



Annual Activity Report 2020

Directorate-General Internal Market, Industry,
Entrepreneurship and SMEs

(DG GROW)

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THE DG IN BRIEF

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

At the end of 2020, DG GROW was assigned 714 establishment posts and 110 external staff organised in 9 directorates and 38 units. Directorates reported as follows:

Director-General

- Resources and Outreach
- Competitiveness

Deputy Director-General 1

- Goods in the Single Market / Standards
- Sustainable Industry and Mobility
- Chemicals and Consumer Industries
- Industrial Policy and Innovation

Deputy Director-General 2

- Services in the Digital Market and Digitalisation
- Public Procurement
- SME Policy / COSME / parts of Horizon 2020
- Enforcement of the Single Market Unit

The new Director-General, Mrs Kerstin Jorna, took office on 1st April 2020.

DG GROW is a legislative DG: it manages 123 major pieces of the EU Single Market legislation representing ca. 75% of the total acquis. DG GROW is also a policy DG devising EU strategies to improve the structural conditions of enterprises in the EU.

DG GROW is also responsible for a total budget of ca. EUR 4.6 billion (2014-2020):

- The [Programme for Competitiveness of Enterprises and Small and Medium-sized Enterprises, COSME](#) with a budget of EUR 2.3 billion supports enterprises to access finance and markets, entrepreneurship and favourable conditions for businesses.
- Parts of the EU [Programme for Research and Innovation, Horizon 2020](#) (raw materials, and innovation in SMEs) with a budget of EUR 2.3 billion.

As the majority of DG GROW's budget is managed indirectly via entrusted entities, the DG has to rely on external control systems. Financial management is largely entrusted to:

- the [Executive Agency for Small and Medium-sized Enterprises \(EASME\)](#), which implements COSME and parts of [Horizon 2020](#) (raw materials, innovation in SMEs);
- the [European Investment Fund \(EIF\)](#), which implements the Financial Instruments under COSME.

Finally, DG GROW supervises the following regulatory agencies:

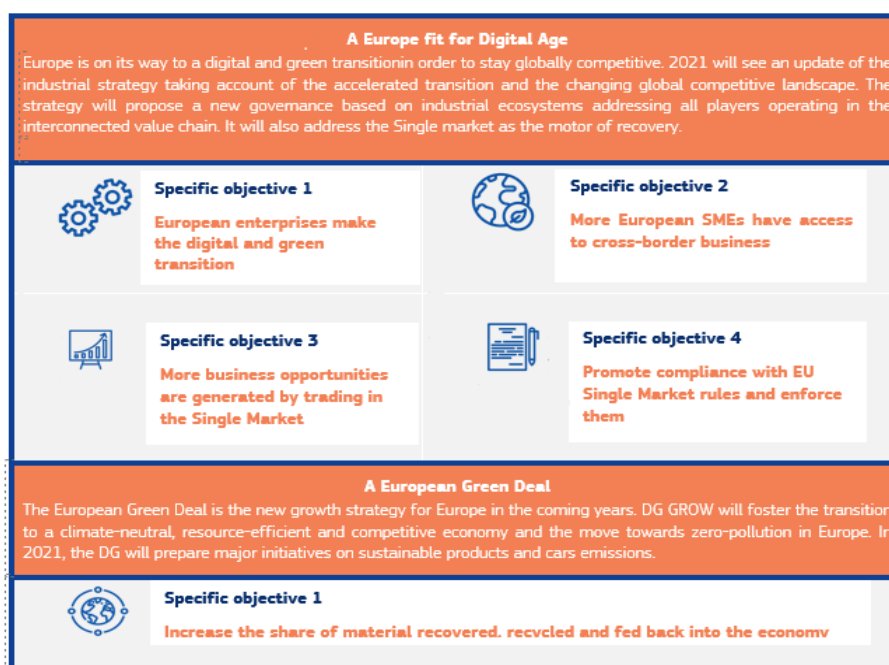
- the [European Chemicals Agency \(ECHA\)](#) implementing the EU legislation on chemical products and
- the [European Union Intellectual Property Office \(EUIPO\)](#), which is the trademark and designs registry of the EU.

EXECUTIVE SUMMARY

This Annual Activity Report is a management report of the Director-General of DG GROW to the College of Commissioners. Annual Activity Reports are the main instrument of management accountability within the Commission and constitute the basis on which the College takes political responsibility for the decisions it takes as well as for the coordinating, executive and management functions it exercises, as laid down in the Treaties (Article 17(1) of the Treaty on the European Union).

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

DG GROW's key deliverables in 2020 contributed mainly to achieving two of the headline ambitions of the Commission, A Europe fit for the Digital Age and A European Green Deal:



The response to the Covid-19 crisis and the work on the recovery plans shaped the year 2020 (see the special section E below). For DG GROW it was also the year of presenting overarching strategies for boosting business competitiveness and resilience in the Single Market. Just before the Covid crisis gained momentum, the Commission adopted in March 2020 the New Industrial Strategy, the SME Strategy, the Single Market Barriers Report and the Single Market Enforcement Action Plan – all under the leadership of DG GROW.

Later in the year followed the GROW-led Intellectual Property Action Plan and strategic initiatives like the White Paper on Artificial Intelligence, the Digital Services Act package, the Circular Economy Action Plan, the Strategy for Sustainable and Smart Mobility and the Chemicals Strategy for Sustainability that were either co-led by the DG or saw substantial input from the DG.

A Europe fit for the Digital Age

Specific objective 1: European enterprises make the digital and green transition

DG GROW contributed to the preparation of the EU Recovery Plan and the Recovery and Resilience Facility. Its main contribution was to introduce the business case for the recovery strategies under the perspective of the green and digital transition.

A new analytical framework, the ecosystem approach was introduced in the new Industrial Strategy of March 2020. With the help of this approach, it will be possible to better identify specific needs of the main economic ecosystems for the recovery and transition.

DG GROW pointed the way to ensuring the provision of critical raw materials for the sustainable transition of industry in Europe. The DG assisted in establishing two new voluntary industrial alliances to help industry to make the twin transition: one on raw materials and one on clean hydrogen.

The aim of the 2020 Intellectual Property (IP) action plan is to assume global leadership in key industrial areas and improve resilience while making the green and digital transition.

In 2020, the DG facilitated the Digital Services Act and Digital Markets Act proposals to increase the responsibilities of large online platforms. The White Paper on Artificial Intelligence (AI) prepared by DGs JUST and GROW set out options on how to make the most of AI, while ensuring European ethical values. DG GROW assisted in digital initiatives like the Advanced Technologies for Industry Monitor and the Covid-19 Cities Response Portal and developed further the social economy for inclusive growth.

Specific objective 2: More European SMEs have access to cross-border business

Next to supply chain disruptions, liquidity, or better the lack thereof, was a major concern of SMEs in the Covid crisis. In reaction to the crisis, EUR 714 million from the European Fund for Strategic Investments (EFSI) were redirected to the COSME Loan Guarantee Facility to allow the European Investment Fund (EIF) to incentivise banks to provide liquidity to SMEs.

Until September 2020, the Loan Guarantee Facility under the COSME Financial Instruments allowed more than 600 000 SMEs to receive ca. EUR 35 billion financial support in 2014-2020.

The goal of the SME Strategy of March 2020 is to make it easier for SMEs to operate, scale up and expand, but also to be competitive, resilient, and sustainable.

The pilot scheme of ESCALAR (the European action for Scale-up Risk capital) provided up to EUR 300 million to increase the investment capacity of venture capital and private equity funds, triggering investments of up to EUR 1.2 billion.

Access to procurement markets continued to be provided by the “Tenders Electronic Daily” portal, which is important for SMEs seeking to establish their presence in the EU markets.

Specific objective 3: More business opportunities are generated by trading in the Single Market

In early summer, DG GROW was instrumental in the ReopenEU recovery strategy for tourism and transport, two major economic ecosystems operating across the Single Market.

The future Single Market Programme has been under negotiation with the European Parliament and the Council in 2020. A political agreement has been reached between the co-legislators on 8 December 2020.

Transcending the Single Market, DG GROW helped generate further opportunities on international markets through advocating Europe's business case in trade agreements with the UK and other global regions. The aim is a fair trade among the international partners.

Specific objective 4: Promote compliance with EU Single Market rules and enforce them

Two major initiatives from DG GROW were adopted in March 2020:

- The Single Market Barriers Report showed that barriers still exist in many cases deriving from incorrect or incomplete application of EU legislation at national level.
- The Single Market Enforcement Action Plan proposed actions to maximise the effectiveness and efficiency of compliance and enforcement of EU laws in the EU.

The further development of the Single Market for services saw a setback in 2020. Due to the lack of any progress in the European Parliament and the Council, the Commission announced the withdrawal of its legislative proposal for a Services Notifications Directive.

A major step forward in better enforcing EU law, however, was the upgrade of the Your Europe portal to become the hub of the Single Digital Gateway, stepping up efforts to inform businesses and citizens about their rights and obligations in the Single Market.

A European Green Deal

Specific objective 1: Increase the share of material recovered, recycled and fed back into the economy

DG GROW contributed to the Circular Economy Action Plan of 2020 aiming to increase the share of recycled material in the economy. The DG also started the preparation of the Ecodesign and Energy Labelling Working Plan 2020-2024.

The Chemicals Strategy for Sustainability aims to better protect people and the environment against hazardous chemicals and encourages innovation for safe alternatives in a way that boosts the global competitiveness of the EU chemicals industry.

B. Key Performance Indicators (KPIs)

The KPIs were chosen from the result indicators in the DG GROW Strategic Plan 2020-2024 as the most relevant to illustrate the performance of the DG.

Specific objective 1.2: More European SMEs have access to cross-border business			Related to spending programme(s): Yes
Result indicator: % of SMEs selling cross-border online			
Explanation: This indicator combines the use of digital technology and the access to international markets by SMEs. It measures progress for SMEs on two central policies: internationalisation and digitalization.			
Source of data: Annual DESI reports, European Commission based on Eurostat data desi_4b3_sellcb			
Baseline (2019)	Interim milestone (2022)	Target (2024)	Latest known result (2019)
8.38%	Increase	Increase	8.38%
Specific objective 1.4: Promote compliance with EU Single Market rules and enforce them			Related to spending programme(s): No
Result indicator: Average duration of infringement procedures under GROW responsibility			
Explanation: The average duration refers to pending infringement cases not yet sent to the Court (pre-litigation stage) as of 1 December of a given year. The average duration is calculated in months as from the sending of the letter of formal notice. The infringement cases initiated for non-communication of national transposition measures are excluded from the calculation.			
Source of data: DG GROW + NIF database			
Baseline 1/12/2019	Interim milestone 1/12/2022	Target 1/12/2024	Latest known result 1/12/2020
18.2 months	Maximum 24 months*	Maximum 18 months	25.5 months
GROW pending cases not yet sent to the Court (duration in months since the sending of the letter of formal notice)			
The milestone is longer than the baseline as it takes into account the impact of the COVID-19 crisis on the handling of infringements and the transfer of a number of non-communication cases with short duration from DG GROW to DG DEFIs and DG HOME in 2020.			
Specific objective 1: Increase the share of material recovered, recycled and fed back into the economy			Related to spending programme(s): No
Result indicator: Share of circular materials			
Explanation: The indicator measures the share of material recovered and fed back into the economy - thus saving extraction of primary raw materials - in overall material use. The circular material use rate is defined as the ratio of the circular use of materials to the overall material use.			
Source of data: Eurostat online data code: Circular material use rate SDG 12 41			
Baseline (2017)	Interim milestone (2022)	Target (2024)	Latest known result (2019)
11.2%	Increase	Increase	11.9%

C. Key conclusions on Financial management and Internal control (executive summary of section 2.1)

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

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

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

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

D. Provision of information to the Commissioner

In the context of the regular meetings during the year between the DG and the Commissioner on management matters, the main elements of this report and assurance declaration, have been brought to the attention of Commissioner Thierry Breton, responsible for the Internal Market and DG GROW at end 2020.

