than 200 000 payments, ranging from a few hundred euros (for Erasmus+ mobility grants) to hundreds of millions of euros (for large projects such as the International Thermonuclear Experimental Reactor or Galileo and Copernicus, along with budgetary support for developing countries) ⁽²⁷⁾. The recipients of EU funds are very diverse and numerous.

Single market, innovation and digital	Cohesion, resilience and values	Natural resources and environment	Migration and border management	Security and defence	Neighbourhood and the world	European public administration EUR 7 billion (4%)
EUR 17.3 billion (10%)	EUR 75.8 billion (44%)	EUR 56.5 billion (33%)	EUR 2.5 billion (1%)	EUR 0.01 billion (0%)	EUR 12.7 billion (7%)	
						
More than 35 000 grants were signed under the Horizon 2020 research programme	More than 1.4 million enterprises and 45.3 million people have been supported since 2014	6.6 million beneficiaries have been supported with agricultural funds	More than 1.2 billion EU digital COVID certificates had been generated by the end of 2021 in 60 countries across five continents	More than 1 000 companies and research actors participated in the proposals submitted under the European Defence Fund in 2021	Assistance was provided to around 130 non-EU countries on five continents	

Relevant expenditure of the EU budget implemented by the Commission in 2021, by policy area, in % and billion EUR.

Source: European Commission annual activity reports.

⁽²⁵⁾ This does not include the payments made in the context of the Recovery and Resilience Facility, which is covered in Annex III.

⁽²⁶⁾ It should be noted that the European Development Fund has been incorporated into the EU's general budget for the 2021-2027 multiannual financial framework.

⁽²⁷⁾ The amount of the Commission's relevant expenditure corresponds to the payments made in 2021 minus the pre-financing paid out in 2021, plus the pre-financing paid out in previous years and cleared in 2021 (for definitions and more details, see Annex 5).

Similar to previous years, about three quarters of the budget ⁽²⁸⁾ (e.g. expenditure on cohesion policy and natural resources) is implemented under shared management. This means that Member States, or bodies designated by them, select projects, distribute funds and manage expenditure in accordance with EU and national law, and share this responsibility with the Commission. The rest of the budget is spent either directly by the Commission or indirectly in cooperation with entrusted entities. The table below describes the three management modes.

Management mode	Description	% of 2021 expenses	Examples of programmes/ spending	Other actors involved, in cooperation with the Commission
Direct management	Funds are implemented by the Commission	19%	Horizon 2020; Connecting Europe Facility; administrative expenditure	n/a (funding goes directly to the beneficiaries)
Indirect management	Funds are implemented in cooperation with external entities	7%	Erasmus+; part of development and humanitarian aid; pre-accession assistance	Agencies, joint undertakings, United Nations, World Bank, European Investment Bank, European Bank for Reconstruction and Development, non-EU countries
Shared management	Funds are implemented in cooperation with Member States' national and/or regional authorities, which have a first level of responsibility	74%	Agricultural funds; Maritime and Fisheries Fund; European Regional Development Fund; Cohesion Fund; European Social Fund and Youth Employment Initiative; Migration, Border Management and Security funds	Paying agencies for common agricultural policy: 76. Managing authorities for cohesion policy funds: 492, in all Member States

2021 expenses by management mode.

Source: 'European Commission draft annual accounts 2021 – Statement of financial performance'.

2021 was the first year of the new 7-year financial framework. In practice, the related payments will only start to reach significant levels in the years to come. In 2021, the pandemic continued to significantly affect implementation and the way we and our implementing partners work.

⁽²⁸⁾ Not including the Recovery and Resilience Facility.

1.2. A robust governance system underpinning the College's responsibility

The governance system and chain of accountability used by the European Commission are tailored to its unique structure and role. The Commission's governance arrangements have been strengthened over time and adapted to changing circumstances, as reflected in the latest communication, issued in June 2020 ⁽²⁹⁾.

As authorising officer of the European Commission, the **College of Commissioners is politically responsible for the management of the EU budget**, which encompasses accountability for the work of the Commission's departments. The main building blocks of the EU budget's governance – underpinned by a clear division of responsibilities between the political and management levels, a strong commitment to performance management and compliance with the legal framework, transparency and high standards of ethical behaviour, and well-defined reporting – lead to a solid chain of assurance building and accountability.

Under the Commission's unique model of decentralised decision-making in budget implementation, the College of Commissioners delegates the day-to-day operational management to the **51 authorising officers by delegation** ⁽³⁰⁾ who manage and steer their departments towards delivering on their objectives as defined in their strategic plans, taking into account available resources. **The authorising officers by delegation are accountable** for the share of the EU budget implemented in their department.

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

The **annual management and performance report** presents the synthesis of the annual results for the EU budget at the Commission level, based on the assurance and reservations contained in all the annual activity reports. This report is part of the Commission's integrated financial and accountability reporting package ⁽³¹⁾, which is **adopted by the College of Commissioners**.

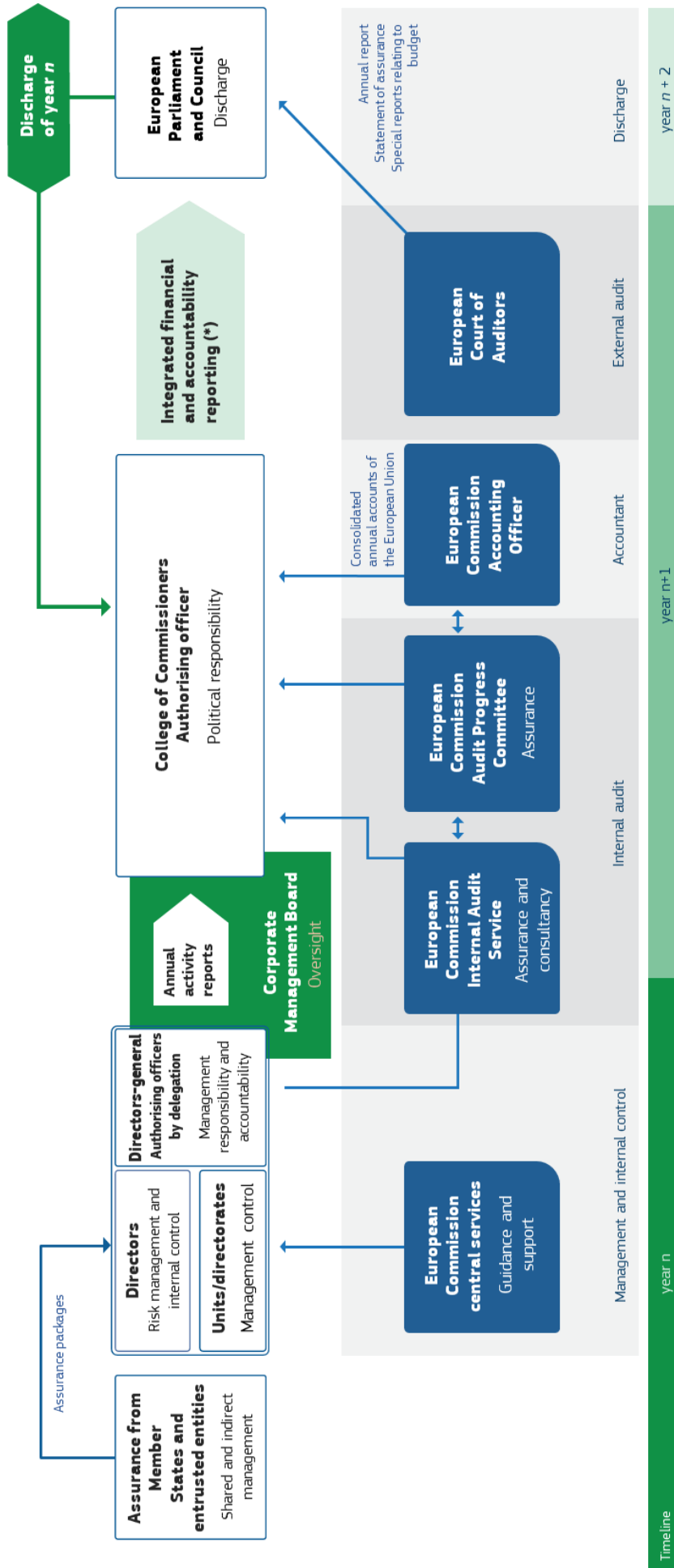
The ensuing annual budgetary discharge procedure allows the European Parliament and the Council of the European Union to hold the Commission politically responsible for the implementation of the EU budget. The European Parliament's decision takes into consideration the Commission's integrated financial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

⁽²⁹⁾ Communication to the Commission – Governance in the European Commission ([C\(2020\) 4240](#)).

⁽³⁰⁾ The term 'authorising officers by delegation' covers directors-general of Commission departments, heads of executive agencies, offices, services, task forces, etc. Article 74(1) of the financial regulation states that: 'The authorising officer shall be responsible in the Union institution concerned for implementing revenue and expenditure in accordance with the principle of sound financial management, including through ensuring reporting on performance, and for ensuring compliance with the requirements of legality and regularity and equal treatment of recipients.'

⁽³¹⁾ As required by Article 247 of the financial regulation, the integrated financial and accountability reporting package also includes the consolidated annual accounts of the European Union, the report on the follow-up to the budgetary discharge for the previous financial year, the annual report to the discharge authority on internal audits carried out and the long-term forecast of future inflows and outflows of the EU budget.

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



(*) Integrated financial and accountability reporting: — Consolidated annual accounts of the European Union

- Annual management and performance report
- Long-term forecast of future inflows and outflows
- Annual internal audit report
- Report on the follow-up to the discharge

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

1.3. A robust internal control framework evolving with its environment

The Commission has in place a strong corporate internal control framework based on the highest international standards ⁽³²⁾.

1.3.1. The internal control framework has this year again played a key role in ensuring the achievement of the Commission's objectives in a fast-changing environment

In the context of the **COVID-19 pandemic**, the Commission's internal control framework has been an essential safeguard for Commission operations. The Commission has continued to closely monitor the impact of the ongoing crisis on its operations, including on assurance building. Building on the experience acquired in 2020, the Commission has continued to implement the mitigating measures necessary to prevent or limit any negative impact on the implementation of the EU budget. For 2022, the Commission will remain vigilant in order to be able to face any new surge in relation to the pandemic.

A particular focus has been put on adapting the internal control systems to the needs of **NextGenerationEU** operations. In December 2021, the Commission increased the strategic focus of the risk function by setting up a **NextGenerationEU high-level risk and compliance policy** in line with the Commission's general internal control framework, as defined in 2017 ⁽³³⁾. It provides an appropriate risk management and compliance framework to protect the financial interests of the EU and to ensure the probity, integrity and transparency of NextGenerationEU operations such as borrowing, debt management and lending operations. This high-level risk and compliance policy supplements the NextGenerationEU governance framework ⁽³⁴⁾, which outlines the main roles and responsibilities relating to the risk management and compliance framework of NextGenerationEU operations. On the expenditure side, the Commission has put in place **specific audit and control strategies** in view of its new responsibility for the implementation of the Recovery and Resilience Facility (see Annex 3).

⁽³²⁾ As established by the Committee of Sponsoring Organizations of the Treadway Commission.

⁽³³⁾ Communication to the Commission from Commissioner Oettinger – Revision of the internal control framework ([C\(2017\) 2373](#)).

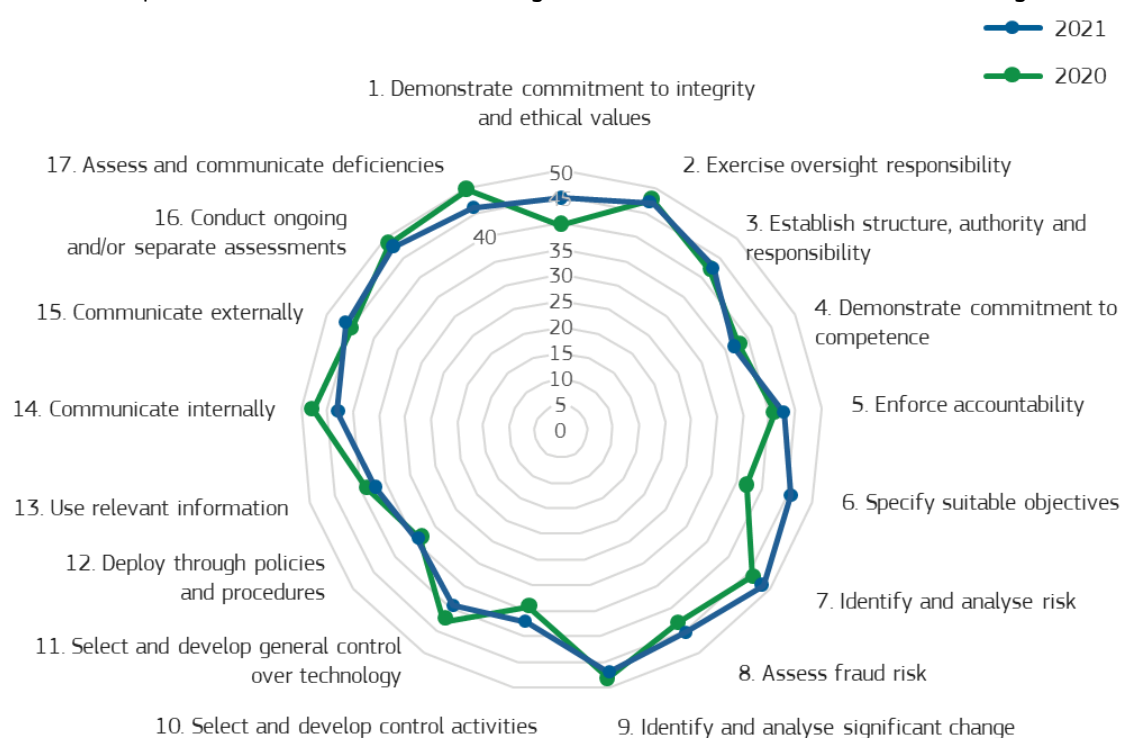
⁽³⁴⁾ Commission Implementing Decision of 14.4.2021 establishing the necessary arrangements for the administration of the borrowing operations under Council Decision (EU, Euratom) 2020/2053 and for the lending operations related to loans granted in accordance with Article 15 of Regulation (EU) 2021/241 of the European Parliament and of the Council ([C\(2021\) 2502](#)).