E. Specific actions on Covid-19

In 2020, Europe was strongly impacted by the Covid-19 pandemic. The Commission has proposed a strong and coordinated response to the health crisis, as well as to the socio-economic impact. Covid-19 has also posed challenges to the performance, control, audit and assurance in relation to the 2020 EU budget. In an exercise coordinated at corporate level, all Commission services have promoted the consistent and rigorous protection of the EU budget ensuring that appropriate mitigating measures were put in place.

Protecting critical supply chains in the Single Market

When Member States closed their borders at the beginning of the crisis, DG GROW devised measures to (i) eliminate national export restrictions on intra-EU exports of protective material and on ingredients for producing a cure for Covid-19 and (ii) assure that the value chains stay intact to make essential goods available in the Single Market.

The Single Market Enforcement Task Force (SMET) was key in ensuring that the Single Market works properly again and in addressing barriers that arise due to improper application or enforcement. In April 2020, SMET successfully addressed the removal of Covid-19 related Single Market barriers, especially as regards the free flow of goods across EU borders. In the June meeting, Commissioner Breton highlighted the important role of the group. In September, the SMET agreed on a work programme for the coming months, based on three pillars: (i) abolishing the remaining Covid-19 related barriers; (ii) addressing priority barriers identified by Member States and the Commission; and (iii) reinforcing the Single Market to support the recovery based on the industrial ecosystems approach.

When the supply chain of personal protective equipment (PPE) was under extreme pressure, DG GROW gathered data on available stock, production capacity, and anticipated needs via direct contacts with PPE manufacturers and industry associations. The DG facilitated the rapid uptake of newly manufactured PPE on the EU market by:

- streamlining the [conformity assessment](#) procedures for PPE in order to quickly provide PPE to healthcare systems;
- asking European Standardisation Organisations to make 14 standards for PPE and medical devices freely accessible to promote alternative production;
- providing guidance to help manufacturers assess the legal and technical requirements before importing new products to the EU or launching new or reconverting existing facilities.

The DG set up a Clearing House inside the Commission reporting to Commissioner Breton to match supply and demand of critical medical equipment across Europe. The DG also organised a helpdesk offering intellectual property advice to EU businesses reconverting their production lines to produce needed medical material.

The rapid alert function developed by DG GROW identified supply chain disruptions in the Single Market, relying especially on the European Clusters Alliance and the Enterprise Europe Network to find alternative suppliers for health and safety equipment. Thus, the rapid alert function contributes to improving the EU strategic autonomy in critical infrastructure and technologies.

In May 2020, DG GROW provided [guidance](#) on the free movement of health professionals and minimum harmonisation of training relative to Covid-19 emergency measures. The aim was to facilitate mobility, in particular for doctors and nurses. The guidance enabled Member States to take emergency measures in full respect of the EU rules on recognition and training of certain health professions, thus avoiding Single Market disruptions.

Early on in the crisis, DG GROW provided guidance on the [options and flexibilities](#) under the EU public procurement rules in cases of extreme urgency to provide Member States with the tools for contingency measures.

DG GROW took actions on specific sectors to assure the availability of critical material:

- The DG set up a Covid-19 [Industrial Clusters Response Portal](#) to match demand with supply of key personal protective equipment. Clusters created new networks to increase the production of FFP2 and FFP3 masks and link 3D-printing capacities between manufacturers and suppliers.
- The DG worked with the textile industry to increase the production capacity of face masks and other equipment.
- DG GROW extended the regulatory deadline in the chemicals regulation REACH to ensure continued use of key substances for the production of the Covid vaccine.
- The DG took actions to solve export restrictions on disinfectants that had been introduced at the national borders. To assure good quality products, DGs GROW and SANTE published guidance on hydro-alcoholic gels/hand disinfectants in March.
- The DG worked with the food and drink industry to ensure availability of food supply and ensure free movement in the Single Market.

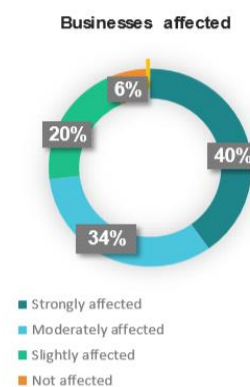
Aiding SMEs through the pandemic

SMEs were hard hit by the Covid-19 crisis. First estimates from the SME Performance Review suggest that in the EU, employment in SMEs has fallen by 1.7% in 2020 (1.4 million jobs lost in SMEs) and SME value added by 7.6%.

According to a survey by the Enterprise Europe Network, about 74% of the responding companies were strongly or moderately affected by the crisis, forcing them to deal with supply chain disruptions, employee absences and temporary shut-downs among others. The most obvious reasons were delays due to transport and logistics problems, border closings and national lockdown measures.

Nevertheless, the crisis also brought new possibilities for some SMEs to strengthen their online presence and/or develop new products. Looking at the preparedness of SMEs, almost two thirds of respondents had no plan to handle supply chain disruptions before the crisis. One third of all respondents created one during the pandemic contrary to 18% who had a plan already before the crisis.

In reaction to this crisis, EUR 714 million from the European Fund for Strategic Investments (EFSI) were redirected to the COSME Loan Guarantee Facility to allow the European Investment Fund (EIF) to incentivise banks to provide liquidity to SMEs affected by the COVID crisis. More flexibility was given to users of the Facility, and the guarantee rate was increased from 50 to 80%. Until September 2020, this helped more than 38 000 European SMEs to access around EUR 1.9 billion of liquidity finance.



Finally, the SME Envoys network operated an ad hoc exchange of experience and best practices on national crisis relief measures.

Budgetary response

In accordance with DG BUDG guidance on the effects of Covid-19 on financial management, DG GROW used some of the measures allowed to maximise the flexibility in managing grants and procurement. For instance, appropriate mitigating measures were put in place such as the physical collection and the dispatch of the contracts and invoices during the lockdown, while the staff was teleworking. One additional measure was to extend the deadlines in the calls. Another one was to accept signed copies of contracts and invoices in pdf format by email. The eSignature (qualified electronic signature) was successfully tested in 2020 and should become in 2021 the standard for all the authorising officers signing legal commitments on behalf of DG GROW. While taking up these additional measures, DG GROW continued to guarantee the sound financial management of its activities and maintained its excellent key performance indicators.

1. Key results and progress towards the achievement of the Commission's general objectives and DG's specific objectives

General objective 1 - A Europe fit for the digital age



Specific objective 1: European enterprises make the digital and green transition

New initiatives

Recovering from the pandemic



'We will continue to mobilise all technologies available including artificial intelligence, to fight the coronavirus'

Commissioner Thierry Breton

The DG gave substantial input from an enterprise point of view to the recovery strategy of the European Union and the Resilience and Recovery Facility. In the context of developing the [EU Recovery Plan](#), DG GROW provided substantial input to the conclusion of the 2010-2020 cycle of the European Semester. DG GROW contributed to the rolling out of the Recovery and Resilience Facility (i) preparing country briefs identifying reform and investment needs as background for the negotiations with the Member States; (ii) preparing modules for different areas of economic activity to provide orientation to Member States; and (iii) by taking part in the discussions of the draft National Recovery and Resilience Plans with Member States at the end of 2020. DG GROW encouraged Member States to address the challenges of the recovery in line with the priorities of the SME Strategy of March 2020. Country-specific fact sheets were published in the context of the SME Performance Review.

DG GROW monitored the sectoral economic impact of the crisis, including the analysis of EU value chains' dependence on specific supplying countries. At Commissioner/CEO level, the DG assisted in the engagement with industry to gather ideas for the recovery strategy and help develop the industrial ecosystems of the future.

With the Industrial Strategy of March 2020, the Commission put the focus on industrial ecosystems, taking into account all relevant players contributing to the success of economic activity. This is a new approach and reflects the need for new ways of thinking to lead the green and digital transition and to increase resilience. Fourteen industrial ecosystems were identified by the Commission representing around 90% of the business value added in the EU (see chart).



The ecosystem approach complements and helps to identify the repair and investment needs on the basis of which the Commission drew up the NextGenerationEU proposal. That same approach helps to identify areas in which investments can have the greatest value added, hence benefitting Europeans the most, and allows addressing the bottlenecks – physical and digital – that still exist in the Single Market.

To better identify the priority needs of each industrial ecosystem, DG GROW started a mapping, by ecosystem, of the EU policy toolbox to support the recovery and the green and digital transition. For each ecosystem, an assessment is provided of the current challenges, an assessment of the opportunities and challenges ahead, as well as of the global context in which it operates. The policy levers relating to funding and budgetary programmes, a supportive regulatory framework, and networks and governance are looked into in more detail. This mapping will allow targeting the efforts where they are needed most and provide a basis for further interactions with public institutions and stakeholders. The aim is to evolve towards an inclusive approach that places Europe's industry and the Single Market at the centre. That will be key to recovery. The Commission published the policy definitions of the ecosystems with the update of the Industrial Strategy in March 2021.

Devising the industry of the future

Going beyond the crisis and into a long-term vision, DG GROW contributed to the new [Industrial Strategy for Europe](#) adopted by the Commission on 10 March 2020. It is a comprehensive strategy setting out the vision for the green and digital industrial transition, maintaining Europe's global competitiveness and strengthening the industrial and strategic autonomy. High-level roundtables on skills were organised in several industrial ecosystems and a Pact for Skills was launched in November 2020 to contribute to the up- and re-skilling of the workforce. As part of the recovery plan, DG GROW screened industrial needs and identified ecosystems needing a tailor-made approach. An open Industrial Forum with Member States and stakeholders was established in December 2020 to support this work.