In order to contribute to the effectiveness of the internal control of EU budget implementation, the Commission has adopted and published **guidance on the avoidance and management of conflicts of interest** under the financial regulation ⁽³⁵⁾, covering all methods of EU budget implementation (direct, indirect and shared management). The guidance is part of the Commission's efforts to further strengthen the measures to protect the EU's financial interests. It aims at raising awareness and promoting the uniform interpretation and application of the rules on avoidance of conflicts of interest among staff of the EU institutions and Member State authorities, along with any person involved in the implementation of EU funds. Following the publication of the guidance, the Commission has been delivering targeted awareness-raising actions and presentations to Member State authorities and related expert networks, and its internal specialised networks. Such targeted actions and presentations will continue to take place over the course of 2022 and beyond.

1.3.2. Commission departments assess their internal control systems as effective in spite of the persistence of the COVID-19 pandemic

For 2021, the internal control principles are upheld and functioning well. The assessment undertaken confirms that the Commission departments have made continuous efforts to address the (essentially minor) deficiencies identified in 2020. These efforts have had a positive impact mainly on the risk assessments, to which the Commission has paid close attention, in particular in the context of the COVID crisis and the specific policy challenges faced over the past several years.

The Commission acknowledges that for some internal control principles there is still room for minor, and in a very few cases major, improvements. This mainly concerns control activities, where the assessment is mostly linked to control results (i.e. residual error rates above 2%) or audit findings (e.g. delays in the completion of pillar assessments in indirect management – see also control results for heading 6).



Assessment of the functioning of the 17 internal control principles: number of Commission departments that reported that internal control principles were upheld and functioned properly in 2020 and 2021.

Source: European Commission annual activity reports.

⁽³⁵⁾ Commission notice – Guidance on the avoidance and management of conflicts of interest under the financial regulation ([2021/C 121/01](#)).

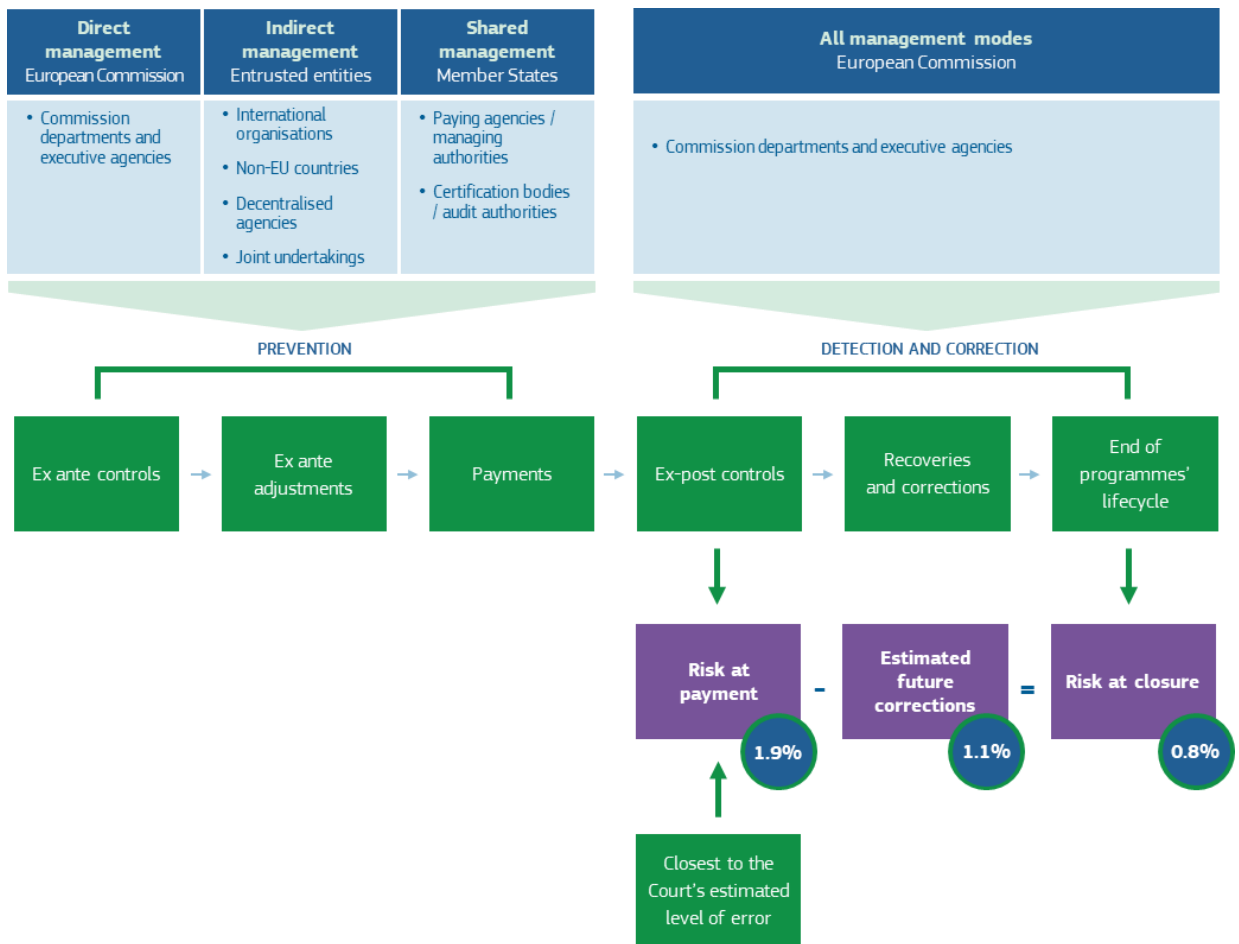
The Commission and the executive agencies are taking action to address the weaknesses identified. Moreover, awareness-raising initiatives were put in place again in 2021, such as the ‘awareness week’ organised jointly by the executive agencies. Together with the regular exchange of good internal control practices, this contributes to maintaining a strong internal control culture across the institution.

1.4. Multiannual control strategies ensure that the taxpayers’ money is well spent

1.4.1. Control strategies are multiannual and risk differentiated

Within their internal control systems, the authorising officers, as managers of the EU budget, put in place **multiannual control strategies** designed to **prevent** errors and, if they cannot be prevented, **detect** and **correct** them. They need to build their assurance from the **bottom up** and **in detail**, i.e. by programme or other relevant segment of expenditure. This allows the Commission to **detect weaknesses** and errors in a detailed and differentiated manner for each programme or segment of expenditure, to **identify the root causes** of systemic errors (e.g. the complexity of rules in certain policy areas, such as research and cohesion), to **take targeted corrective actions** and to ensure that any lessons learned are used to improve the management and control systems and are factored into the design of future financial programmes.

EU spending programmes are **multiannual** by design, and so are the related control strategies. This implies that the detection and correction of errors may happen at any time, up to the point of closure at the end of a programme’s life cycle. Moreover, the control strategies are **risk differentiated**, i.e. they are adjusted to the different management modes, actors involved, policy areas and/or funding arrangements and associated risks.



The European Commission's multiannual control cycle.

For the 2021 results mentioned in the circles, see section 2.1.

Source: European Commission.

1.4.2. Prevention is the first defence against errors

The Commission's key preventive mechanisms consist of *ex ante* controls and audits (see Annex 5 in Volume III), including management verifications by Member States' authorities before and after declaring expenditure to the Commission under shared management, as well as system audits complemented by audits of representative samples of operations to detect weaknesses in the implementing partners' management and control systems. These preventive controls lead to the rejection of ineligible amounts before the Commission makes (final) payments and to the interruption and suspension of payments until the deficiencies in the systems are fixed. In addition, guidance provided to beneficiaries and implementing partners helps to prevent errors.

Under shared management, the corrections implemented by the Member States, before submitting their cost claims, result from the controls and audits, including systems and operations audits, they carry out *ex ante* and *ex post* at their level. Such corrections are mostly applied by way of deductions of ineligible expenditure from payment claims to the Commission or certified accounts.

The amounts corrected at the Member State level may be reused, under certain circumstances. This serves as an incentive for Member States to correct irregular expenditure before they submit their cost claims to the Commission.

1.4.3. The detection and correction of errors complements prevention

Where preventive mechanisms have not been effective, it is important that errors affecting EU expenditure are detected a posteriori, through *ex post* controls that the Commission carries out on amounts it has accepted and paid out (see Annex 5 in Volume III). These errors are then corrected by the Commission during the same year or in subsequent years, by way of recoveries or offsetting from final recipients under **direct and indirect management** or from the Member States under **shared management**.

In relation to agriculture, the bulk of the financial corrections correspond to cases where systemic errors have been identified and corrections applied to the relevant expenditure for a given paying agency or operational programme. These relate mainly to deficiencies affecting payments made in previous years.

In relation to cohesion, the level of such Commission corrections is explained by the fact that most of the corrections are implemented by the Member States, including those of errors found by the Commission, the Court of Auditors and the European Anti-Fraud Office (OLAF). This allows the Member State to reuse the corresponding amounts for eligible expenditure. If control systems work properly at the Member State level, the need for corrections at the Commission level is much more limited and the number of such corrections is thus lower.

Furthermore, weaknesses in control systems, detected through risk-based and/or system audits, are also addressed, and systems are corrected. In the context of shared and indirect management, this is done in the first place by the implementing Member States and partners. For more information on the protection of the EU budget, see Annex 5 in Volume III.

1.4.4. Corrective capacity for EU funds

In 2021, the corrective capacity for the funds managed by the Commission corresponds to the addition of:

- the corrections implemented by the Member States before submitting their cost claims, amounting to EUR 4 557 million;
- the result of the preventive measures implemented by the Commission through deductions and other adjustments before payment/acceptance by the Commission, amounting to EUR 298 million;
- the corrections implemented by the Commission after payment/acceptance by the Commission, amounting to EUR 765 million.

The number of corrections implemented after payment by the Commission has decreased compared to the previous multiannual financial framework, mainly due to the specific features of the multi-layer assurance system and annual programme accounts introduced in 2014–2020 for cohesion, where corrections are mostly implemented by the Member States regardless of whether the corresponding errors were detected by them or by the Commission ⁽³⁶⁾. In 2021, the corrections decided by the Commission on the basis of its own audits and controls amounted to EUR 193 million. The overall corrective capacity has increased compared to 2020, when it was affected by the one-off effect of reimbursements made to Member States following judgments by the Court of Justice of the European Union relating to agricultural funds (for more details, see Annex 5 in Volume III).

1.5. Fight against fraud: the European anti-fraud strategy

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

The Commission has achieved good progress on its corporate anti-fraud strategy. Pursuant to Article 325 of the Treaty on the Functioning of the European Union, the Commission and the Member States protect the EU budget from fraud and other illegal activities. The current corporate anti-fraud strategy, adopted in April 2019, and its action plan play a significant role in preventing the possible misuse of EU money. OLAF monitors its implementation. By November 2021, good progress had been achieved, with 47 out of the 63 actions completed and the vast majority of the remaining actions expected to be completed by mid-2022.

In line with its anti-fraud strategy, the Commission has reinforced coordination and cooperation, notably through the Fraud Prevention and Detection Network, which brings together the anti-fraud correspondents of Commission services and executive agencies under OLAF's lead. In this context, 13 Commission services updated their local anti-fraud strategies in cooperation with OLAF in 2021. By the end of 2021, 90% of all local anti-fraud strategies had been updated since the adoption of the Commission's anti-fraud strategy in 2019.

Other significant activities in the area of anti-fraud in 2021 included the launching of a study on the future of the Irregularity Management System. Member States use this system to report cases of fraud and other irregularities detected in shared management. The Commission uses this information to develop its annual report on the protection of the EU's financial interests in cooperation with Member States, in line with Article 325 of the Treaty on the Functioning of the European Union. The Commission adopted its 2020 report in September 2021 ⁽³⁷⁾.

In 2021, OLAF also continued to perform investigative activities, reporting on them in its annual reports ⁽³⁸⁾.

⁽³⁶⁾ This corresponds to the new set-up in 2014–2020 compared to the previous period.

⁽³⁷⁾ For more information, see the [annual reports on the protection of the EU's financial interests](#).

⁽³⁸⁾ For more information, see [OLAF's annual reports](#).

Fighting fraud in practice: protecting the EU from fake offers of COVID-19 vaccines

Scammers will seize any opportunity to make an illicit profit. Right from the beginning of the pandemic, OLAF noticed how fraudsters were trying to take advantage of the urgency of the situation and of the initial lack of personal protective equipment, at the cost of the health and safety of people in Europe. Fraudulent operators tried to infiltrate the EU market with fake or substandard face masks, testing kits, disinfectants and other products relating to COVID-19. OLAF's work to counter these continued in 2021, and by the end of the year over 100 million fake or substandard products had been removed.

As vaccines against COVID-19 were developed, OLAF investigators remained alert for possible new attempts at fraud. In February 2021, OLAF issued a stark public warning against possible scams relating to COVID-19 vaccines. OLAF had been receiving information from governmental sources in EU Member States about offers by alleged intermediaries to sell large quantities of vaccines, mostly of the kind approved for use in the EU.

The aim of the fraudsters – as OLAF established – was to convince public authorities to make large down payments to secure the sale, and to disappear with the money. The intermediaries represented opportunistic companies that were inactive until shortly before their offers, or that had previously been trading in very different types of goods. These companies were often located in non-EU countries to make their identification more difficult and make them harder to investigate.

OLAF's investigators mapped the situations, established their suspicious nature and shared the information with the Member States and with Europol. Where necessary, OLAF also worked together with its international partners.

To date, these scam attempts or fake offers together represent almost 1.2 billion vaccine doses at a total asking price of over EUR 16.4 billion. The number of such reports increased rapidly in the weeks following OLAF's warning, but eventually stabilised as the patterns were exposed for the attempts at fraud that they were.

Despite the continuing pandemic, anti-fraud investigations and operations did not stop at products relating to COVID-19, and ranged from counterfeit alcoholic drinks to hazardous toys, and from the illicit trading of climate-damaging gases to waste smuggling. As every year, OLAF also uncovered several cases of fraud targeting EU funds, with complex cross-border schemes attempting to steal hundreds of millions of euros from EU taxpayers.

Fraud prevention and sanctioning also continued through the **early detection and exclusion system (EDES)**, which allows for the early detection of unreliable economic operators and their exclusion from implementing EU funds under direct and indirect management. EDES proceedings are based on information collected through audits and checks carried out by authorising officers by delegation, final judgments or administrative decisions by national authorities, decisions by international organisations and, for the most part, OLAF investigations. EDES works based on a strong and fruitful interaction between the authorising officers responsible and the EDES panel.

2021 was marked by a stable trend in cases submitted to the interinstitutional EDES panel for possible administrative sanctions (i.e. exclusion and/or financial penalties and, where applicable, the publication of the sanctions). These are determined in line with the proportionality principle (i.e. taking into account the seriousness of the situation, including the impact on the EU's financial interests and image; the time that has elapsed since the misconduct occurred; the duration and recurrence of the misconduct; the degree of ill intention or negligence; and the amount at stake).

1.6. Implementing the conditionality regime for the protection of the EU budget

Since the adoption of the regulation on a general regime of conditionality for the protection of the EU budget in December 2020 ⁽³⁹⁾, the EU has, for the first time, a specific tool to protect its budget from breaches of the principles of the rule of law.

The regulation came into effect on 1 January 2021 and complements other procedures established by EU legislation for the protection of the EU budget. It aims at protecting the EU budget against breaches of the principles of the rule of law that affect or seriously risk affecting its sound financial management or the protection of the financial interests of the EU. Since January 2021, the Commission has been assessing available information to identify possible breaches relevant under the regulation. Letters requesting information that would feed into the Commission's assessment under the regulation were sent to two Member States, Hungary and Poland, in November 2021. In April 2022, the Commission sent a first notification to Hungary under the general regime of conditionality, triggering the procedure that may lead to the imposition of measures against a Member State for breaches of the principles of the rule of law. For further developments on the implementation of the conditionality regime, see Section 4.

⁽³⁹⁾ [Regulation \(EU, Euratom\) 2020/2092](#) of the European Parliament and of the Council of 16 December 2020 on a general regime of conditionality for the protection of the Union budget, OJ L 433I, 22.12.2020, p. 1.

2. Control results

All Commission departments apply the **common control features** described above independently from the source of funding. Measures to prevent, detect and correct irregularities are applied on a multiannual basis at the level of specific programmes or other expenditure segments. As individual spending programmes may be very diverse, control strategies need to be adapted to different management modes, policy areas, beneficiaries and/or funding methods and their associated risks.

The Commission aims to strike the right balance between a low level of error, fast payments and reasonable control costs.

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

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

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

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



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

Based on the audits and controls carried out, each year the Commission departments estimate the level of risk to the legality and regularity of EU spending at two stages of the multiannual control cycle: at payment and at the closure of the programmes.

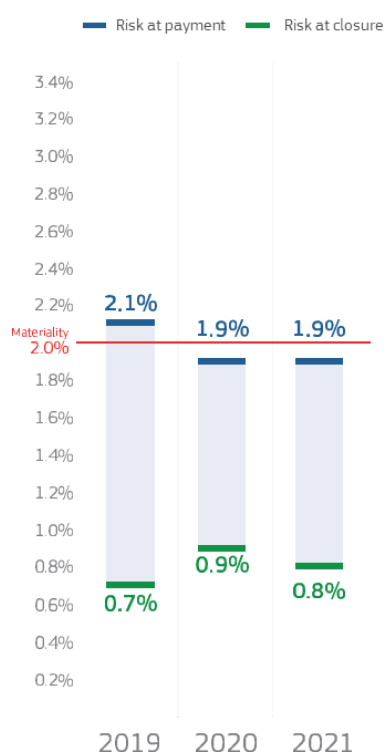
Overall results for 2021

Risk at payment: **1.9%**.

Risk at closure: **0.8%**.

Corrections for past payments: **EUR 5.6 billion**.

Reservations: **16, with a total financial impact of EUR 987 million**.



The **risk at payment** is an estimate of the errors that could not be prevented despite *ex ante* controls and that affect the payments made. These errors are detected through *ex post* controls and audits. The **risk at closure** is an estimate of the errors that will remain at the end of the programmes' life cycle once all *ex post* controls and corrections have been made. It is equal to the risk at payment minus a conservative estimate of the **future corrections**, which will take place between the reporting year and the end of the programmes' life cycle.

The Commission considers that the budget is effectively protected when, by the closure of the programmes at the latest – i.e. when all controls, corrections, recoveries, etc. have been implemented – the risk at closure is below 2%. This is the materiality threshold also used by the European Court of Auditors. For more details on these concepts and the methodology used to determine these estimates, along with the control results for each policy area, see Annex 5.

For 2021, the Commission's overall risk at payment and risk at closure remain in line with 2020, with both being below the materiality threshold of 2%.

The situation for each policy area is described below.

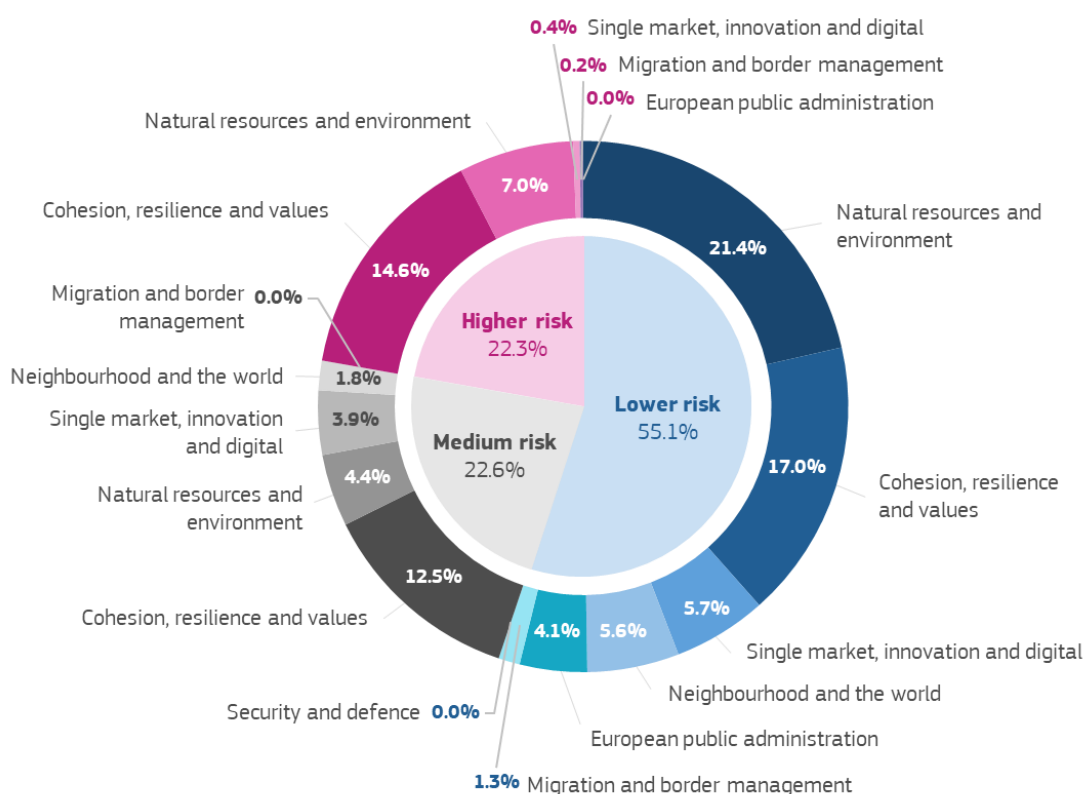
2021 was a transition year, with the official launch of the new programmes for the 2021-2027 period while the pre-existing programmes were still ongoing.

The *Annual Management and Performance Report for the EU Budget* being a summary of the 51 annual activity reports, each of them is allocated in its entirety to one of the seven multiannual financial framework headings (which were six ‘policy areas’ in the previous editions of the annual management and performance report). For the Directorate-General for Defence Industry and Space, considering the importance of this department under the ‘Security and defence’ heading, the relevant expenditure for defence and security has been isolated from the other expenditure of this directorate and brought under the relevant heading. For comparison purposes, the risk at payment and risk at closure for each heading for previous years have been recalculated on the basis of this new structure.

2.1.1. Presentation of the lower-, medium- and higher-risk expenditure

The Commission identifies which programmes are higher risk, allowing it to focus its action where it matters most.

Given its in-depth empirical approach, the Commission has reliable data showing the diversified situation of managed funds (see chart below). Based on the **risk at payment** – before any future correction is implemented – the Commission can divide the annual expenditure precisely into lower risk at payment (where the risk is below 1.9%), medium risk at payment (between 1.9% and 2.5%) and higher risk at payment (above 2.5%). For natural resources and cohesion, this analysis is also applied at the level of individual paying agencies and operational programmes in the Member States. This allows the Commission to identify which programmes/segments of expenditure are higher risk and to efficiently provide its support and address specific weaknesses even for policies that, taken globally, are lower risk, such as the common agricultural policy.



The European Commission categorisation of expenditure into higher-, medium- and lower-risk segments, as percentages of the total of relevant expenditure for 2021.

Source: European Commission.

The Commission's expenditure are thus divided into lower-, medium- and higher-risk categories as follows.

- **Lower risk.** This segment amounted to EUR 95 billion in 2021 (55% of expenditure, similar to last year at 56%). This includes the expenditure of some paying agencies for the common agricultural policy, along with the operational programmes for the European Maritime and Fisheries Fund and cohesion with a lower risk at payment; expenditure relating to the Connecting Europe Facility, the Marie Skłodowska-Curie actions; European Research Council grants; contributions to agencies (the European Space Agency, the European Union Agency for the Space Programme, etc.); Erasmus+; the Emergency Support Instrument; the Asylum, Migration and Integration Fund; the Internal Security Fund; humanitarian aid; development aid delivered through international organisations and administrative expenditure.
- **Medium risk.** This amounted to EUR 39 billion in 2021 (23% of expenditure compared to 16% in 2020). This includes the expenditure of some paying agencies for the common agricultural policy and the operational programmes for the European Maritime and Fisheries Fund and cohesion with a medium risk at payment; grants in programmes in development aid and neighbourhood programmes; and expenditure under Horizon 2020. For the latter, this is an improvement compared to previous years, where this expenditure was higher risk, and these positive results will need to be confirmed in the years to come.
- **Higher risk.** This amounted to EUR 38 billion in 2021 (22% of expenditure compared to 28% in 2020). This includes the expenditure of some paying agencies for the common agricultural policy ; the operational programmes for the European Maritime and Fisheries Fund and cohesion with a higher risk at payment or with serious deficiencies ⁽⁴⁰⁾; and expenditure related to complex grants in other funding programmes (for instance the Connecting Europe Facility – Energy).

From the Commission's detailed analysis, it appears that the level of error is closely related to the nature of the funding. A majority of programmes or segments of expenditure, corresponding to more than 50% of the year's relevant expenditure, have fairly lower risk at payment because they encompass straightforward entitlement-based payments. On the other hand, some programmes or segments of expenditure where rather complex reimbursement-based schemes are used, appear with relatively higher risk at payment. Nevertheless, the control systems in place allow the risks related to some of the more complex programmes to be mitigated and, as a result, to reduce the level of risk at payment.

The Commission is closely monitoring the risk at payment and risk at closure for the different programmes and is taking further action to reduce error rates. For the medium- and higher-risk categories in particular, the Commission will continue to work towards a further decrease in the error rates by raising beneficiaries' and implementing partners' awareness of issues, adjusting the control strategies where necessary, applying the lessons learned to future programmes and simplifying rules wherever possible.

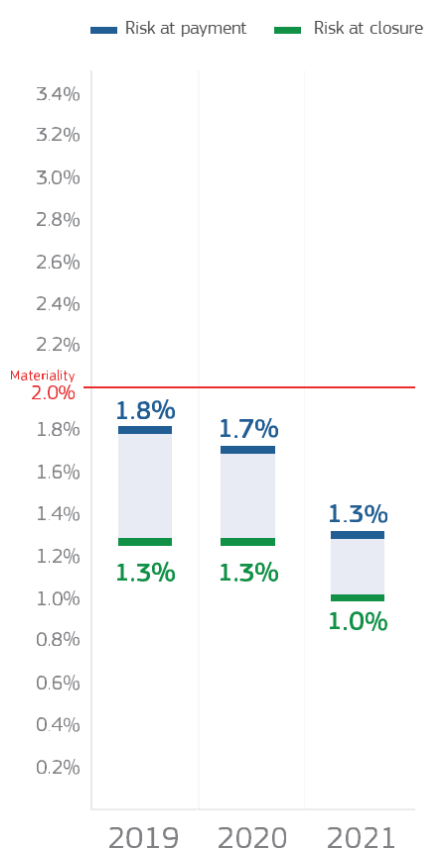
⁽⁴⁰⁾ In the case of the European Regional Development Fund, the Cohesion Fund and the European Maritime and Fisheries Fund, the level of risk has also been considered high, irrespective of the risk at payment, when the audit opinion issued in the annual activity reports on the functioning of the management and control system of the programmes was either adverse or qualified.