A secure supply of raw materials, especially critical ones, is a necessary condition for the recovery of the EU economy and its transition to becoming greener, more digital and more resilient. The [Action Plan on Critical Raw Materials](#) for Europe's resource security included i) an analysis of the challenges; (ii) an update of the list of the raw materials that are critical for the EU economy; and (iii) a proposal of actions to diversify raw materials supply and reduce the impact of supply chain disruptions. The European Raw Materials Alliance is the largest consortium in the raw materials sector worldwide and is funded by the European Institute of Innovation and Technology (EIT).

To strengthen the resilience of the pharmaceuticals supply chains and ensure the security of medicine supply, the 2020 [Pharmaceuticals Strategy for Europe](#) announced the launch of a structured dialogue with and between private and public actors in the pharmaceutical manufacturing value chain. This joint DGs GROW-SANTE initiative will contribute to the identification of strategic dependencies in the most sensitive ecosystems such as health.

DG GROW supported the creation of new industrial alliances. In 2020, DG GROW launched the European Clean Hydrogen Alliance bringing together ca. 1000 stakeholders to build up large-scale investment projects to keep Europe at the cutting edge of this technology.

The aim of the 2020 [Intellectual Property \(IP\) action plan](#) is to assume global leadership in key industrial areas and improve resilience while making the green and digital transition of the economy. The action plan announced measures to (i) upgrade existing IT tools and make them fit for the digital age; (ii) boost the uptake of IP by SMEs; (iii) facilitate the

sharing of IP; (iv) fight counterfeiting and improve the enforcement of IP rights; and (v) promote a global level playing field.

'Specific laws defining hate speech, terrorism and other illegal content will be applied under strict parliamentary control'

Commissioner Thierry Breton

Under the lead of DG CNECT, DG GROW contributed to the [Digital Services Act package](#) adopted at the end of 2020. The aims are to increase and harmonise the responsibilities of online platforms and information service providers and reinforce the oversight over

platform content policies in the EU. The new rules ensure that markets characterised by large platforms with significant network effects acting as gatekeepers remain fair and contestable for innovators, businesses and new market entrants.

DG GROW contributed to the ranking guidelines adopted at the end of 2020, which aim to assist platforms and search engines meet the requirement to be transparent about how ranking is organised on their services pursuant to the Platform to Business Regulation. In collaboration with DG CNECT, DG GROW continued to work with the Member States to ensure they meet their obligation to effectively enforce the Regulation and with industry on the co-regulatory requirements, including the development of Codes of Conduct.

The [White Paper on Artificial Intelligence](#) (AI) of February 2020, jointly prepared by DGs CNECT, JUST and GROW, set out options on how to make the most of AI, while ensuring European ethical values. The three DGs prepared a [Report on the safety and liability implications of AI, the Internet of Things and robotics](#). DG GROW started work on adapting the legislation under its remit (e.g. the Product Liability Directive, the Machinery Directive and the Radio Equipment Directive) to the challenges and risks of AI and other new digital technologies. The DG facilitated the dialogue between Commission services and the European Standardisation Organisations to ensure the timely exchange of regulatory and technical information and the early definition of standardisation needs for AI.

DG GROW launched the [Advanced Technologies for Industry Monitor](#) in 2020. The website provides a statistical data dashboard on the creation and use of advanced technologies; analytical reports on technological trends, sectoral insights and products. It presents reports on technological trends in competing economies such as Japan, US or China and a new platform, where technology centres have access to innovation hubs across EU countries.



The Intelligent Cities Challenge supports ca. 140 cities in using cutting-edge technologies to lead the intelligent, green and socially responsible recovery of their local economy. It mobilised cities and stakeholders to set up local green deals, reskill the workforce, modernise public administration, strengthen citizen participation and foster social resilience. It set up the Covid-19 [Cities Response Portal](#) to help cities share needs and best practices.

In 2020, DG GROW launched a call for proposals to boost social economy networks in Europe. A key objective is to promote inter-regional collaboration for inclusive economic growth and social cohesion. The project is a milestone for the European Action Plan on Social Economy to be released in 2021.

Evaluations and fitness checks

[Evaluation of the Low Voltage Directive](#): The supporting study for the evaluation was published in October 2019. Based on the evaluation's conclusions, the Commission will assess which steps may be necessary to improve the Directive's performance in the future.

[Evaluation of the Toy Safety Directive](#): This Directive aims to ensure a high level of protection for children playing with toys and the Single Market for such toys. The Commission will assess which next steps may be necessary to improve the performance of the Directive, including in connection with the Chemicals Strategy for Sustainability.

[Evaluation of the Electromagnetic compatibility Directive](#): DG GROW launched a study to support the evaluation of the Directive, particularly to assess to which extent it has achieved its objective of ensuring the functioning of the internal market by requiring equipment to comply with an adequate level of electromagnetic compatibility.

[Evaluation of the Outdoor Noise Directive](#): DG GROW published in November 2020 the evaluation of the Directive which assessed the Directive's performance from 2002 to 2018, particularly if it met its objectives of ensuring the free movement of outdoor equipment, protecting the health and well-being of citizens as well as the environment, and providing information to the public on the noise emitted by such equipment.

[Evaluation of EU legislation on design protection](#): The evaluation showed that EU legislation on design protection is largely fit for purpose but identified shortcomings that require an upgrade of design protection to the benefit of EU businesses, designers and SMEs.

[Evaluation of the EU Supplementary Protection Certificate \(SPC\) system](#): The SPC regulation appeared to effectively support research on new active ingredients and thus largely remained fit for purpose. The main shortcoming is that SPCs were nationally administered, which created legal uncertainty, red tape and extra costs for businesses, especially SMEs.

[Evaluation of the EUIPO European Observatory on Infringements of Intellectual Property Rights](#): It showed that the Observatory has become a hub of excellence on IP infringements, a main source of knowledge and best practice sharing in the EU and globally.

Public consultations in 2020

- on the Postal Services Directive 97/67/EC;
- on reconfigurable radio systems,
- on the Electromagnetic Compatibility Directive 2014/30/EU,
- on the new Regulation on road circulation requirements for mobile machinery, and
- on developing Euro 7 emission standards for cars vans lorries and buses.

Enforcement actions

The transposition deadline for the Directive on a proportionality assessment for professional regulation of professions was 30 July 2020. On 8 October 2020, the Commission sent letters of formal notice for the non-communication of transposition measures to 18 Member States.

In May 2020, DG GROW prepared a [Report on the Implementation of a Revised Professional Qualifications Directive](#) and an accompanying [Staff Working Document](#). The report covered all key elements of the 2013 modernisation and drew first conclusions on the implementation of the Directive and the areas that merit further work..

Outreach

In 2020, the European Industry Days did not take place due to Covid. The EU stand at the Hannover industrial fair was also cancelled and replaced by presentation on industrial recovery, as well as the digital and green transition. The budget for the campaign on health benefits of cosmetics was committed and the campaign will be carried out in 2021.

The annual SME Assembly was held on 16 and 17 November 2020, with the support of the German Presidency, in its first-ever fully online and virtual format. The European Enterprise Promotion Awards were awarded during the Assembly.

The Eurobarometer on SMEs, start-ups, scale-ups and entrepreneurship was published in September 2020. The results supported the importance of the new SME Strategy in contributing to economic recovery in Europe.



Specific objective 2: More European SMEs have access to cross-border business by digital means

New initiatives

Enhancing the competitiveness of SMEs (COSME)

DG GROW is in charge of the Programme for the Competitiveness of Enterprises and Small and Medium-sized Enterprises (COSME) running in the period 2014-2020. In its final year, COSME continued to provide access to finance and to markets for SMEs, to create better framework conditions for competitiveness and to encourage entrepreneurship in Europe.

Until September 2020, the Loan Guarantee Facility under the COSME Financial Instruments allowed more than 600 000 SMEs to receive more than EUR 35 billion financial support in the period 2014-2020.

Around 225 000 SMEs received support from the Enterprise Europe Network services in 2020, with specific actions initiated to help SMEs overcome the Covid crisis.

The exchange programme Erasmus for Young Entrepreneurs (EYE) has been hit hard by the Covid-19 crisis. Specific measures to allow for remote exchanges within EYE kept the programme running even at a slower pace compared to previous years.

For the 2021-2027 period the access to finance support for SMEs will be continued under the SME window of the new InvestEU programme in the form of debt and equity. Other COSME key activities through grants and contracts, such as actions supporting clusters and facilitating industrial transition, will continue under the SME objective of the Single Market Programme.

Implementing the SME Strategy

On 10 March 2020, the Commission adopted the [SME Strategy](#), for which DG GROW was in the lead. The aim of the strategy is to make it easier for SMEs to operate, scale up and expand, but also to be competitive, resilient, and sustainable. It calls for actions to open up the opportunities of the digitalisation for SMEs. It also pleads for a stronger enforcement of the Late Payment Directive and for a change of the late payment culture in commercial transactions. To react immediately to the Covid-19 crisis, supporting businesses' resilience emerged as a new key pillar of the strategy.

In 2020, the efforts of DG GROW focused on reducing burden and obstacles to SMEs operating cross-borders. For example, a call was launched for pioneer partnerships among border regions to enhance cooperation in enforcing the Single Market and removing administrative barriers. The Enterprise Europe Network started building up capacities for their Sustainability Advisors to be put in place in the next long-term EU budget.

The strategy is a main support tool for SMEs not only during the crisis, but also during the recovery. The SME Strategy is implemented in line with the Industrial Strategy, looking at the specific needs of key industrial ecosystems. The Commission encourages Member States to use part of their allocations under the Recovery and Resilience Facility to support SMEs, which should figure prominently in their national Recovery and Resilience Plans.

Scaling-up

[ESCALAR](#) (the European action for Scale-up Risk capital) is a new investment approach developed together with the European Investment Fund (EIF) to support venture capital and growth financing funds. ESCALAR invests in high-potential companies enabling them to scale up in Europe and help reinforce Europe's economic and technological sovereignty.



The pilot scheme, financed under the European Fund for Strategic Investments (EFSI), provided up to EUR 300 million to increase the investment capacity of venture capital and private equity funds, triggering investments of up to EUR 1.2 billion. This initiative took an even greater relevance as the COVID crisis further deepened the financing needs of scale-ups. ESCALAR will help Europe stay at the forefront of global technological developments.

Between March and July 2020, managers of venture capital funds interested in boosting the availability of funding for scaling up their portfolio companies had the possibility to apply in an open call for expression of interest. A high number of applications was received and after due diligence, the EIF's Board approved the first investments.

Using standards for the transition

Adopted in December 2020, the priorities for [European standardisation for 2021](#) focus on developing standards in support of the twin transition towards climate neutrality and digital leadership and on strengthening the recovery and resilience of European industry.

Access to cross-border markets for SMEs

The portal 'Tenders Electronic Daily' ([TED](#)) gives firms access to EU-wide business opportunities in public procurement electronically. In 2020, TED offered ca. 785 000 calls for the provision of works, goods and services to governmental bodies across the EU-27 plus UK. Online access to such information is important for SMEs seeking to establish their presence in the procurement markets (in 2017 they won 65% of procurement contracts), especially in the cross-border context offered by TED. Also, the DG released [ProcurCompEU](#), a new tool to support the professionalisation in public procurement and a [study](#) on outstanding obstacles to the participation of SMEs in public procurement.

Evaluations and fitness checks

Evaluation of the SME definition: The evaluation showed that the current criteria adequately cover the target group and thus do not indicate an urgent need for a revision of the definition. In response to issues raised in the evaluation, the Commission will (i) analyse ways to provide further guidance and clarifications, (ii) increase the promotion of existing tools, and (iii) optimise current initiatives for assessing the SME status.

Enforcement actions

To mitigate the Covid-19 crisis, Member States need support in enforcing the Late Payment Directive speeding up payments to SMEs in urgent need of liquidity by setting up monitoring and better enforcement tools. In November 2020, Commissioner Breton announced the launch of the virtual EU Observatory of Payment Performance in commercial transactions. Work started to take stock of the existing data sources and to set up a pilot project focusing on the construction sector.

Outreach

Due to Covid-19, the European SME week and SME assembly took place online in November 2020, with ca. 1200 participants, doubling the number of the previous European SME week. Nevertheless, the number of national events was lower than 2019 (ca. 100).

With the objective to promote the 'Tenders Electronic Daily' portal to SMEs, especially important in the context of the recovery from the Covid crisis, DG GROW launched an online campaign targeted to SMEs that brought more than 1,800,000 visits to the web portal.



Specific objective 3: More business opportunities are generated by trading in the Single Market

New initiatives

Recovering from Covid-19

Tourism and transport are among the most affected ecosystems by the Covid-19 pandemic. In May 2020, DG GROW was instrumental in preparing recommendations to help Member States gradually lift travel restrictions, restore transport services and allow tourism businesses to reopen after months of lockdown, while respecting health precautions. Guidance for health protocols in hospitality establishments published in May was used as a basis for further work with Member States and industry for introducing health and hygiene measures for tourism services providers across the EU.

Together with the Commission's Joint Research Centre, DG GROW launched the online application [ReopenEU](#) in June 2020 with practical information on travel restrictions in Europe, public health and safety measures, as well as other information on EU and national tourism offers. More than 6 million visitors used the website in the first months. It allows Europeans to take responsible and well-informed decisions on how to manage risks related to coronavirus when planning their holidays.

The European Tourism Convention in October 2020, chaired at Commissioner level, attracted over 600 participants. It started a reflection among a broad range of stakeholders on the future of EU tourism, including its transition to more digital, greener and resilient models of operation. Under the COSME budget, a call for proposals to support innovation uptake and digitalisation in the tourism sector was published in November 2020.

In October, Commissioner Breton co-hosted the Roundtable on the pact for skills for the tourism ecosystem with industry and relevant stakeholders. The objective was to learn about their interest and provide top-level political momentum to the development of partnerships and thus lay the ground for a Pact on skills in tourism.

Improving the Single Market

With the new Single Market Programme (SMP) over EUR 4 billion will be invested in 2021-2027 on delivering a smoother functioning of the Single Market, more consumer trust in safe products and better knowledge about the Single Market to increase its economic benefits. It brings together six predecessor programmes from seven DGs, notably COSME, consumer protection, consumers and end-users in financial services, emergency measures along the food chain, European statistics, and specific activities in the field of financial reporting and auditing. Formal adoption through Council and Parliament should take place in Q2 2021. DG GROW is leading the negotiations with the co-legislator and is tasked with the coordination of the programme implementation through its SMP Secretariat.

Accessing international markets

The United Kingdom left the EU on 1 February 2020 upon entry into force of the Withdrawal Agreement, and the Single Market on 31 December 2020 at the end of the transition period. DG GROW updated the information for the stakeholders on how to cope with the consequences of the withdrawal.

DG GROW participated in the negotiations for a new partnership with the UK covering issues, such as free trade of goods and services, intellectual property rights, government procurement and SMEs. The [EU-UK Trade and Cooperation Agreement](#) has provisionally applied since 1 January 2021, pending completion of the ratification process. DG GROW was involved in the implementation of the [Protocol on Ireland and Northern Ireland](#), especially as regards the goods acquis under its remit. The goal is to achieve an effective implementation of the Protocol in close coordination with the UK.

In 2020, DG GROW contributed to meet the general objectives of the Technical Barriers to Trade (TBT) Committee in the World Trade Organisation. The TBT Agreement obliges States to notify each other of proposed technical barriers to trade giving States the opportunity to raise their concerns before the measures come into force. In 2020, DG GROW processed 1937 drafts on behalf of the Commission. The DG was in the lead to prepare the EU notifications, plus 75 comments by the EU to notifications from other TBT members and 45 reactions from the EU to comments from third countries on EU notifications.

DG GROW participated in the negotiations and implementation of Free Trade Agreements. The DG was involved in the negotiations with the UK, Indonesia, Australia, New Zealand, Chile and also with China for the Investment Agreement. Enterprise Europe Network helped SMEs find business opportunities in 41 countries outside the EU with a focus on neighbouring countries and third countries with which free trade or economic partnership agreements were signed. In 2020, this resulted in about 200 signed partnership agreements between SMEs in the EU and third countries.



DG GROW was involved in high-level policy meetings with China, Japan, the Republic of Korea and Taiwan, as well as in defining areas of cooperation with the US. Regulatory cooperation with Canada was enhanced under the Comprehensive Economic and Trade Agreement (CETA), namely in the context of the Regulatory Cooperation Forum. The DG was

involved in the enlargement process, while cooperating with the Eastern and Southern Neighbourhood. DG GROW assisted the EU-Africa Partnership and developed EU Economic Diplomacy by liaising with EU Chambers of Commerce and business stakeholders.

DG GROW chaired the 14th cycle of the International Cooperation on Cosmetics Regulation, and organised the annual (virtual) meeting with a record participation of 14 jurisdictions (both regulators and industry).

DG GROW provided expertise in screening foreign direct investments and in Trade Defence Instruments.

Regulatory simplification and burden reduction, evaluations and fitness checks

[Review of the geo-blocking regulation](#): The joint DG CNECT-GROW report of November 2020 concluded that a number of important geo-blocking obstacles in the Single Market have diminished (e.g. registration on websites), but some barriers remain.

Outreach

The EU Open for Business campaign generated contacts and results despite the pandemic. The first ever online Info Days attracted 321 unique participants from five target countries (Belgium, the Netherlands, Luxembourg, Malta and Slovakia), which is more in comparison to the traditional physical events from previous years. In addition, there were 173 589 total visits to the campaign hub. The Enterprise Europe Network partners reported increased calls, emails and contacts following the Info Day in their respective country. An increase in the social media followers and web visits was also recorded.

Four online workshops were organised in the context of the Single Market Forum. However, the Single Market Forum closing conference did not take place due to Covid and only some national workshops took place before the lockdown.



Specific objective 4: Promote compliance with EU Single Market rules and enforce them

New initiatives

Identifying barriers in the Single Market

Making markets work better for consumers and businesses is essential in making Europe fit for the digital age. The proper enforcement of EU laws is key to this objective. The [Single Market Barriers Report](#) of 10 March 2020 showed that barriers still exist in many cases. They derive from incorrect or incomplete application of EU legislation at national level.

The Single Market Transparency Directive gave support to 895 notifications of draft technical regulations regarding goods and information society services in 2020. Out of those, more than 150 notifications were related to national measures taken in the context of the Covid crisis. These notifications served to address an important number of potential barriers to the internal market in a preventive manner.

Enforcing EU law better

DG GROW presented on 10 March the [Single Market Enforcement Action Plan](#). The proposed actions aim at maximising the effectiveness and efficiency of compliance and enforcement of EU laws across the EU. DG GROW started to implement this action plan in 2020. The DG (i) provided better access to information on Single Market rights and obligations for citizens and businesses through Your Europe, now upgraded to become the EU's 'Single Digital Gateway' (ii) supported capacity building of national administrations, (iii) improved ex ante assessments of restrictive regulation under the Proportionality Test Directive and continued preventing new barriers to services in the Single Market.

Keeping the Single Market open for services

The Commission in its 2021 Commission Work Programme announced its intention to withdraw its legislative proposal for Services Notifications Directive due to the lack of progress in the negotiations of the legislative proposal (suspended by Council in December 2018) and the lack of any prospect of these negotiations being re-initiated in Council. During 2020, the Commission focused on improving the implementation of the existing services notification procedures provided for in the Services Directive.

In August 2020, DG GROW published a User Guide on the Professional Qualifications Directive for citizens and businesses explaining the applicable rules.

Enforcement actions in 2020

The [Your Europe](#) portal informs citizens and businesses about their rights and obligations in the Single Market. Promotion of Your Europe continued in 2020 primarily via search engine optimisation, targeted advertising and social media. This contributed to maintaining a relatively stable number of visits to the portal in a year that was marked by plummeting interest in content on mobility (32.7m compared to 35.9m in 2019). The travel section was however down 20%. Visits to business content, on the other hand, grew by 6.5%.

The Your Europe portal was upgraded at the end of 2020 to become the EU's Single Digital Gateway, providing access to information and services also by Member States. By the end of 2020, about 3000 National administrative pages in the national and English language were notified to be accessible from 'Your Europe'. National administrations were encouraged to use those pages for providing information about the EU's recovery.

The [Your Europe Business](#) (YEB) portal provides specific information for enterprises looking for business in the Single Market. In 2020, it registered 8.2 million visits, marking an increase of 6.5% against the previous period. The 2020 user satisfaction survey showed a satisfaction rate of 94% for YEB.

In 2020, DG GROW improved the Single Market IT systems for better enforcing EU law:

- The [Internal Market Information System](#) (IMI) is the default tool for administrative cooperation in the Single Market. IMI supports 17 policy areas and has over 36 000 registered users from ca. 13 000 public authorities EU-wide. In 2020, DG GROW

expanded its scope to new areas and helped replace legacy systems, e.g. for the Consumer Protection Cooperation Network.

- DG GROW made [SOLVIT](#) the default tool for dispute resolution in a cross-border context and used SOLVIT evidence to identify barriers in the Single Market.
- A Single Market obstacles tool was created by end 2020 to get a better picture of problems encountered by citizens and businesses.
- DG GROW extended the scope of the [Single Market Scoreboard 2.0](#) to identify Single Market barriers across sectors and monitor areas where recovery is most important.
- The Single Market Service Centre continued to provide services of direct benefit to citizens and businesses ensuring that the Single Market works well in practice.
- The [Your Europe Advice](#) service provided free of charge advice to citizens and businesses on their EU rights in the Single Market.

Outreach

With the launch of the Single Digital Gateway, DG GROW started a promotion campaign at the end of 2020 to further promote 'Your Europe' and establish more firmly its brand. The campaign will run throughout 2021.