2.1.2. Control results by policy area

Heading 1 – Single market, innovation and digital

For ‘**Single market, innovation and digital**’, both the **risk at payment (1.3%)** and the **risk at closure (1.0%)** are well below 2% and are decreasing compared to 2020, at 1.7% and 1.3% respectively. In 2021, the Commission’s **preventive and corrective measures amounted to EUR 162 million** – EUR 142 million preventive and EUR 20 million corrective, in line with the amounts in 2020, which were EUR 146 million and EUR 26 million respectively.

The decrease in the risk at payment and at closure compared to 2020 and 2019 is due to the decrease in the error rates for Horizon 2020. **Horizon 2020** represents 44% of the expenditure within this policy area, and consequently its risk at payment (2.3%) contributes substantially to the related overall risk at payment. For several years, the research departments have been taking action to bring the risk at closure as close as possible to or below 2% ⁽⁴¹⁾. For the first time, the objective has been reached.



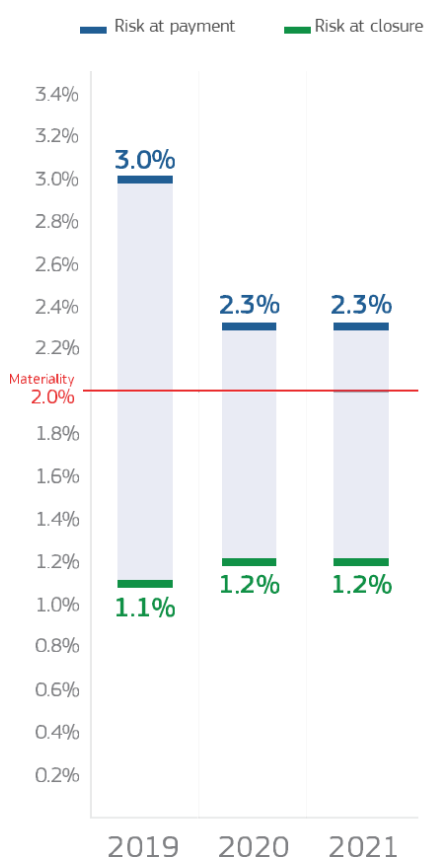
Simplifications introduced in Horizon 2020, along with focused communication campaigns aimed at more ‘error-prone’ types of beneficiaries such as small and medium-sized enterprises and newcomers, as well as enhanced training of external audit firms performing audits on behalf of the Commission, certainly have a positive effect on the occurrence and financial importance of errors. The positive results for 2021 will need to be confirmed in the years to come, however, and the action taken so far will need to be continued.

In 2021, Horizon Europe, the new European framework programme for research and innovation, was officially launched, while Horizon 2020 is still ongoing. The late adoption of the Horizon Europe regulation, compared to the initial plan, delayed the start of the implementation of the programme. In terms of financial management, the Commission’s aim for Horizon Europe is to expand the use of simplified cost options, enabling beneficiaries to comply with the rules more easily and dedicate more focus to their actual research project. Together with continued communication campaigns targeted at stakeholders, this should pave the way for a significant reduction in the risk at payment for Horizon Europe. Taking into account the low level of the current relevant expenditure and the nature of the associated transactions, expenditure under Horizon Europe is considered to be low risk for 2021.

⁽⁴¹⁾ The legislative financial statement accompanying the Commission’s proposal for the Horizon 2020 regulation states the following: ‘The Commission considers therefore that, for research spending under Horizon 2020, a risk of error, on an annual basis, within a range between 2-5% is a realistic objective taking into account the costs of controls, the simplification measures proposed to reduce the complexity of rules and the related inherent risk associated to the reimbursement of costs of the research project. The ultimate aim for the residual level of error at the closure of the programmes after the financial impact of all audits, correction and recovery measures will have been taken into account is to achieve a level as close as possible to 2%.’

Regarding the other programmes, specific segments of the **Connecting Europe Facility** (covering energy and telecommunications) have been subject to reservations by the European Climate, Infrastructure and Environment Executive Agency and the new European Health and Digital Executive Agency ⁽⁴²⁾, in view of residual error rates of 2.52% and 3.84%, respectively. In this policy area, a small number of other programmes ⁽⁴³⁾ have a residual error rate above 2%; however, this has no impact on the assurance due to the minor financial impact ⁽⁴⁴⁾, and no reservations have been issued. Finally, the 2020 reservation for the grants under the **EU programme for the competitiveness of enterprises and small and medium-sized enterprises** implemented by the European Innovation Council and SMEs Executive Agency has been lifted. Other programmes ⁽⁴⁵⁾ have inherently lower risks because of the type of funding and the level of auditing carried out.

Heading 2 – Cohesion, resilience and values



For the new heading of ‘Cohesion, resilience and values’, the risk at payment of 2.3% remains stable compared to 2020.

Under this heading, the risk at payment and risk at closure are mostly related to the level observed for cohesion policy funds ⁽⁴⁶⁾, given the volume of relevant expenditure (around 94% of the total). Member States implemented financial corrections for an amount of EUR 3 763 million ⁽⁴⁷⁾. This includes preventive and corrective measures resulting on the one hand from the work of the managing and audit authorities and on the other hand from the work of the Commission and the European Court of Auditors. The Commission implemented preventive and corrective measures for a total amount of EUR 118 million, including EUR 84 million net financial corrections.

For cohesion policy funds, despite continuous efforts and improvements in the functioning of the control systems, the risk at payment remains material. It is estimated to be in the range of **1.8% to 2.5%** ⁽⁴⁸⁾ ⁽⁴⁹⁾, **similar to 2020** (1.9% to 2.4%). The estimated future corrections are also comparable to 2020 and, therefore, the **risk at closure remains stable at 1.2%**.

⁽⁴²⁾ See Annex 5 for further information.

⁽⁴³⁾ Seventh framework programme for research and technological development, pilot projects and preparatory actions, EU programme for the competitiveness of enterprises and small and medium-sized enterprises, Research Fund for Coal and Steel and Connecting Europe Facility – Telecom.

⁽⁴⁴⁾ As of 2019, a *de minimis* threshold for financial reservations was introduced. Quantified annual activity report reservations relating to residual error rates above the 2% materiality threshold are deemed not to be substantial for segments representing less than 5% of a directorate-general’s total payments and with a financial impact below EUR 5 million. In such cases, quantified reservations are no longer needed.

⁽⁴⁵⁾ For example Marie Skłodowska-Curie, which is part of Horizon 2020.

⁽⁴⁶⁾ European Regional Development Fund, Cohesion Fund, European Social Fund, Youth Employment Initiative, Fund for European Aid to the Most Deprived.

⁽⁴⁷⁾ Financial corrections for 2007 – 2013 and deducted expenditure from the accounts for the period 2014, see also Volume II, Annex 5, section 5.4.

⁽⁴⁸⁾ The maximum value of the range is determined taking into account the worst-case scenario in the light of ongoing audit procedures.

⁽⁴⁹⁾ This is within the error-level range of between 0.9% and 6.1% estimated by the Court of Auditors in its [2020 annual report](#) (Annex 5.1, p. 154). The higher level of error estimated by the Court can sometimes be explained by divergences in the interpretation of national rules or in the method used to determine the amount of error.

The **European Regional Development Fund** and the **Cohesion Fund** show a **decrease** in the risk at payment, from a range of 2.1% to 2.6% in 2020 to a range of 1.9% to 2.5% in 2021. This decrease is attributed to improvements in the management and control systems for a number of programmes.

The **European Social Fund** presents a similar range of risk at payment in 2021, at 1.7% to 2.5%, representing an increase from a range of 1.4% to 1.9% in 2020. This increase is due to the prudent approach followed by the Commission for a number of programmes for which the reported error rates were increased pending definitive information.

2021 was the first year of the new multiannual financial framework. However, the common provisions regulation for cohesion policy funds for 2021-2027 was adopted in June. As the Member States are now working on the preparation of their programmes and, for the most advanced, have just begun project selection, no payments other than pre-financing are expected for several years.

Despite the continuous efforts and improvements in the functioning of the control systems, the risk at payment for cohesion remains above the 2% materiality threshold. This is mainly due to the inherent complexity of the projects financed by these funds, the multiplicity of actors concerned and the difficulty to tackle some complex rules notably in relation to procurement or State aid.

The main categories of irregularities identified by the Member States' audit authorities and the Commission are similar to those identified by the Court of Auditors: ineligible expenditure, public procurement errors, deficient audit trails and the absence of essential supporting documents. This shows that **most audit authorities detect** appropriately, but not always entirely, **the various types of irregularities** contributing to the risk at payment ⁽⁵⁰⁾. There are inherent risks of error due to complex projects and rules. In most cases the weaknesses detected are however not systemic, and with the remedial action put in place the situation of the relevant system usually becomes satisfactory again within a year or maximum two. In addition, errors or weaknesses found in one programme do not mean that similar errors or weaknesses are present everywhere in the Member State concerned. Thanks to the Member States' and the Commission's control results, a nuanced and differentiated picture by programme and by authority is obtained. This allows the Commission to conclude that **most programmes function well or sufficiently well** ⁽⁵¹⁾, and that a **limited number of programmes present systemic and recurrent deficiencies** over several years, on which the Commission then focuses its actions. In the latter category of programmes, these are transparently reported in the reservations issued.

⁽⁵⁰⁾ This assessment is corroborated by the recent study 'Single audit approach – Root causes of the weaknesses in the work of the Member States' managing and audit authorities', conducted by the Centre for Strategy & Evaluation Services at the request of the European Parliament's Committee on Budgetary Control. According to this study, 'Notwithstanding the identified shortcomings in the implementation and control of EU expenditure, overall, the work of the audit bodies in the Member States is perceived as reliable and robust.'

⁽⁵¹⁾ 91% of programmes under the European Regional Development Fund and the Cohesion Fund and 89% of programmes under the European Social Fund, the Youth Employment Initiative and the Fund for European Aid to the Most Deprived.

At the end of 2021, **four reservations** were issued in relation to cohesion policy funds.

- Two reservations relate to the 2014-2020 period and include all the programmes that, during the year, presented significant weaknesses in their management and control systems or for which the error rate was above the materiality threshold, or, less frequently, for which the audit work at the Member State level was deemed insufficient or unsatisfactory.
- Two reservations relate to the 2007-2013 period, in relation to which a few programmes still need to be closed. The reservations are not quantified because no payments were made in 2021.

The number of programmes under reservation for the 2014-2020 period (68) is similar to the number of programmes under reservation in 2020 (61). The financial impact has increased from EUR 341 million to EUR 423 million, which is in line with the increase in total payments. Reservations are only lifted once sufficient corrective measures have been taken. Usually, the reasons for the reservations are not structural, and it takes 1 to 2 years for a reservation to be lifted⁽⁵²⁾. For more details on reservations, see Volume III, Annex 5.

The Commission continues to take action to support programme authorities in improving their management and control systems and to bring the risk at closure for cohesion below 2%.

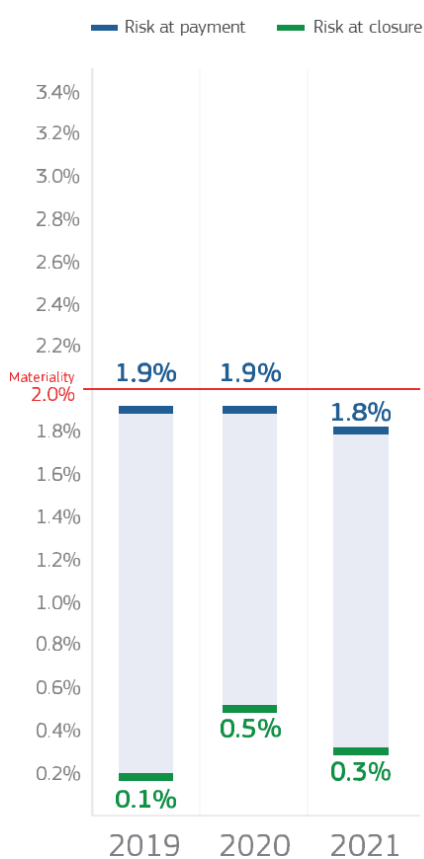
In 2021, the Commission, in close collaboration with the Member States, took various types of action to further improve the effectiveness of the management and control systems and to boost the prevention, detection and correction of errors, including the following.

- Continuous monitoring, analysis and addressing of the root causes of errors that remained undetected at the Member State level.
- Capacity-building action to improve the administrative capacity of the Member States' managing and audit authorities and better equip them to deal with the most complex parts of fund implementation. This includes, for instance, the provision, free of charge, of the Arachne data-mining tool to help detect irregularities, fraud and possible conflicts of interest, along with the professionalisation of procurers.
- Providing online guidance, examples of good practice and explanations, and promoting peer-to-peer exchanges to support contracting and programme authorities.
- Promoting simplified cost options, which are less error prone, by providing assistance and support to national authorities to prepare and assess the simplified cost options schemes for 2021-2027 programmes. The Commission has worked relentlessly on designing and implementing appropriate processes to support these new features, including measures to enhance the uptake of simplified cost options and financing not linked to costs schemes, more proportionate control and audits, more compliance-based reporting and enhanced flexibility to adapt programmes to new socioeconomic and territorial contexts.

In relation to previous accounting years, after the finalisation of strict contradictory procedures, additional financial corrections have been implemented by the Member States. This has led to a risk at closure of under 2% for each of the past several accounting years, and confirms the corrective capacity for cohesion policy funds. This percentage will continue to drop until the closure of the programmes.

⁽⁵²⁾ 78% of European Regional Development Fund and Cohesion Fund reservations and 88% of European Social Fund, Youth Employment Initiative and Fund for European Aid to the Most Deprived reservations are lifted in less than 2 years.

Heading 3 – Natural resources and environment



For **'Natural resources and environment'**, the **risk at payment** remains below the materiality threshold of 2% and, at **1.8%**, has decreased compared to 2020 (1.9%). The estimated future corrections have slightly increased to **1.5%** of 2021 expenditure (1.4% in 2020), which leads to a risk at closure⁽⁵³⁾ estimated at 0.3% (0.5% in 2020). This also corresponds to the control results for expenditure for agriculture, which represents the bulk of the expenditure in this policy area (98%), the rest being dedicated to maritime and fisheries⁽⁵⁴⁾, environment and climate expenditure.

Both the Commission and the Member States continue to protect the EU's financial interests. In 2021, the Commission executed financial corrections to the amount of **EUR 631 million**. Member States implemented corrections for a total amount of **EUR 794 million**, including EUR 528 million for errors detected and corrected on an *ex ante* basis and EUR 266 million for those recovered *ex post*.

For the common agricultural policy, the risk at payment continued the downward trend observed over the past several years. Direct payments under the European Agricultural Guarantee Fund, which account for almost 70% of payments, saw a progressive decline in the risk at payment from 1.8% in 2018 to 1.4% in 2021. Due to complex eligibility rules, the risk at payment remains above the

materiality threshold for rural development and market measures. There too the risk at payment has further decreased, to 2.9% and 2.1% respectively, as a result of the continuous improvements to the management and control systems in the Member States, in which the Integrated Administration and Control Systems, including the Land Parcel Identification System, play a significant role also for the Rural Development Fund and animal-related measures.

Expenditure relating to **fisheries and the environment and climate actions** continue to be inherently low risk. The decrease in the risk at payment of the LIFE programme grants over the last several years is to be highlighted.

At the end of 2021, there were **five reservations** for segments of expenditure or programmes where control weaknesses and/or error rates above 2% had been identified.

- Three reservations for agriculture, on **European Agricultural Guarantee Fund market measures** (affecting six Member States), **direct payments** (affecting 14 paying agencies in seven Member States) and **European Agricultural Fund for Rural Development measures** (affecting 26 paying agencies in 17 Member States that (temporarily) experienced control weaknesses and/or high error rates).

⁽⁵³⁾ As there is no closure for the European Agricultural Guarantee Fund measures, in the area of agricultural expenditure the risk at closure is replaced by the final amount at risk.

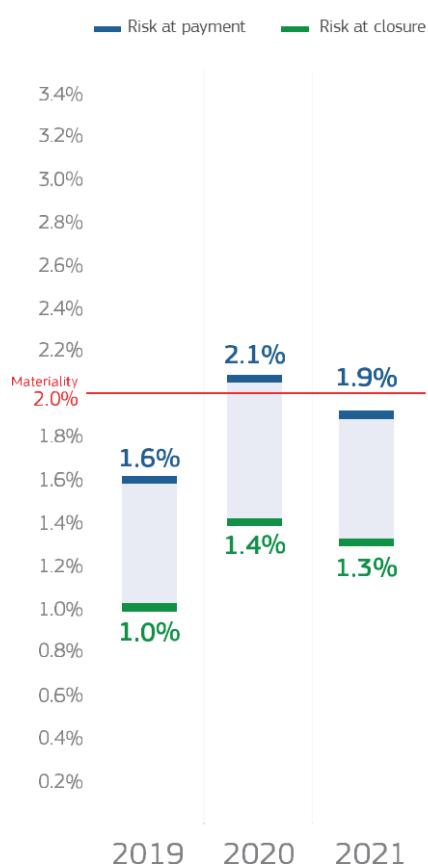
⁽⁵⁴⁾ European Maritime and Fisheries Fund expenditure, although included under the 'Natural resources' heading, follows the same delivery mechanism as cohesion expenditure.

- One new reservation for control weaknesses in one Member State in relation to the **European Maritime and Fisheries Fund**.
- One recurrent non-quantified reservation for the **EU emissions trading system registry**.

The reservation for control weaknesses in one Member State in relation to the **European Maritime and Fisheries Fund**, issued in 2020, was lifted in 2021 as the underlying issue had been resolved.

In all cases where the deficiencies identified have led to reservations, there are follow-ups: conformity clearance procedures to ultimately protect the EU budget, monitoring of the implementation of remedial actions taken by Member States and, where necessary, interruption or reduction/suspension of payments to the Member States. This systematic and precisely targeted approach ultimately enables the protection of the EU budget (for more details, see Volume III, Annex 5).

Heading 4 – Migration and border management



For **'Migration and border management'**, both the **risk at payment (1.9%)** and the **risk at closure (1.3%)** have decreased slightly compared to 2020, remaining once again **below 2%**. In 2021, the **preventive and corrective measures** amounted to **EUR 17 million** – EUR 8 million preventive and EUR 9 million corrective.

This policy area consists of low-risk expenditure. Contributions to decentralised agencies and delegation agreements represented 40% of the relevant expenditure for 2021, with an error rate close to 0.5%, while shared management and the implementation of the Internal Security Fund and the Asylum, Migration and Integration Fund represent 44% of the relevant expenditure, with a risk at payment of 1.12%. For this segment, reservations are issued when, at the Member State level, the residual error rate is above 2% or serious deficiencies in management and control systems have been identified.

At the end of 2021, **three reservations** were issued.

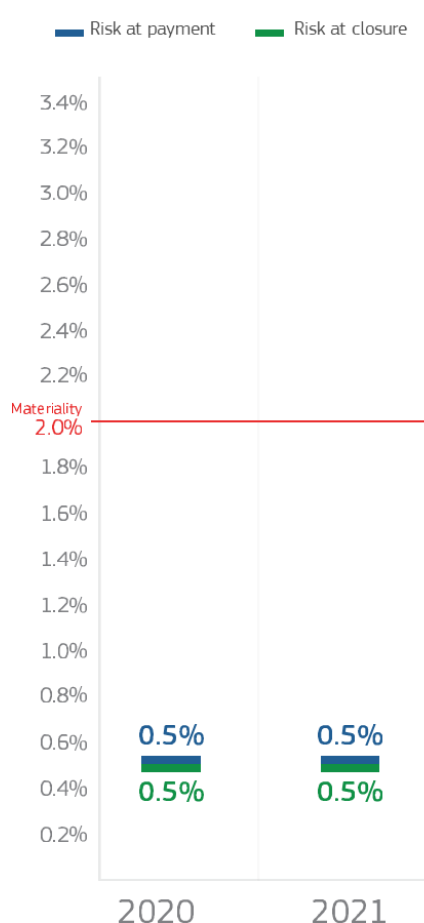
- One reservation was issued for shared management in the 2014-2020 programming period concerning the Asylum, Migration and Integration Fund and the Internal Security Fund, quantified for one Member State.
- A second reservation was issued for the EU actions and emergency assistance grants, where the residual error rate reached 2.85%. Management action has been taken to address these weaknesses, and the implementation rules for the direct management of grants have been greatly simplified with

the progressive departure from specific eligibility conditions at the programme level and alignment at the corporate level.

- In addition, the Directorate-General for Migration and Home Affairs has issued a reservation on reputational grounds relating to weaknesses identified in the effective implementation of the European Border and Coast Guard Agency's new mandate. The responsibility for the corrective actions essentially lies with the agency. However, as a member of the Management Board, the Commission is actively involved in the monitoring of their implementation.

The non-quantifiable reservation relating to the shared management instruments under the 2007-2013 programming period has been lifted for 2021, since the implementation of corrective actions has been finalised for almost all Member States under reservation (for more details, see Volume III, Annex 5).

Heading 5 – Security and defence

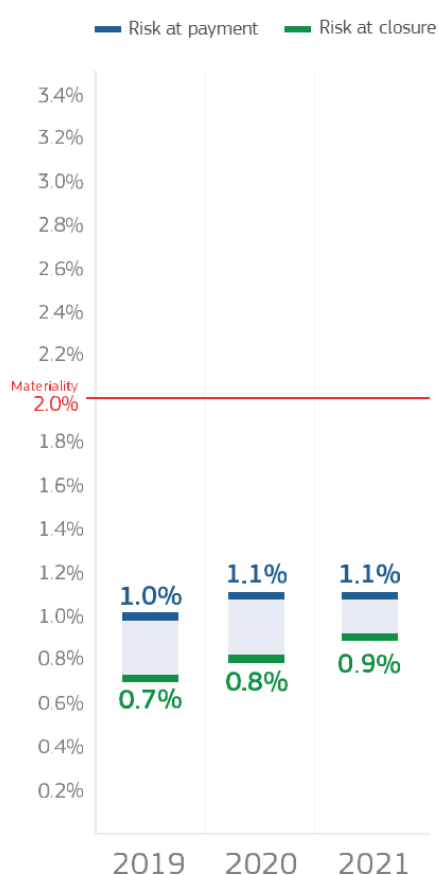


For '**Security and defence**', the **risk at payment** and the **risk at closure, which are both at 0.5%**, are very low, and well below 2%. Since the types of payments for this activity are very low risk (mostly payments to agencies) there are no amounts for the preventive and corrective measures. This is in line with the level of error reported in 2020.

In 2021, most of the disbursements under this heading consisted of pre-financing payments, under the European Defence Industrial Development Programme, amounting to around EUR 200 million. These are not included in the relevant expenditure as they are advanced payments that are still under the Commission's ownership. The relevant expenditure of EUR 13.8 million corresponds to the contribution to the European Defence Agency and procurements that have a low risk at payment, of 0.5%.

To achieve its objective, the Commission largely relies on entrusted entities and regulatory agencies, and on close cooperation with various partners and international organisations.

Heading 6 – Neighbourhood and the world



In 2021, for **'Neighbourhood and the world'**, both the **risk at payment (1.1%)** and the **risk at closure (0.9%)** are similar to 2020, and are well below 2%. In 2021, the Commission's **preventive and corrective measures amounted to EUR 131 million** – EUR 110 million preventive and EUR 21 million corrective, which is also similar to 2020 at EUR 110 million and EUR 16 million respectively.

Within this policy area, the programmes are implemented almost equally under direct and indirect management. Notwithstanding the complex environment in which these programmes are implemented, most of the expenditure segments, such as procurement under direct management and budget support, are low risk. This is due to the inherent risk profile of the operations and the performance of the related control systems.

Issues identified in previous years continued to affect a few segments, namely a lack of adequate supporting documents, errors in the calculation of costs claimed, non-budgeted costs claimed and non-compliance with procurement rules. The actions taken to address these weaknesses include simplifying and clarifying procedures and contractual conditions for grants, promoting the use of results-based financing and sharing information on frequently occurring errors with relevant control stakeholders.

One specific challenge for 2021 was the completion of additional *ex ante* checks on implementing partners' management and control systems⁽⁵⁵⁾ – also called pillar assessments – by 31 December 2021. This has not always been the case. The pillar assessments of the main partners are expected to be completed within the first half of 2022, as the large majority of the final reports have been received and are currently under analysis to assess whether additional supervisory measures are needed. Although new contribution agreements cannot be concluded before the pillar assessments are finalised, and a few financial framework partnership agreements are still being negotiated, mitigating measures were put in place to minimise the impact on the implementation of indirect management interventions. Such measures include a substantial increase in contact with the entities (mostly United Nations agencies) to accelerate the process, with the result that, as of March 2022, all pillar assessments with major partners have been finalised or are at an advanced stage. In addition, specific conditions (supervisory measures) for signing contracts with these entities in duly justified and exceptional cases have been set out to ensure compliance with the Commission rules. The implementation of ongoing contracts continued as normal, and amendments were still possible.

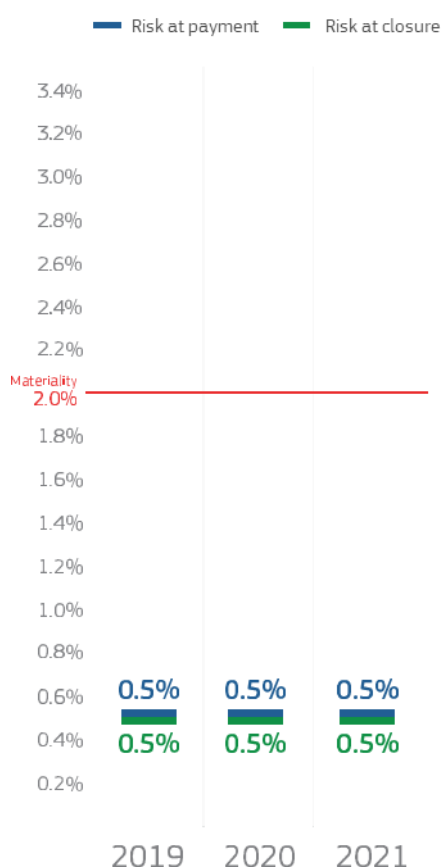
Following the considerable efforts made in 2021 and in previous years to address the causes of errors, the Directorate-General for Neighbourhood and Enlargement Negotiations lifted its reservation relating to grants under direct management at the end of 2021. These efforts are continuing to have a positive impact in 2022. In particular, DG Neighbourhood and Enlargement Negotiations has enhanced the analysis and increased awareness of the types of errors. A guidebook on additional measures to reduce the errors on grants was prepared, with recommendations such as requesting supporting documents on a sample basis during the

⁽⁵⁵⁾ This is required by Regulation (EU, Euratom) 2018/1046, the financial regulation.

implementation period of grant contracts or performing reinforced controls (e.g. increased monitoring and/or on-the-spot checks) on actions/contracts or beneficiaries. A detailed analysis of the types of errors was sent to all authorising officers by sub-delegation who were asked to monitor and enhance the controls on the implementation of grants. Other remedial actions included information sessions with (new) grantees to explain their contractual obligations and provide clear information on the most frequent sources of errors in grant management.