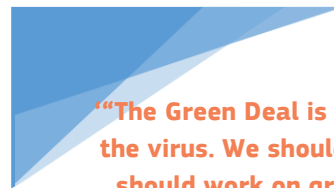
Priority 2 - A European Green Deal



Specific objective 1: Increase the share of material recovered, recycled and fed back into the economy

New initiatives

Boosting the circular economy

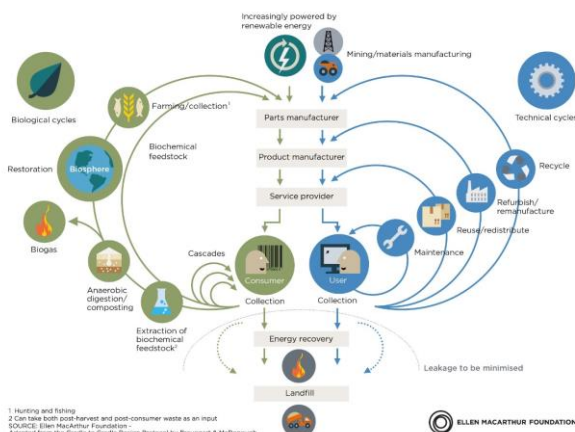


“The Green Deal is not over despite the virus. We should deliver and we should work on greener solutions”

Commissioner Thierry Breton

Both industrial and circular economy strategies were adopted in March. This demonstrates the close interlinkages among both initiatives. DG GROW contributed to the new [Circular Economy Action Plan](#), adopted by the Commission on 11 March 2020, particularly to advance in the circular economy for plastics and other materials and products,.

CIRCULAR ECONOMY - an industrial system that is restorative by design



1 Hunting and fishing
2 Can take both post-harvest and post-consumer waste as an input
SOURCE: Ellen MacArthur Foundation
Adapted from the Cradle to Cradle Design Protocol by Braungart & McDonough



As part of this Action Plan, DG GROW launched a study in March 2020 to prepare the Ecodesign and Energy Labelling Working Plan 2020-2024. This Plan will scope out the measures on the legal obligations to revise Regulations on existing product groups and to explore new product groups and initiatives on increasing energy efficiency, reducing resource use and increasing material efficiency.

The Circular Plastics Alliance was established by the Commission in 2018. By 2020, it gathered 266 organisations representing industry,

academia and public authorities covering the whole plastics value chains. It aims to boost the EU market for recycled plastics to 10 million tonnes by 2025 through voluntary action. By November 2020, the Alliance had delivered its first actions. It produced a work plan; a report on collected and sorted plastic waste in the EU and an R&D agenda for circular plastics. The first general assembly of the signatories took place in December 2020.

Making mobility sustainable and smart

To contribute to this specific objective, other mobility-related issues and the objective of increasing sustainability of tourism and travelling, DG GROW worked with DG MOVE on a [Strategy for Sustainable and Smart Mobility](#), which was adopted by the Commission in December 2020.

In this context, the Battery Alliance supports low- and zero-emission mobility through developing a competitive, sustainable and complete battery value chain in Europe. In^h December 2020, the Commission adopted a proposal for a new [Regulation on Batteries](#) prepared jointly by DGs GROW and ENV. This proposal means that future batteries will be long-lasting and safe while being produced with the lowest possible environmental impact, using materials obtained in full respect of human rights, social and ecological standards.

DG GROW has led the work on the Alliance for Batteries, Technology, Training and Skills ([ALBATTIS](#)) project to establish a long-term strategy for identifying and meeting the skill needs for Europe's emerging battery sector. This complements the existing [DRIVES](#) project on automotive skills. 2020 also saw the completion of the GROW-funded project addressing the specific up/reskilling needs of SMEs.

Keeping chemicals safe and competitive

DGs ENV and GROW worked together on the [Chemicals Strategy for Sustainability](#) which was adopted in October 2020. The Strategy will help to better protect people and the environment against hazardous chemicals and ensure that innovation for safe and sustainable alternatives is encouraged in a way that boosts the global competitiveness of the EU chemical industry.

In 2020, work continued on the implementation of the Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH) Regulation. Nineteen authorisations and three restrictions were adopted under REACH. One of the restrictions concerns the use of tattoo and permanent make up inks. Authorisations and restrictions are based on scientific advice from the regulatory agency ECHA (European Chemicals Agency).

According to ECHA's [study](#) on the impacts of REACH authorisations published in January 2021, the authorisation requirement has pushed companies to move away from using substances of very high concern (SVHC). Even where the use of some chemicals was authorised, use volumes have reduced by 97% at the review stage. This indicates that uses of such chemicals have been extensively replaced.

Evaluations and fitness checks

[Evaluation of the Regulations on drug precursors](#): The joint evaluation of DGs TAXUD and GROW of November 2020 showed that action, in particular on designer drug precursors, is necessary. The Commission will consider a revision of the Regulations and the provisions on the constituent elements of criminal acts and penalties of illicit drug trafficking.

Public consultations in 2020

- on the revision of the Construction Products Regulation; and
- on post Euro 6/VI to prepare more stringent air pollutant emission standards.

Outreach

Due to Covid, the Raw Materials Week was cancelled. The 15th Annual Conference of the European Partnership for Alternatives to Animal Testing in November 2020 was followed by a record number of 225 participants, mainly from EU countries, but also from India, Brazil, Uruguay, Australia, Canada and the US.

2. Modern and efficient administration and internal control

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

The first subsection reports the control results and other relevant information that supports management's assurance on the achievement of the financial management and internal control objectives¹. It includes the information necessary to establish that the available evidence is reliable, complete and comprehensive. It covers all activities, programmes and management modes relevant to the DG.

The second subsection deals with the other aspects for a modern and efficient administration: human resources, better regulation principles, information management and external communication.

2.1 Financial management and internal control

Assurance is provided on the basis of an objective examination of evidence of the effectiveness of risk management, control and governance processes.

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

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

¹ Art 36.2 FR: a) effectiveness, efficiency and economy of operations; b) reliability of reporting; c) safeguarding of assets and information; d) prevention, detection, correction and follow-up of fraud and irregularities; and e) adequate management of risks relating to the legality and regularity of underlying transactions, taking into account the multiannual character of programmes as well as the nature of the payments

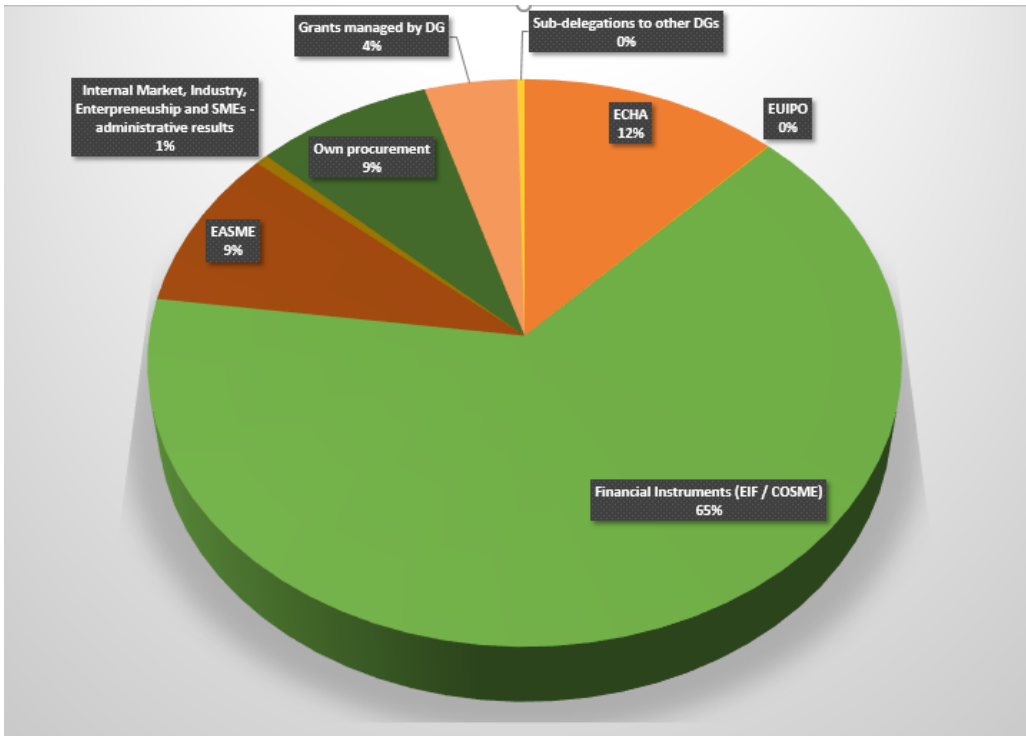
These reports result from a systematic analysis of the evidence available. This approach provides sufficient guarantees as to the completeness and reliability of the information reported and results in a complete coverage of the budget delegated to the Director-General of DG GROW.

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

2.1.1 Control results

This section reports and assesses the elements identified by DG GROW management, which support the assurance on the achievement of the internal control objectives². The DG's assurance building and materiality criteria are outlined in AAR Annex 5. Annex 6 outlines the main risks together with the control processes to mitigate them and the indicators used to measure the performance of the relevant control systems.

DG GROW transactions are carried out under both direct and indirect management modes. The following chart gives an overview of the types of payments made in 2020³.



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

³ This chart represents the outturn on payment appropriations made in 2020, i.e. EUR 536 million, including the administrative expenditure and expenditure under cross-delegation executed by other DGs. The reader is referred to Annex 3 for more details.

DG GROW implements its own budget through procurements and grants.

Activity		Entrusted Entity	Payments 2020	% of Total DG GROW Payments 2020	Main ICO Indicator
Direct Management	Grants	EASME	49,240,804	9.19%	Time to pay; Time to grant; Overall cost of Control; No Olaf Cases; Clean opinion on accounts
		Other	23,277,921	4.35%	
	Procurement		44,853,351	8.38%	
Indirect Management		ECHA	65,287,548	12.19%	
	Financial instruments	EIF	347,529,012	64.89%	
		EUIPO	200,000	0.04%	
Administrative Expenses			3,260,542	0.61%	
Other	Subdelegations		1,895,287	0.35%	
Total			535,544,464	100%	

The 2018 Financial Regulation introduced some additional AAR reporting requirements. In that respect, DG GROW does not have to disclose any case of financing not linked to costs (Financial Regulation (FR) art 125.3⁴), nor any cases of flat rates >7% for indirect costs decided by Commission Decisions (FR art 181.6⁵) or cases of derogations from the principle of non-retroactivity for grants (FR art 193.2). The cases of ‘confirmation of instructions’ (FR art 92.3⁶) are listed in the DG GROW register of exceptions and non-compliance events. There are no signed Financial Framework Partnerships >4 years (FR art 130.4) at DG GROW for 2020, hence Annex 3 table 15 is not filled in.