DG Neighbourhood and Enlargement Negotiations maintained its reservation concerning projects in Libya and Syria. In these countries, the delegations cannot implement standard monitoring and evaluation activities due to the impossibility of sending staff to conduct on-site project visits or other similar verifications due to security and political constraints. Several measures have been put in place, such as remote monitoring, contracts with independent experts to monitor projects in the field, a risk-based review of the contract portfolio and cross-checking of information from different sources. This has improved the understanding of local dynamics and has allowed quicker and better reactions to address a very unstable and erratic environment. However, the countries both remain active conflict zones and the main elements justifying the reservation are still valid.

Heading 7 – European public administration



Finally, the heading ‘**European public administration**’ groups together the services and departments managing the Commission’s administrative expenditure under the direct management mode, such as the Office for the Administration and Payment of Individual Entitlements, which represents more than 80% of the relevant expenditure under this heading. The **risk at payment** is prudently set at **0.5%** for this low-risk type of expenditure. As most of the corresponding control systems involve predominantly *ex ante* controls, the estimated future corrections are often set at a conservative 0.0%. Thus, the **risk at closure** is equal to the risk at payment, and remains very low, at **0.5%**. In 2021, the Commission’s **preventive measures amounted to EUR 4 million**, slightly below the amount in 2020 (EUR 6 million).

From the **revenue side**, following the loss of traditional own resources due to undervalued imports of textiles and footwear from China into the United Kingdom – which led to a reservation – the quantification process on the inaccuracy of the traditional own resources amounts transferred to the EU budget is ongoing. The European Court of Justice delivered its judgment on 8 March 2022, confirming the position of the Commission.

While the Court endorsed the statistical approach developed by the Commission to quantify the losses, it requested a review of the actual amount claimed. The corresponding quantified reservation for the 2011-2017 period is therefore maintained. Additional inspections in all Member States confirmed further cases of undervaluation fraud for amounts that cannot yet be quantified but will be estimated in the course of 2022.

2.2. Efficiency measures put in place

The Commission is continuously striving to improve the efficiency of its operations in order to deliver on its objectives under tight budgetary constraints. Processes are being streamlined to ensure the most efficient use of limited resources.

The COVID-19 pandemic has accelerated the Commission's **digital transformation** and the implementation of paperless workflows, resulting in efficiency gains.

In line with the EU digital strategy, the European Commission is moving towards a paperless administration

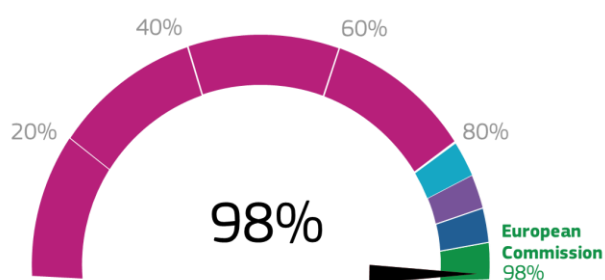
Across modern public administrations, the use of electronic signatures is becoming a norm. In this context, **qualified electronic signatures are becoming widely used across the European Commission**, as they are considered a highly efficient solution that allows users easily and securely to sign documents electronically. Qualified electronic signatures comply with the highest legal requirements, as defined by the electronic identification, authentication and trust services regulation, to ensure a document's origin and integrity.

By the end of 2021, more than 2 500 users had obtained qualified electronic signatures by using EU Sign to sign documents digitally. Since the end of 2020, the service has offered digitised, streamlined enrolment processes so users can save time and have a better user experience. In addition, the roll-out of such signatures is ongoing and gaining more ground in EU delegations.

The **mutualisation of processes** is another source of efficiency gains. Further initiatives taken in 2021 in this sense included the extension by the Commission of its treasury services to a further seven agencies and the creation of the new joint audit directorate for cohesion encompassing all audit activities for cohesion expenditure.

In 2021, the Commission also continued to develop more efficient corporate information technology tools.

- The official launch of **Microsoft 365** represents a key contribution to the Commission's efficiency by providing a new set of corporate integrated collaborative solutions, which will enhance internal cooperation, individual productivity and broader internal and external communication opportunities.
- The new corporate financial information technology platform, **SUMMA**, started to gradually replace the ABAC system. The aim of the SUMMA project is to contribute to the modernisation and digitalisation of EU administration. It will standardise and simplify the treasury, financial and accounting processes of the Commission and 55 other EU institutions and entities, and will facilitate the decision-making process through integrated reporting and enhanced analytics capabilities. Three pilot agencies moved to SUMMA at the end of 2021, as scheduled.
- The Commission also made good progress in migrating new funding programmes to **eGrants**. Of the 39 EU funding programmes expected to use the new system in the 2021-2027 period, 33 had been fully migrated by the end of 2021.



In 2021, 98% of payments (in terms of amounts) were made within the legal payment deadline (see graph), despite the fact that the working environment was still strongly impacted by the COVID-19 pandemic, and thanks to the abovementioned initiatives. This is of paramount importance, as many beneficiaries rely on these payments to carry out their activities and projects, which, in turn, contribute to the Commission's objectives.

2.3. The cost of controls is commensurate with the risks

In 2021, following the combined assessment of their effectiveness, efficiency and economy, all Commission departments concluded that, overall, their **controls were cost-effective**.

The resources allocated to **controls are aligned with the risks** relating to the nature of the programmes and/or the context in which they are implemented. The **cost of controls remains generally stable over time**. However, some departments reported a slight increase in relative terms, which is not due to higher control costs per se, but rather to a reduced volume of payments in 2021. This can be explained by the continuation of the COVID-19 crisis and/or by delays in the adoption of new programmes. The variety of spending programmes and their different features do not allow for a meaningful comparison of their control costs. However, some common cost drivers can be identified, as shown in the box below.

Examples of common cost drivers

- **The intrinsic complexity of the programmes managed.** Grants based on the reimbursement of real costs imply labour-intensive controls as opposed to financing based on lump sums or simplified cost options.
- **The complexity of the environment in which the programmes are implemented.** The cost of controls is likely to be higher in the case of a multi-site organisational structure or when partners and/or beneficiaries are located outside the EU's jurisdiction.
- **The volumes and amounts to be processed.** A high number of low-value payments will generate higher control costs than recurrent mass payments, while the regulatory framework requires certain incompressible controls. This results in diseconomies of scale.
- **The type of management.** Under indirect and shared management, the cost of controls is shared between the Commission and its implementing partners, while for direct management the burden is entirely borne by the Commission.

For the sake of transparency and completeness, in their annual activity reports, those departments dealing with shared and/or indirect management have also reported on the cost of controls in Member States and entrusted entities separately from the Commission's own cost of controls.

3. Management assurance

3.1. Assessments, assurance and reservations declared by authorising officers

In their 2021 declarations of assurance ⁽⁵⁶⁾, **all 51 authorising officers by delegation** ⁽⁵⁷⁾ **declared they had reasonable assurance** that (1) the information contained in their reports presents a ‘true and fair view’ (i.e. reliable, complete and correct) of the state of affairs in their departments; (2) the resources assigned to their activities were used for their intended purpose and in accordance with the principle of sound financial management; and (3) the control procedures put in place give the necessary guarantees concerning the legality and regularity of the underlying transactions, taking into account the multiannual character of some programmes and the nature of the payments concerned.

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

For 2021, 10 authorising officers issued a qualified declaration, resulting in a total of 16 reservations (this is slightly fewer than in 2020, when 19 reservations were reported by 11 departments) as follows.

- A total of 13 reservations have been maintained from previous years, 12 of which relate to the spending programmes, with the other relating to the revenue side of the EU budget. These reservations have been maintained mainly because the root causes of the material level of error can be partially mitigated but not fully eradicated under the current programmes’ legal frameworks.
- Three reservations are new in 2021. They are due to a material level of error, or serious weaknesses found in the control systems of the implementing partners (Member States or agencies).
- Four reservations that were present in 2020 were lifted in 2021 because the underlying issues had been resolved.
- Sixteen reservations were lifted (two) or not issued by virtue of the *de minimis* rule (14), whereby reservations are not considered meaningful where limited expenditure is involved (less than 5% of the payments of the directorate-general or service) and the resulting financial impact is low (less than EUR 5 million). The total financial impact of these cases, EUR 4.8 million, is very limited.

⁽⁵⁶⁾ [Annual activity reports](#).

⁽⁵⁷⁾ The term ‘authorising officer by delegation’ covers directors-general of Commission departments and heads of executive agencies, offices, services and task forces.

The total financial impact of all reservations is EUR 987 million for 2021, i.e. 19% lower than the EUR 1 219 million in 2020. This decrease is related to the decrease in the error rates found in agriculture. For each reservation, mitigating actions are put in place to address the underlying weaknesses and mitigate the resulting risks (for details, see Section 2.2.2).

Annex 5 in Volume III provides a complete list of the reservations for 2021, along with further explanations and details.

3.2. Work of the Internal Audit Service and overall opinion

The Commission directorates-general and services also base their assurance on the work done by the Internal Audit Service. The Internal Audit Service audits the management and control systems within the Commission and the executive agencies, providing independent and objective assurance on their adequacy and effectiveness. As required by its mission charter ⁽⁵⁸⁾, the Internal Audit Service issued an annual overall opinion on the Commission's financial management, based on the audit work it had carried out in the area of financial management in the Commission covering the previous 3 years (2019-2021). The overall opinion also takes into account information from other sources, namely the reports from the European Court of Auditors.

Based on this audit information, **the internal auditor considered that, in 2021, the Commission had put in place governance, risk management and internal control procedures that, taken as a whole, are adequate to give reasonable assurance on the achievement of its financial objectives.**

However, the overall opinion is qualified with regard to the reservations the authorising officers by delegation made in their declarations of assurance, issued in their respective annual activity reports. As regards the overall opinion, the internal auditor also considered the combined impact of all amounts estimated to be at risk at payment as these go beyond the amounts put under reservation. Given these elements, the Internal Audit Service considers that the EU budget is adequately protected in total and over time.

Without further qualifying the opinion, the internal auditor added three 'emphases of matter', which are described in Annex 6 to this report, regarding:

- the implementation of the EU budget in the context of the crisis related to the COVID-19 pandemic;
- supervision strategies regarding third parties implementing policies and programmes;
- reporting on the corrective capacity of the multiannual control systems.

With a view to contributing to the Commission's performance-based culture and greater focus on value for money, the Internal Audit Service also carried out performance audits in 2021 as part of its strategic audit plan. The resulting recommendations, all but one ⁽⁵⁹⁾ accepted by the auditees, concern the preparedness for the implementation of the 2021-2027 multiannual financial framework, supervision strategies for the implementation of programmes by third parties, internal control systems in relation to legality and regularity and compliance, EU law implementation and information technology security. For all recommendations, the auditees drafted action plans, which were submitted to and assessed as satisfactory by the Internal Audit

⁽⁵⁸⁾ Communication to the Commission – Mission charter of the Internal Audit Service of the European Commission (C(2020) 1760).

⁽⁵⁹⁾ One important recommendation was rejected by the auditee. Management accepted the residual risk and implemented part of the recommendation and no further discussion at Audit Progress Committee preparatory group level was necessary.

Service. Finally, the Internal Audit Service pursued its strict follow-up policy and assessed the actual implementation of its recommendations by the Commission's departments on a regular basis. The audit work confirmed that 94% of the recommendations issued between 2017 and 2021 and followed up by the Internal Audit Service were adequately and effectively implemented by the auditees. This result indicates that the Commission services are diligent in implementing the recommendations and mitigating the risks identified by the Internal Audit Service. Annex 6 includes more information on the assurance provided by the Internal Audit Service. In addition, a report on the internal auditor's work is forwarded by the Commission to the discharge authority in accordance with Article 118(8) of the financial regulation, as part of the integrated financial and accountability reporting package.

3.3. Assurance obtained through the work of the Audit Progress Committee

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

During the 2021 reporting year, which was marked by the continuation of the COVID-19 pandemic, and following Russia's unjustified and unprovoked invasion of Ukraine at the beginning of 2022, **the committee continued to play an important role in enhancing governance, organisational performance and accountability across the entire organisation.** It held four rounds of meetings, focusing on the key objectives set out in the 2021 and 2022 work programmes. It also continued to monitor the COVID-19 situation in connection with its areas of responsibility, in order to obtain further reassurance about the effective mitigation and appropriate audit coverage of high risks relating to COVID-19 response and recovery measures.

The committee followed up on the European Court of Auditors' request to be more systematically involved in its work. It invited the Director of the Presidency of the Court of Auditors to two of its preparatory group meetings to present the external auditor's multiannual strategy and annual work programmes for 2021 and 2022. The committee held a planned thematic discussion on information technology security, which took place shortly after the outbreak of the Russian war of aggression in Ukraine and was especially timely in view of the expected increase in the number of cyber threats.