Cost-effective controls are those, which are effective to fulfil the intended control objectives in an efficient manner and at a reasonable cost. In order to decide whether controls are cost-effective, it is necessary to assess their effectiveness, efficiency and economy. This sub-part is structured around these three concepts.

1. **Effectiveness = the control results and benefits**

In order to be considered effective, controls are expected to meet the internal control objectives and for each of those control objectives result in benefits.

- **Legality and regularity of the transactions**

DG GROW is using internal control processes to ensure the adequate management of the risks relating to the legality and regularity of the underlying transactions it is responsible for, taking into account the multiannual character of programmes and the nature of the

⁴ The authorising officer responsible shall report on financing not linked to costs pursuant to points (a) and (f) of the first subparagraph of paragraph 1 of this Article in the annual activity report referred to in Article 74(9).

⁵ The authorising officer responsible may authorise or impose, in the form of flat-rates, funding of the beneficiary’s indirect costs up to a maximum of 7 % of total eligible direct costs for the action. A higher flat rate may be authorised by a reasoned Commission decision. The authorising officer responsible shall report in the annual activity report referred to in Article 74(9) on any such decision taken, the flat rate authorised and the reasons leading to that decision.

⁶ An authorising officer by delegation or sub-delegation who receives a binding instruction which he or she considers to be irregular or contrary to the principle of sound financial management, in particular because the instruction cannot be carried out with the resources allocated to him or her, shall inform the authority from which he or she received the delegation or subdelegation about that fact in writing. If the instruction is confirmed in writing and that confirmation is received in good time and is sufficiently clear, in that it refers explicitly to the points which the authorising officer by delegation or subdelegation has challenged, the authorising officer by delegation or subdelegation shall not be held liable. He or she shall carry out the instruction, unless it is manifestly illegal or constitutes a breach of the relevant safety standards. The same procedure shall apply in cases where an authorising officer considers that a decision, which is his or her responsibility to take, is irregular or contrary to the principle of sound financial management or where an authorising officer learns, in the course of acting on a binding instruction, that the circumstances of the case could give rise to such a situation. Any instructions confirmed in the circumstances referred to in this paragraph shall be recorded by the authorising officer by delegation responsible and mentioned in his or her annual activity report.

payments concerned. The control objective is to ensure that the residual error rate or the risk of error does not exceed 2 % cumulatively by the end of the programme implementation or annually, depending from the distinct control system, as determined in the materiality criteria in Annex 5. DG GROW's portfolio consists of segments with a low error rate, all below materiality. This is, respectively, thanks to the inherent risk profile of the DG GROW programmes and the performance of the related control systems. For the 2020 reporting year, no serious control issues were signalled by the operational units. From the monitoring and supervision work done, which includes regular contacts and monitoring of relevant management reports and audit reports, there are no indications that their reporting would not be reliable.

In 2020, DG GROW updated its control strategy⁷ - the aim of this update was to review the the existing monitoring and controls in place and amend them where needed, especially due to the transfer of Space and Defense Programmes to DG DEFIS, as of 1.1.2020.

Regarding the EU funds managed directly by the Directorate-General via grants and procurement (including the administrative related expenditures), there were no major control weaknesses affecting assurance (no reservation for 2020).

The DG GROW's relevant expenditure, estimated overall risk at payment, estimated future corrections and risk at closure are disclosed in Table "Estimated risk at closure". The estimated overall amount at risk at payment for 2020 expenditure is EUR 2.71 million. This is the AOD's best, conservative estimation of the amount of *expenditure* which could be not in conformity with the contractual and regulatory provisions applicable in 2020. This estimated amount diminished significantly compared to the previous years because of the transfer of the Space programmes to DG DEFIS and because no more risk payment was done in 2020 on the legacy programme CIP.

DG GROW expenditure will be subject to ex-post controls and a proportion of the underlying errors will be detected and corrected in successive years. The conservatively estimated future corrections for 2020 expenditure amount to EUR 2.65 million. This estimation of errors is supposed to be corrected by controls and audits planned to be carried out in subsequent years. The difference between those two amounts leads to the estimated overall risk at closure for the 2020 expenditure of EUR 65 000.

The calculation method of the error rate on the standardisation grants has been reviewed for 2020 based on the recommendation of the Court of Auditors. The new methodology applied takes into account the audited items and is no more based on the total expenditure (as it used to be). This results in an overall error rate of 0,85% for the standardisation grants.

In the context of the protection of the EU budget, the DGs' estimated overall risk at payment, estimated future corrections and risk at closure are consolidated at Commission level in the AMPR. The table on the following page shows the estimated overall amount at risk.

⁷ [Ares\(2020\)7726984](#), of 18/12/2020

Table X - Estimated risk at closure

2020	Program	Entrusted Entity	Scope: Payments made in 2020	New Prefinancings [a]	Clearing pre-financing [b]	Relevant expenditure [c]	Average Error rate (range in % [d]	Estimated overall amount at risk at payment	Average Recoveries and Corrections [e]	Estimated future corrections	Estimated overall amount at risk at closure [f]	Percentages
			As per AAR annex 3 and ABAC DWH BO reports	As per ABAC DWH BO reports	As per ABAC DWH BO reports	(2)-(3)+(4)	Detected or estimated	(range in C) = (5) x (6)		(5)x (8)	(7)-(9)	
			(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Administrative credits	DG GROW ADMIN		3.260.542	0		3.260.541,66	0,50%	16.302,71	0,50%	16.302,71	0,00	0,61%
Own Procurement	Own procurement		44.853.351	2.220.534	2.165.999	44.798.816,61	0,50%	223.994,08	0,50%	223.994,08	0,00	8,38%
Grants	Standardisation		18.886.411	10.126.556	9.984.565	18.744.419,91	0,85%	159.327,57	0,50%	93.722,10	65.605	3,53%
	Other grants	Other[1]	4.391.510	2.305.632	3.482.791	5.568.669,39	0,50%	27.843,35	0,50%	27.843,35	0,00	0,82%
Contributions	Decentralized Agencies	ECHA	65.287.548	65.287.548	59.598.873	59.598.872,59	0,50%	297.994,36	0,50%	297.994,36	0,00	12,19%
	Executive Agency	EASME	49.240.804	49.240.804	47.942.386	47.942.386,19	0,50%	239.711,93	0,50%	239.711,93	0,00	9,19%
Specialised Union body	COSME	EIF	347.529.012			347.529.012,44	0,50%	1.737.645,06	0,50%	1.737.645,06	0,00	64,89%
		EUIPO	200.000	200.000,00		0,00	0,50%	0,00	0,50%	0,00	0,00	0,04%
Other	Sub-delegations	Sub-delegations to other DGs	1.895.287			1.895.287,21	0,50%	9.476,44	0,50%	9.476,44	0,00	0,35%
Total			535.544.464	129.381.072	123.174.614	529.338.006	0,512%	2.712.295	0,500%	2.646.690	65.605	100%
Contributions to EAs		EASME	49.240.804	49.240.804	47.942.386	47.942.386,19	0,50%	239.711,93	0,50%	239.711,93	0,00	
DG GROW Net Total			486.303.660	80.140.268	75.232.228	481.395.620	0,514%	2.472.584	0,500%	2.406.978	65.605	

Notes to the table X

(1) differentiated for the relevant portfolio segments at a level which is lower than the DG total

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

(3) New pre-financing actually paid by out the department itself during the financial year (i.e. excluding any pre-financing received as a transfer from another department). "Pre-financing" is covered as in the context of note 2.5.1 to the Commission annual accounts (i.e. excluding "Other advances to Member States" (note 2.5.2) which is covered on a purely payment-made basis). "Pre-financing paid/cleared" are always covered by the Delegated DGs, even for Cross-SubDelegations.

(4) Pre-financing actually cleared during the financial year (i.e. their 'delta' in the Financial Year 'actuals', not their 'cut-off' based estimated 'consumption').

(5) For the purpose of equivalence with the ECA's scope of the EC funds with potential exposure to legality & regularity errors (see the ECA's Annual Report methodological Annex 1.1), our concept of "relevant expenditure" includes the payments made, subtracts the new pre-financing paid out, and adds the previous pre-financing actually cleared in 2020. This is a separate and 'hybrid' concept, intentionally combining elements from the budgetary accounting and from the general ledger accounting.

(6) In order to calculate the weighted Average Error Rate (AER) for the total relevant expenditure in the reporting year, the detected error rates have been used – or an equivalent (for multiannual programs like standardisation, the cumulative error rate has been used).

For low-risk types of expenditure, where there are indications that the equivalent error rate might be close to 'zero' (e.g. administrative expenditure, operating subsidies to agencies), it is nevertheless recommended that 0.5% be used as a conservative estimate.

(8) The historic average of recoveries and financial corrections (ARC) received from the central services is 0.38%. However, even though to some extent based on the 7 years historic Average of Recoveries and financial Corrections (ARC), which is the best available indication of the corrective capacity of the ex-post control systems implemented by the DG over the past years, the AOD has adjusted this historic average from 0.38% to 0.5% as a conservative approach. Any ex-ante elements, one-off events, (partially) cancelled or waived Recovery Orders, and other factors from the past years that would no longer be relevant for current programmes (e.g. higher ex-post corrections of previously higher errors in earlier generations of grant programmes, current programmes with entirely ex-ante control systems) have been adjusted in order to come to the best and most conservative estimate of the ex-post future corrections to be applied to the reporting year's relevant expenditure for the current programmes.

- **Fraud prevention, detection and correction**

DG GROW has developed and implemented its own anti-fraud strategy since 2011, on the basis of the methodology provided by OLAF. It is updated every two years. It was last updated in December 2020. Its implementation is being monitored and reported to the management and all necessary actions have been implemented.

Since 2013, the fraud risk assessment is integrated in the annual risk assessment exercise. The updated Anti-Fraud Strategy has been advertised on DG GROW Intranet. It is an essential element in the development of a strong anti-fraud culture within the Directorate-General. DG GROW puts a strong emphasis on fraud prevention by encouraging proportionate and targeted preventive ex-ante controls.

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

DG GROW also contributes to the Commission anti-fraud strategy and follows up 100% of OLAF's *financial* recommendations. There is one OLAF case with financial recommendations, monitored closely by DG GROW services.

On a regular basis, DG GROW organises trainings for newcomers on ethics and anti-fraud. All information related to fraud risk management is published on DG GROW's Intranet and updated whenever needed.

The controls aimed at preventing and detecting fraud are similar to those intended to ensure the legality and regularity of the transactions. They are effective and no weakness has been identified in 2020.

To conclude, on the basis of the available information, DG GROW has reasonable assurance that the anti-fraud measures in place are overall effective.

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

Reliability of reporting

After the transfer of the Space activities to DG DEFIS as of 1.01.2020, 65% of the DG GROW budget concerns the management of the two financial instruments established under COSME: the Loan Guarantee Facility (LGF) and the Equity Facility for Growth (EFG). Both instruments are managed by the European Investment Fund (EIF). They are internally closely monitored based on the regular reporting provided by the EIF.

Based on the Declarations of Assurance on both financial instruments (to be finalised in March 2021) and the DG GROW verification process, DG GROW has a reasonable assurance in all material aspects that the EU funds transferred to EIF are used for the intended purposes, including regarding legality and regularity. This reasonable assurance will be further substantiated by an external auditor's opinion on the Financial Statements 2020.

Valuation and safeguarding of assets and information

Due to the transfer of the Space assets to DG DEFIS, there is a global impact in the accounts because no more asset appear in the DG GROW balance sheet at the end of 2020. The total amount of open prefinancings has been also much reduced.

As from 2020, from an accounting point of view, DG GROW is now becoming a “non-large” DG as from this year. The cut-off exercise of DG GROW will be performed by DG BUDG except for balancing subsidies to agencies (EASME and ECHA) and for the financing instruments (LGF-EFG).

Key DG indicators on control <u>effectiveness</u>	DG results for the reporting year
Value of errors detected in cost claims through targeted risk-based in-depth <i>ex ante</i> desk checks to EU contributions before being paid by the DG to beneficiaries.	€ 90,940
Percentage of the errors value detected in comparison to the total value of cost claimed by the beneficiaries	3.00%
Number of ex-post audits finalised in 2020:	1
Key DG indicators on control <u>effectiveness</u>	Multiannual Results
<u>€ value coverage:</u> Standardisation:	€ 44,3 million
<u>Error Rate:</u> Standardisation:	0.85 %

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

The overall detected error rate for 2020 amounts to 0.85%, which is below materiality. In 2019 the cumulative error rate on the standardisation program further to the audits performed was 0.87%. Since the error rate remained persistently low over the years, DG GROW decided to conduct one audit on request of the operational service.

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

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

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

DG results for the reporting year		
Key DG indicator on control <u>efficiency</u>	Grants	Procurements
Complaints received from unsuccessful economic providers	0	0
Number of new cases received by the Ombudsman in 2020 relating to grant / procurement procedures	4	
Number of legal proceedings initiated by contractors or economic providers against the Commission relating to grant / procurement procedures	0	0
Number of instances of overriding of controls in relation to grant / procurement procedures	0	0
Past due critical and/or very important audit recommendations	0	0
Average time to publication of selection results (days)		63.4
Coverage of first level ex ante controls		100 % of all commitments and payments
		100 % of all tender documents and evaluation reports
Coverage of second level ex ante controls		100 % of all tender documents and evaluation reports
Number of positive / suspensive / negative opinions issued on the launch and evaluation of procurement procedures	101/12/0	
Average time to grant (TTG) (days)	52.5	
Average time to pay (TTP) (days)	16.6	
Average time to inform applicants of the outcome of the evaluation of the application (TTI) (days)	88.4	
Average days of suspension (days)	38	
Percentage of payments suspended in comparison to all payments executed	10.1%	

DG GROW received in 2020 four Ombudsman cases. All of them were opened and closed within the year. No financial or reputational risk has been recorded.

Procurement

For DG GROW own procurements, the number of internal positive opinions issued on the launch and evaluation of procurement procedures is very high (82%) and is comparable to previous years (84% in 2019). The average time to publication decreased in 2020 (63.4 days compared to 86.6 days in 2019), which clearly shows an improvement in the procurement process efficiency. Such variance can be also linked to the change in DG GROW portfolio (no more complex space procurement files in 2020 since they were transferred to the newly created DG DEFIS).

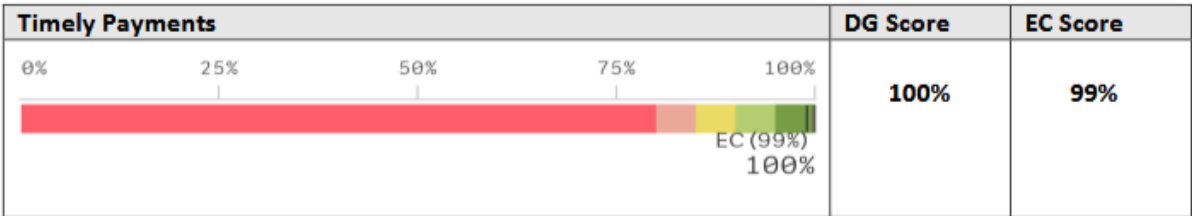
Additional factor that demonstrates the efficiency of the procurement process is that in 2020 there was no complaint received from unsuccessful economic operators.

Grants

DG GROW managed to improve both the Time-To-Grant (TTG) and the Time-To-Inform (TTI) in order to facilitate the allocation of funds to beneficiaries. The efficiency of overall financial management by DG GROW is enhanced even more by 100% of timely payments compared to the average of 99% in EC in total.

Though the Time-To-Pay (TTP) has increased slightly by 1,5 days due to Covid-19 crisis, the indicator of timely payments is enhanced even more by less suspension days of payments.

In 2020, 100% of DG GROW payments were made in due time, for all activities managed, in comparison to the EC result of 99%.



In the context of Synergies and Efficiencies, DG GROW continued in 2020 to promote corporate initiatives in financial management, such as eProcurement⁸ (where DG GROW is Business Process Owner of eSubmission and eEvaluation), eGrants, the use of the qualified electronic signature, as well as the tools used for the management of expert groups. Moreover, DG GROW was very involved in the development for a corporate EC multiannual programming and planning tool.

At the DG GROW level, the “GROW Light” workflow was one of these key measures to reduce the administrative burden with a simplified workflow for approval of all payments below EUR 5 000. Ex-post controls of sampled GrowLight transactions were performed in 2020, global results of these checks being very positive. This proves again efficient workflows for financial transactions in DG GROW are in place helping to achieve optimal results in the most efficient way.

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

3. Economy = the estimated cost of controls

Following the Commission central services’ guidance, the cost of the controls at Commission level is assessed by the cost of the different control stages. The overall

⁸ Since 2020, the use of PPMT (ePreparation) is compulsory at DG GROW to launch calls for tender above the Directive threshold (EUR 139.000).

assessment for each management mode is obtained from the ratio between all those costs and the total amount paid in the year for the related management mode and according to a corporate methodology⁹ for the estimation, assessment and reporting on the cost-effectiveness of controls.

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

The Full Time Equivalents (FTEs) used for the calculation have been delivered by the different Directorates of DG GROW.

Cost of control - direct management

The cost control for 2020 in direct management could be detailed as follows:

DG results for the reporting year - Direct management		
Common indicators on <u>cost of control</u>	Grants	Procurements
Percentage of overall cost of control of grant / procurement process in comparison to total expenditure executed during the year	12,13%	11,63%
Percentage of overall cost of control of grant / procurement process in comparison to total expenditure executed during the year - Ex Ante	12,02%	10,79%
Percentage of overall cost of control of grant / procurement process in comparison to total expenditure executed during the year - Ex Post	0,11%	0,84%
Overall cost of control (grant/procurement)	€ 2.824.542	€ 5.594.527
Overall cost of control (grant/procurement) - Ex Ante	€ 2.797.902	€ 5.192.555
Overall cost of control (grant/procurement) - Ex Post	€ 26.640	€ 401.972
Average number of ongoing contracts (grant/procurement) managed per full time equivalent	10,83	15,88
Percentage of costs of control related to the evaluation and selection procedure in comparison to the total value of grants / procurement contracted	5,96%	3,1%
Average value of ongoing grant / procurement agreements managed per full time equivalent	€ 15.169.065	€ 5.924.397
Average project management costs per ongoing grant / procurement agreement	€ 14.332	€ 7.704
Total Costs of ex post audits	€ 26.640	

In 2020, on average 16 on-going procurement contracts have been managed per FTE (vs 17 in 2019) while keeping the same level of controls to assure the quality of the delivered services/supply. In detail the total number of running procurement contracts for the year were 281 and they were managed by 17,70 FTEs.

The overall cost of procurement still remains above the average but it has increased from 10.26% in 2019 to 11.63% in 2020.

For the grants managed by DG GROW in 2020, the ex-ante and ex-post controls significantly reduced errors in the beneficiaries' cost claims.

The cost of control for the grants has increased compared to 2019 (12.13% for 2020 vs 8.31% for 2019). However, it is still comparable to 2018 levels of the cost of control at 11.52%.

⁹ [Ares\(2018\)4917637](#), of 25/09/2018

The slight increase in both grants and procurement cost of control is due to the combination of several factors:

- there were much more small procurement files but requiring de facto the same level of controls as large calls;
- the average number of files slightly decreased because of the transfer of the Space activities to DG DEFIS as of 1.1.2020;
- due to limitations caused by Covid-19, there were some delays in the signature of some contracts: end 2020, they were not yet awarded while most of the ex ante controls took place in 2020.

In summary, the level of control in direct management was cost-effective in 2020 for both procurement and grant processes despite a difficult environment caused by the Covid-19 pandemic.

Cost of control - indirect management

DG results for the reporting year - InDirect management		
Common indicators on <u>cost of control</u>	Entrusted Entities	EIF
Overall cost of control of supervision process	€ 152.903	€ 9.582.559
Percentage of overall cost of control of supervision process in comparison to the total <u>annual</u> amount delegated excluding any remuneration paid	0,31%	3,56%
Remuneration fees paid (to international organisations, agencies, EIF)	€ 0	€ 19.240.169
Percentage of cost of remuneration fees paid to entrusted entities in comparison to the total annual amount delegated excluding any remuneration paid	0,00%	7,16%
Percentage of costs of control related to the establishment or prolongation in comparison to the total annual amount delegated	0,13%	
Percentage of costs of control related to the reporting and subsequent monitoring of the execution in comparison to all payments executed		
Total cost of ex post audits		

DG GROW implemented all necessary controls at governance, technical, operational and financial levels to ensure that the technical and security requirements are fully respected. The cost of controls is highly outweighed by their benefits.

For EIF the overall cost of control percentage is very much comparable to the one from last year in slight increase (3,56% in 2020 vs 3.36% in 2019). This evolution is in alignment with the increase in EIF activities and hence higher remuneration fees than last year (EUR 16,4 million in 2019 compared to EUR 19,2 million in 2020).

Entrusted entities mainly involve the European Chemicals Agency (ECHA). The cost of control is very low in comparison to the total annual amount delegated to the entity (0.31%).

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

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

4. Conclusion on the cost-effectiveness of controls

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

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

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

The declaration of assurance (Section 2.1.5) includes no reservation for the expenditure categories or control systems concerned. Consequently, it is foreseen to maintain the current control strategy last updated in December 2020.

2.1.2 Audit observations and recommendations

This section sets out the observations, opinions and conclusions reported by auditors – including the limited conclusion of the Internal Auditor on the state of internal control. Summaries of the management measures taken in response to the audit recommendations are also included, together with an assessment of the likely material impact of the findings on the achievement of the internal control objectives, and therefore on management's assurance.