The committee was satisfied with the independence and quality of the internal audit work. It welcomed the positive result of the external quality assessment of the Internal Audit Service for 2017-2021, which is an important factor relating to assurance about the quality of the internal audit work. The committee was also satisfied that the internal auditor's planning adequately covers the audit universe and continues to cover the key risk areas. The effective implementation rate of the internal auditor's recommendations remained very high (i.e. covering 94% of recommendations issued and followed up on during the 2017-2021 period), and only eight very important audit recommendations were overdue by more than 6 months as of January 2022. The committee also continued to monitor the progress in implementing the Court of Auditors' recommendations, and was satisfied when, for the 14th time in a row, the Court gave a clean opinion on the reliability of the EU's consolidated accounts.

Annex 8 in Volume III includes more information on the work and conclusions of the committee.

3.4. The opinions of the European Court of Auditors on the 2020 accounts and on the legality and regularity of transactions

The European Court of Auditors' *Annual report on the implementation of the EU budget for the 2020 financial year*, published in October 2021, **once again gave a clean opinion on the EU accounts**, for the 14th year in a row.

While **revenue** also continues to be **free from material error**, the Court of Auditors maintained an **adverse opinion on the legality and regularity of 2020 expenditure**. The overall **level of error** for the EU budget (**2.7%**) estimated by the Court remained at the same level as for 2019 expenditure, comparable to the years 2017 and 2018 (respectively 2.4% and 2.6%) and significantly lower than in 2016 and before.

The Court's adverse opinion is mainly explained by the share of what it considers to be high-risk expenditure. High-risk expenditure, which is often subject to complex rules and is mainly based on reimbursement of costs, covers in particular cohesion, research expenditure, rural development, market measures under the European Agricultural Guarantee Fund and some parts of external actions. High-risk expenditure represented 59% of the audited population for 2020, which is logical with the acceleration in cohesion payments at this stage of the 2014-2020 multiannual financial framework cycle.

As regards the two biggest areas of EU expenditure, the Court's estimated level of error remained close to the level of materiality in the case of natural resources ⁽⁶⁰⁾, accounting for 40.8% of the audited population. In the case of cohesion policy, accounting for 32.8% of the audited population, the Court's estimated level of error decreased from 4.4% in 2019 to 3.5% for 2020. Administrative expenditure remained free from material error.

The Commission follows up on the Court's recommendations, stemming both from the annual reports and from special reports. It reports on the measures taken in the annual activity reports. Moreover, it reports on a regular basis on the implementation of the Court's recommendations to the Commission's Audit Progress Committee. The latter performs certain monitoring activities in this respect under its updated mandate ⁽⁶¹⁾.

The European Court of Auditors also monitors the Commission's **implementation of its recommendations** and provides feedback, helping the Commission to enhance its follow-up activities. In the *Report of the European Court of Auditors on the performance of the EU budget – Status at the end of 2020*, the Court reviewed the extent to which the Commission had pursued the implementation of 149 audit recommendations addressed to it in 18 special reports published in 2016. The Court noted that the Commission had implemented close to 80% of the recommendations either fully (67%) or in most respects (12%), and another 9% in some respects. Of the 16 recommendations the Court considered not to have been implemented, the Commission had initially not accepted 11. These results are in line with previous years.

⁽⁶⁰⁾ 2% for 2020, compared to 1.9% for 2019.

⁽⁶¹⁾ Communication to the Commission from Commissioner Reynders in agreement with the President – Update of the charter of the Audit Progress Committee of the European Commission ([C\(2020\) 1165](#)).

3.5. Discharge of the budget for 2020

The European Parliament **granted discharge to the Commission** for the 2020 financial year by a clear majority on 4 May 2022, after having examined the reports of the European Court of Auditors, the Commission's integrated financial and accountability reporting package and the Council's discharge recommendation. The European Parliament's Committee on Budgetary Control also invited selected commissioners and directors-general for exchanges of views during the discharge procedure. During the procedure, the key stakeholders – the European Parliament, the Council of the European Union and the European Court of Auditors – focused on how to improve the results delivered by the EU budget and how to further reduce the level of error. The debate also touched upon issues such as the rule of law and fundamental rights, smoother implementation and absorption of EU funds, information on beneficiaries of EU funds, including by making greater use of interoperable information systems, and traditional own resources. This year, the discharge authority was especially interested in seeking reassurance that the EU budget remained well protected during the pandemic. As usual, the Commission **is taking appropriate action to implement these recommendations** and report on the follow-up in a dedicated report.

4. Further developments: outlook for 2022 and beyond

4.1. Additional tools to protect the EU budget

4.1.1. Revision of the financial regulation

After a major revision in 2018, the Commission has proposed a targeted amendment of the financial regulation ⁽⁶²⁾. Given that the changes brought about by the 2018 revision need time to produce their full effect, this revision will focus on alignment with the new long-term budget, certain improvements on crisis management following lessons learned during the COVID-19 crisis and enhanced protection of the EU's financial interests.

4.1.2. Use of the single data-mining and risk-scoring tool

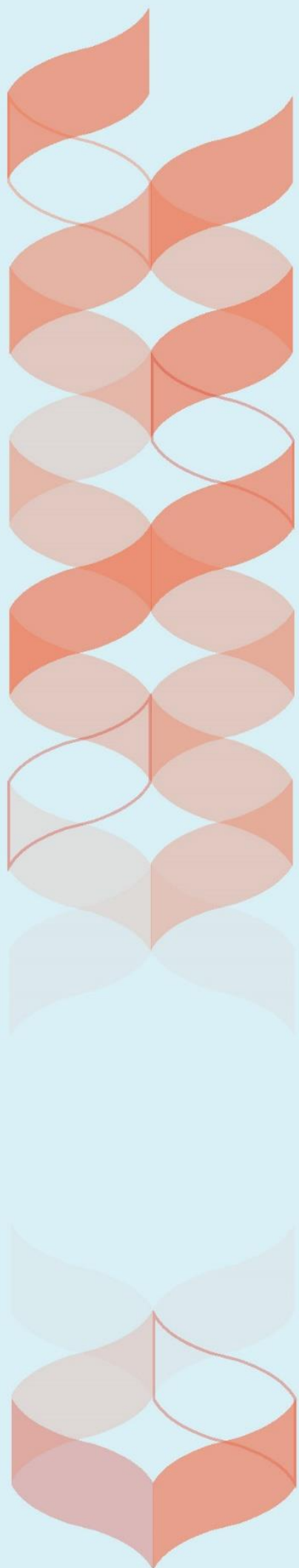
Under the new multiannual financial framework, along with the Resilience and Recovery Facility and the Brexit Adjustment Reserve, the Commission committed to make a single data-mining and risk-scoring tool available to Member States to improve their management and control systems, with a view to its generalised application by Member States. The Commission is adapting the tool put at the disposal of Member States under the previous multiannual financial framework (Arachne) to take into account the new multiannual financial framework period and related requirements, along with the Resilience and Recovery Facility. The Commission will continue to offer support to Member States to allow for its effective use. This includes giving presentations, training sessions and workshops and providing technical support and advice to interested authorities, including on how to integrate the risk-scoring tool in their daily processes. In the ongoing revision of the financial regulation, the Commission proposed to reinforce the use of this single data-mining and risk-scoring tool.

4.1.3. Implementing the conditionality regulation

On 16 February 2022, the Court of Justice upheld the validity of Regulation (EU, Euratom) 2020/2092 on a general regime of conditionality for the protection of the EU budget, which had been contested by two Member States, Hungary and Poland.

In March 2022, the Commission adopted guidelines on the application of the regulation. Following the work carried out throughout 2021, in April the Commission sent a first notification to Hungary under the general regime of conditionality. This triggered a procedure that may lead to the imposition of measures against a Member State for breaches of the principles of the rule of law that affect or seriously risk affecting the EU's financial interests in a sufficiently direct way. The Commission constantly monitors the situation across Member States. It will trigger the procedure under the conditionality regulation if the conditions are fulfilled.

⁽⁶²⁾ Proposal for a Regulation of the European Parliament and of the Council on the financial rules applicable to the general budget of the Union (recast), COM(2022)223.



Annex 3 –
The Recovery and
Resilience Facility: a new
performance-based
instrument at the service
of EU recovery

An innovative, performance-based instrument to help emerge stronger from the COVID-19 crisis

The Recovery and Resilience Facility is a new performance-based instrument at the service of the EU recovery. The facility is designed to mitigate the economic and social impact of the COVID-19 pandemic and make European economies and societies more sustainable, more resilient and better prepared for the challenges and opportunities of the green and digital transitions. Proposed in May 2020 by the Commission, and in place since early 2021⁽⁶³⁾, it makes available EUR 723.8 billion (in current prices) – EUR 385.8 billion in loans and EUR 338 billion in grants – for that purpose. It supports Member States in implementing ambitious reforms and investments that are in line with the EU’s priorities and that address the challenges identified in country-specific recommendations under the European semester framework of economic and social policy coordination.

The Recovery and Resilience Facility is a unique, demand-driven, performance-based instrument.

- **Member States are the beneficiaries of the facility.** They receive support from it to implement their national recovery and resilience plans. The funds, once disbursed, therefore enter the national budget.
- Funds are **disbursed upon the achievement of predefined milestones and targets** measuring the implementation, by 2026, of reforms and investments designed to respond to the challenges faced by Member States.
- Financed by the European recovery instrument NextGenerationEU, the facility is an exceptional and **temporary instrument**.
- It is **financed through funds raised on the capital markets** by the Commission on behalf of the European Union.

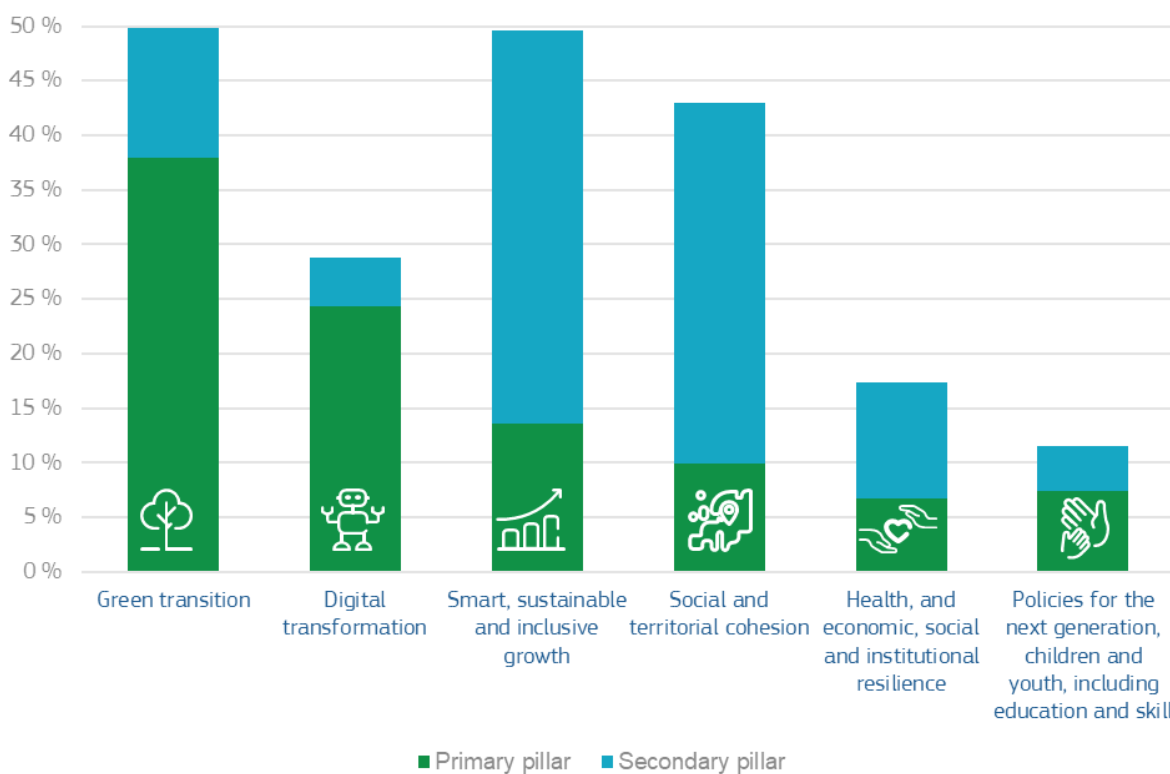
In order to receive support from the Recovery and Resilience Facility, by the end of 2021, 26⁽⁶⁴⁾ EU Member States submitted national recovery and resilience plans to the Commission. The plans must pass 11 assessment criteria established by the regulation, including that no measure included in the plan can do significant harm to environmental objectives (the ‘do no significant harm’ principle) and that **at least 37% of the plan’s total allocation contributes to climate objectives and at least 20% to digital objectives**.

The reforms and investments included in these plans should contribute to the six policy pillars defining the scope of the facility, while taking into account the specific situation and challenges of the relevant Member State.

The share of funding contributing to each pillar is presented in the graph below.

⁽⁶³⁾ Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021.

⁽⁶⁴⁾ All Member States except for the Netherlands.



Contribution of Recovery and Resilience Facility funds to the respective policy pillars. The green parts of the columns represent those measures that have been assigned to the policy pillar as primary policy areas, while the blue parts represent measures assigned as secondary policy areas. These assignments reflect the fact that reforms and investments can contribute to multiple policy pillars. Therefore, the total contribution to all pillars is double the estimated cost of the approved recovery and resilience plans.

Major progress has been made in setting up the Recovery and Resilience Facility and its implementation is firmly on its way

Twenty-two recovery and resilience plans were assessed positively by the Commission and adopted by the Council in 2021.

In 2021, the Commission worked closely together with all Member States to help them prepare their national recovery and resilience plans, setting out a national agenda of reforms and investments to be implemented by 31 August 2026, in line with the requirements of the regulation. To support Member States in preparing their plans, the Commission established informal contacts as early as October 2020, and published updated guidance⁽⁶⁵⁾ in January 2021 on the information to be provided. By the end of December 2021, the Commission had officially received 26⁽⁶⁶⁾ recovery and resilience plans and had put forward a positive assessment for 22 of them⁽⁶⁷⁾.

The Commission ensured an efficient process for all phases of the preparation, negotiation and assessment of plans. In addition to intense exchanges with each specific Member State, the Commission provided written guidance on the preparation of recovery and resilience plans, on the technical implementation of the 'do no significant harm' principle and on various specific issues, such as a checklist on control systems. The Commission supported Member States in putting forward ambitious plans with clear and realistic milestones and targets to monitor implementation, while taking into account the national context and the financial contribution available.

⁽⁶⁵⁾ Commission staff working document – Guidance to Member States – Recovery and resilience plans (SWD(2021) 12).

⁽⁶⁶⁾ The Netherlands has not yet submitted its plan.

⁽⁶⁷⁾ Most of them had already been received by summer 2021.

Overall, the assessment and eventual endorsement of the first 22 recovery and resilience plans in 2021 followed a smooth process. Following intense discussions between the Commission and the Member States during the preparation phase of the plans, the Commission assessed each plan in close coordination with the Member States, ensuring a consistent and transparent approach – explained through staff working documents published on each plan that has been positively assessed. By the end of 2021, the Commission had positively concluded its assessment of 22 plans ⁽⁶⁸⁾, all of which have been endorsed by the Council through implementing decisions ⁽⁶⁹⁾. These plans account for a total allocation of EUR 291 billion in non-repayable financing and EUR 154 billion in loans to Greece, Italy, Cyprus, Poland, Portugal, Romania and Slovenia. The plans include a total of 3 742 measures (around one third relating to reforms and two thirds relating to investments) and a total of 5 155 milestones and targets to be fulfilled by 2026. At the end of 2021, the Commission was assessing plans for Bulgaria, Hungary, Poland and Sweden.

Following the adoption of the plans, the Commission concluded a financing agreement (and, where relevant, a loan agreement) with the Member State concerned, which defines the rights and obligations of the parties, including with regard to the protection of the financial interests of the EU and the requirements for Member States' control systems. The financing agreements also involve the amount of pre-financing to be paid immediately to the Member States and the conditions for submitting a payment request. In total, 22 financing agreements and four loan agreements were signed by the end of 2021.

Apart from the pre-financing, funding will be disbursed in several instalments, each of which depends on the achievement of a specific set of milestones and targets relating to the reforms and investments the Member States have committed to implement. The disbursement profile and specific milestones and targets to be achieved have been agreed in each case between the Commission and the relevant Member States, and have ultimately been endorsed by the Council. In 2021, the Commission disbursed EUR 54 billion in pre-financing payments to those Member States for which the plan had been positively assessed by the Commission and endorsed by the Council. One of the 22 Member States in this group did not request pre-financing, therefore 21 Member States have benefited from pre-financing. For these, the pre-financing helped ensure the fast implementation of the investment and reform measures outlined in the recovery and resilience plans. The pre-financing payments were all executed within 5 business days after the signing of the financing agreement (and/or loan agreements where relevant) between the Commission and the Member State, well ahead of the 2-month payment deadline. A retroactivity clause, which ensured that measures taken since the start of the COVID-19 pandemic (i.e. starting from February 2020) were eligible to be included in the plans, provided further certainty and ensured that Member States were able to start implementation even before their plans were formally adopted.

The Recovery and Resilience Scoreboard ⁽⁷⁰⁾, a public online platform set up by the Commission, displays in an easily accessible way EU Member States' progress in implementing their recovery and resilience plans – as demonstrated by milestones and targets assessed by the Commission to be fulfilled – and the disbursements made. It also shows common indicators to report on progress and to evaluate the Recovery and Resilience Facility and the national plans.

As a performance-based facility, payments by the Commission to Member States, other than pre-financing, are based on the satisfactory fulfilment of the milestones and targets defined in the Council implementing decisions endorsing the recovery and resilience plans. The total amount of the financial

⁽⁶⁸⁾ In most cases within less than the 2-month assessment period following their official submission provided for in Article 19(1) of the regulation.























⁽⁶⁹⁾ In most cases within less than 1 month after the Commission's decision on its assessment. The last three of the 22 plans were endorsed by the Council on 29 October 2021.

⁽⁷⁰⁾ [Recovery and Resilience Scoreboard \(europa.eu\)](https://european-council.europa.eu/media/en/press-communications/infographic/infographic_recovery-and-resilience-scoreboard_en.pdf).

contribution is to be paid in instalments to the Member State, corresponding to a set of milestones and targets as established in the annexes to these decisions. The verification mechanisms for each milestone and target and the methods for monitoring and covering the essential aspects of the implementation of the plans are described in the operational arrangements, which must be signed between the Commission and the Member State before the Member State can submit its first payment request. As of the end of 2021, five operational arrangements had been concluded, with Greece, Spain, France, Italy and Slovakia, and four Member States had submitted their first regular payment requests. In 2022, around 30 more requests are expected.

The Commission disbursed a first payment, of EUR 10 billion, to Spain before the end of 2021, after receiving the payment request in November 2021. Given the type and implementation time of the relevant milestones, and as Spain had shared most of the information required for the assessment prior to the official submission of the payment request, the Commission was able to process the payment request expeditiously.

The overall state of play of the implementation of the Recovery and Resilience Facility, as of 31 December 2021, is summarised below.

	Plans approved	Financing agreements signed	Loan agreements signed	Operational agreements signed	Pre-financing disbursed	Payment requests received	First payment disbursed
 Belgium	•	•			•		
 Czechia	•	•			•		
 Denmark	•	•			•		
 Germany	•	•			•		
 Estonia	•	•			•		
 Ireland	•	•					
 Greece	•	•	•	•	•	•	
 Spain	•	•		•	•	•	•
 France	•	•		•	•	•	
 Croatia	•	•			•		
 Italy	•	•	•	•	•	•	
 Cyprus	•	•	•		•		
 Latvia	•	•			•		
 Lithuania	•	•			•		
 Luxemburg	•	•			•		
 Malta	•	•			•		
 Austria	•	•			•		
 Portugal	•	•	•		•		
 Romania	•	•			•		
 Slovenia	•	•			•		
 Slovakia	•	•		•	•		
 Finland	•	•					

Control systems are tailored to the performance-based nature of the Recovery and Resilience Facility

In 2021, in parallel to assessing the plans, the Commission worked on putting in place the relevant internal control processes and control strategies tailored to the fact that the facility is a performance-based instrument and that the Member States are the beneficiaries. In addition, the regulation stipulates that the Member States bear the responsibility for ensuring that the facility is implemented in compliance with EU and national rules and with the principles of sound financial management.

At the Member State level

The Member States are primarily responsible for ensuring that the funds received are implemented in compliance with relevant EU and national law, in particular regarding the prevention, detection and correction of fraud, corruption and conflicts of interest and avoiding double funding. Member States put in place appropriate control and monitoring frameworks at the national level to ensure the effective monitoring of the recovery and resilience plans and the collection of evidence on the achievement of milestones and targets, and ultimately to ensure the protection of the EU's financial interests. This is further reflected in the financing and loan agreements.

Each Member State described the national control system for the implementation of the proposed measures as part of its national plan, and the Commission analysed the systems as set out in the plans as part of its assessment. If a control system was deemed insufficient, the plan could not be approved. Where the Commission assessed that the control systems were adequate overall but that further improvements were needed, it required that milestones on audits and controls be included in the Council implementing decisions. Such deficiencies in the Member States' control systems included, for example: the repository system for collecting and storing data, as required by the Recovery and Resilience Facility regulation, not being fully in place at the time of the assessment; the absence of formal legal mandates for the various bodies in charge of implementing and auditing the funds; insufficient administrative capacity on the part of the implementing and audit bodies in charge of implementing the plan; and the lack of a clear audit strategy or anti-fraud measures. Payments to the Member States can only take place once these milestones have been achieved.

At the Commission level

The Commission is responsible for ensuring the legality and regularity of its payments to the Member States. Since the facility is a performance-based instrument, the legality and regularity of the payments depends on the actual achievement of the milestones and targets set out in the Council implementing decisions. Consequently, the **Commission's controls focus on achieving the milestones and targets, whereas the costs actually incurred by the beneficiary are not subject to controls by the Commission.** According to the Recovery and Resilience Facility regulation, the Commission nonetheless has the right to correct serious irregularities, i.e. fraud, corruption and conflicts of interest that have not been corrected by the Member States themselves, along with double funding or serious breaches of the financing and loan agreements.

Overall, in order to build its assurance, the Commission relies on the Member States' controls This implies obtaining the assurance that the control systems of the Member States are effective in preventing and detecting serious irregularities or breaches of obligation of the financing agreements. Also, where necessary, the Commission will complement the Member State controls with its own controls at three stages.

During its assessment of the Member States' recovery and resilience plans, the Commission checked whether the control systems outlined by the Member States in the plans met the requirements set out in the regulation. This includes an explanation of how they will demonstrate to the Commission that the predefined milestones or targets have been satisfactorily fulfilled and how they will ensure that the related data are reliable, including the control mechanisms to ensure such reliability. Moreover, Member States had to describe the control system to be used to prevent, detect and correct fraud, corruption, conflicts of interest and double funding. Where the Commission considered that a Member State's control system was adequate overall, but that small gaps remained that could be corrected, additional milestones and targets were introduced to ensure the gaps would be closed prior to the first regular disbursement.

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

- a management declaration confirming that the funds were used for their intended purpose, that the information provided is correct and that the control systems in place give the necessary assurance that the funds were used in accordance with applicable rules; and
- a summary of the audits carried out, including any weaknesses identified and corrective actions taken.

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

The Commission will also carry out system audits on the reliability of the systems in place to collect, aggregate and store reliable data relating to the milestones and targets. Additionally, at least once per Member State, it will carry out system audits of the measures implemented by the Member States to ensure the protection of the financial interest of the Union, more particularly the measures to prevent, detect and correct cases of fraud, corruption, conflicts of interest and double funding and to avoid serious breaches of the financing agreement. This also includes the functioning of the systems to collect and store data concerning Article 22(2)(d) of the Recovery and Resilience Facility regulation, i.e. concerning final recipients and their contractors, subcontractors and beneficial owners.

After disbursements are made to the Member States, the Commission may perform ex post controls and audits⁽⁷¹⁾ to check the achievement of milestones and targets. The Commission may also carry out ad hoc audits in case of suspicion of serious irregularities. If necessary, the Commission will recover proportionate amounts or require early repayment of the loans. In the case of serious irregularities that have not already been recovered by the Member States themselves, the Commission will recover proportionate amounts from the Member States.

⁽⁷¹⁾ In accordance with the financing agreement, *ex post* audits can be carried out up to 5 years starting from the date after the last payment has been submitted.

In addition, the operational arrangements provide for regular exchanges between the Commission and the Member States, with at least quarterly exchanges to take stock of progress on the implementation of the recovery and resilience plans.

The Commission will make a qualitative assessment of the control results and the level of risk associated with the operations. Unlike other EU programmes (see also Annex 5), this assessment will not be quantified with an error rate. Error rates reflect a quantitative assessment, which is pertinent when the expenditure can be directly attributed to a quantitative criterion ⁽⁷²⁾. Payments in the context of the facility are based on a qualitative assessment of the fulfilment of milestones and targets, which is difficult to translate into quantitative terms. Even when milestones and targets have not been satisfactorily fulfilled, and a reduction will be made, this reduction cannot correspond to an amount of ineligible expenditure. In addition, the investments and reforms included in the recovery and resilience plans are very diverse, both within a Member State and between Member States, which prevents any statistical extrapolation. In this context, a meaningful error rate cannot be determined.

The Commission's qualitative assessment will be based on a combination of the results from (1) the Member States' audits, provided in the summary of audits that has to accompany each payment request; (2) the Commission's audits; (3) the assessment of the payment requests; and (4) other checks carried out by the Commission at the Member State level in the context of other funding programmes such as cohesion policy funds.

The authorising officer by delegation for the facility confirmed that he had reasonable assurance

The Director-General for Economic and Financial Affairs has been designated the authorising officer by delegation for the facility. In January 2021, he created a new unit for control and evaluation to support the overall assurance. The audit strategy was approved in December 2021. The objective is to assess whether the national authorities have set up the required management and control systems for the implementation of their recovery and resilience plans so as to ensure the legality and regularity of the payment requests submitted to the Commission, that any cases of fraud, corruption, conflict of interest and double funding that are discovered are adequately corrected and, when necessary, that corrective measures are taken to address significant breaches of the financing agreement.

In 2021, most of the year was dedicated to preparatory work for the submission of the plans by the Member States and the assessment of the plans by the Commission. While most of the disbursements for 2021 consisted of pre-financing, there was a single payment of EUR 10 billion to Spain. This payment concerned the fulfilment of 52 milestones, mainly relating to reforms that had already been carried out by the second quarter of 2021. Based on the positive assessment of the evidence of the fulfilment of the milestones in the payment request, the authorising officer by delegation had reasonable assurance of the legality and regularity of the payment made in 2021 under the Recovery and Resilience Facility.

⁽⁷²⁾ I.e. in cases of reimbursement of costs actually incurred, or entitlement-based expenditure when an exact amount is provided for in the legal basis for a given quantity: a given amount of euros per eligible hectare under the common agriculture policy, a given amount of euros of family allowance per child for administrative expenditure or any other flat-rate or standard amount, or unit cost, that is directly linked to a given quantity.

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