The Directorate-General is audited by both internal and external independent auditors: the Internal Audit Service (IAS) of the European Commission and the European Court of Auditors (ECA).

The Directorate-General has not received any critical recommendations arising from the IAS and ECA audits. The Director-General is informed on the conclusions and the main recommendations stemming from the work of the internal and external auditors. A regular monitoring, performed by the Unit R1 “Budget, Financial Management and Assurance” in 2020, ensures the timely implementation of all recommendations. An inventory of all open IAS and ECA recommendations¹⁰ at end 2020 is kept in DG GROW services and available at request.

¹⁰ [Ares\(2021\)2140212](#), of 26/3/2021

Internal Audit Service (IAS)

In 2020, the IAS finalised one audit assignment “*Audit on information technology security management in DG GROW*”. In 2020, the IAS launched the following audit assignment (no report nor recommendations received at end of the year): “*Performance of DG GROW's treatment of stakeholders' complaints concerning the internal market*”

All recommendations have been implemented and there are nine open recommendations for review by the IAS, all of them were ranked as “important”.

In its contribution¹¹ to the 2020 AAR process of DG GROW, IAS states that : 1/ Management has accepted all the recommendations issued in 2020; 2/ Management has adopted action plans to implement all the accepted recommendations. The IAS considers that these action plans are adequate to address the residual risks identified by the auditors; 3/ The implementation of these action plans is monitored through reports by management and follow-up audits by the IAS; 4/ Management has assessed a number of action plans as implemented, which have not yet been followed up by the IAS.

The IAS therefore concluded that the internal control systems in place for the audited processes are effective.

European Court of Auditors (ECA)

ECA's Annual Report 2019

The assessment of the legality and regularity of DG GROW transactions and the effectiveness of its supervisory and control systems, are treated in Chapter 4 of the Court's Annual Report - *Competitiveness for growth and jobs*, representing 13% of the total 2019 EU expenditure. As in previous years, research expenditure remains high-risk and is the main source of error. A total of 130 transactions have been audited (mainly Horizon 2020, FP7, CEF, Erasmus +), which produced an overall material level of of error of 4,0 % close to the error rates found in 2015, 2016 and 2017, but higher than the 2% found in 2018.

DG GROW was affected to the extent that one transaction (managed by REA within the delegated budget for Space research) has been audited by ECA and resulted in a high error rate ~ 7%. These activities are now within the remit of DG DEFIS. The Court recommends mainly to reinforce the ex-ante controls for the SMEs, namely to conduct more targeted checks on SMEs' cost claims and enhance its information campaign regarding Horizon 2020 funding rules, with particular focus on important beneficiaries and to further simplify the rules on personnel costs under the next Research Framework Programme (Horizon Europe).

ECA Statement of Assurance (DAS) 2019

The Court has sampled six transactions. Overall, ECA did not have any specific comments related to the transactions sampled in the frame of the Declaration of Assurance (DAS), except the transaction managed by REA described in the previous paragraph.

¹¹ IAS Contribution to the 2020 AAR process of DG GROW [Ares\(2021\)1222489](#), of 12/2/2021

Implementation of ECA recommendations

At end 2020, all recommendations from the ECA where DG GROW is the lead Directorate-General have been implemented or partially implemented. There are no very important recommendations open at the end of 2020.

ECA Special Reports

DG GROW was involved mainly in the following Special Reports published in 2020:

- ECA Audit on Capital Markets Union
- ECA Audit on Urban Mobility
- ECA Audit on Agencies Performance
- ECA Audit on Digitising European Industry

Apart from these Special Reports, DG GROW was audited in the frame of two reviews conducted by ECA as follows :

- The EU's initial contribution to the public health response to Covid-19
- Financial contributions from non-EU countries to the EU and Member States

On 31 December 2020, some ECA Special Reports (where DG GROW is involved) were still ongoing: performance audit on EU Support to Tourism, performance audit on SMEs Start ups and Scale ups, performance audit on EU support to SME Internationalisation, performance audit the Protection of Intellectual Property Rights in the Single Market, performance audit on the effectiveness of the ERDF support to SMEs, performance audit Energy Efficiency in Enterprises, audit “Does the Commission's management of external consultancy services ensure value for money”, review on Basic Digital Skills for Adults, review on Third country contributions, review on EU public health response to Covid-19.

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

2.1.3 Assessment of the effectiveness of internal control systems

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

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

DG GROW annually assesses the **effectiveness of its internal control systems**¹², including the internal control processes in place at the level of its implementing bodies in accordance with the methodology established in the "Implementation Guide of the Internal Control Framework of the Commission". The assessment relies on extensive monitoring throughout the reporting year, supported by various information sources such as: an assessment of the functioning of the components and principles of the internal control framework set up by the DG; an assessment of audit findings and the implementation of recommendations (both from IAS and ECA); a register of detected exceptions, non-compliance events and internal control weaknesses, identified both by the management and by auditors in their audit reports; management assurance declarations outlining the control environment and any control issue; and annual risk assessment.

The **functioning of the internal control systems** has closely been monitored throughout 2020 by the systematic registration of exceptions and non-compliances with the rules and procedures and of internal control weaknesses. The underlying causes behind these exceptions and weaknesses were analysed and mitigated if necessary. All related audit recommendations were either successfully implemented as reaffirmed by auditors in their follow-ups, are ready for review or are currently under implementation, mitigating any significant risks. Further enhancing the effectiveness of the DG GROW control arrangements in place by inter alia taking into account any control weaknesses reported and exceptions recorded is an on-going effort in line with the principle of continuous improvement of management procedures, while taking into account the cost-effectiveness and risk differentiation of controls.

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

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

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

For the achievement of its objectives, DG GROW also relies on executive and regulatory agencies, as well as on a close cooperation with various partners and international organisations. With the further externalisation of budget implementation, DG GROW

¹² "State of the internal control at DG GROW for 2020" [Ares\(2021\)1573179](#), of 2/03/2021

focuses more on policy making and supervision and less on direct project management. It is worth mentioning that DG GROW enhances, as a continuous effort, the management of the available resources so to ensure smooth achievement of objectives.

DG GROW has assessed its internal control systems during the reporting year and has concluded that it is effective and the components and principles are present and functioning as intended.

2.1.4 Conclusions on the assurance

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

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

DG GROW lifted its reservations on the legacy programmes FP7 and CIP (which were made the previous years) because there were no payments in 2020 for FP7 nor for CIP.

In 2020, DG GROW has managed its resources to the best effect for the intended purposes, in line with the Financial Regulation and according to the principles of sound financial management, legality and regularity.

The internal control systems in the DG are in place, and they function effectively to the extent that they enable the Director-General to give her assurance on the resources used. With the help of the internal control systems, weaknesses could be detected and corrected with relevant measures in place.

Overall Conclusion

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

2.1.5 Declaration of Assurance

I, the undersigned,

Director-General of DG GROW

In my capacity as authorising officer by delegation

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

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

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

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

Brussels., 31 March 2021

(e-signed)

Kerstin JORNA

2.2 Modern and efficient administration – other aspects

For more details on Human Resource management and for the results of the Human Resource Key Performance Indicators in 2020 for DG GROW see Annex 2:

2.2.1 Human resource management

Since summer 2020, DG GROW has been developing a collaborative Fit4Purpose exercise, based on the new ecosystem paradigm developed within DG GROW and in liaison with the other DGs under the responsibility of Commissioner Breton. The new paradigm has the aim to better align DG GROW policies with the priorities of this Commission. The results of the exercise is a new design of the organisational chart for DG GROW. The reorganisation of DG GROW will be implemented in Spring 2021, after extensive consultations with staff and managers to co-create the future design of DG GROW.

New organisational needs have emerged and will continue to emerge, such as new interlinkages between units and files. Consequently, DG GROW started an internal process – the Fit4Purpose exercise – to better understand the specific organisational adjustments needed to achieve its fitness for purpose during the recovery phase from the pandemic. Fit4Purpose has been a broad participatory exercise during which staff members were consulted to identify the fundamentals on which the new organisation should be based on.

As concerns internal communication, a number of actions were organised to increase staff engagement and the knowledge of the DG. Those actions helped staff to feel part of a community, share the the same values and culture and to develop their understanding of the political priorities.

2.2.2 Digital transformation and information management

Digital transformation

DG GROW's Digital Strategy was approved by the Commission IT Steering Committee on 28 January 2020. It identifies six priority areas for 2020 – 2024: data, digital skills, focus on end-users, synergies and efficiencies, security and privacy, as well as cross-DG cooperation. DG GROW's Digital Strategy is aligned to the corporate data, information and knowledge policy/DataStrategy@EC. The Digital Strategy is delivered through different instruments: The first one is the rolling implementation plan, which contains the actions and deliverables to implement the strategic and operational objectives of the Strategy. The second instrument is the annual IT investment plan, which is about the IT projects, operations and services. The third one is the contribution and participation to the Digital Solutions Modernisation Plan - the corporate instrument to deliver the Commission's Digital Strategy.

The Digital Strategy of DG GROW places the focus of the digital transformation on the power of data as a major enabler of better policy-making and enforcement. Secondly, the data revolution, and the new digital technologies, require a radical upgrade of skills. High priority is on building up digital skills and mindsets. Digitalisation is not an end in itself, it is a means to benefit EU citizens, businesses and competent authorities. Hence, the third priority area is the focus on end-users. Maximising net benefits for the end-user means better policy-making and more efficient provision of public services. This means public

administration with higher digital productivity, more creative cooperation in data and knowledge sharing as well as less hierarchy and bureaucracy. The data revolution, connected networks and sharing raises new cyber-security and privacy challenges to be tackled. IT governance and digital solutions have to enable co-creation between DGs. Finally, the strategy hinges crucially on the active involvement of the policy units.

Data protection

In 2020, the Data Protection Coordinator of DG GROW implemented and improved the actions and objectives of the DG's Personal Data Protection Action Plan, mainly by conducting awareness raising activities through emails, notes, bilateral and multilateral meetings, practical trainings and information sessions. As a result, units nominated contact points, deleted or unpublished unnecessary personal data, most of them followed trainings or information sessions, created or updated procedures, records and privacy statements.

The current data protection legislation allows international transfers of personal data in principle if the EU standards for the protection of the rights and freedoms of the data subject are guaranteed also after the transfer. The invalidation of the EU-U.S. Privacy Shield (the Schrems II judgement) poses concrete challenges for services transferring personal data to third countries or using international cloud services. DG GROW will continue to assess its processing activities in light of the requirements of the Schrems II ruling and will coordinate with Commission services and IT governance bodies, as well as the Data Protection Officer, to be able to draw from horizontal approaches to similar situations. DG GROW replied to a request from the European Data Protection Supervisor (EDPS) to all EU institutions to identify and map their international transfers and report certain categories of transfers and are awaiting the EDPS' reaction. The goal is to minimise the risks linked to ongoing and future international transfers of personal data, notably by informing all data subjects of the legal situation in which such transfers take place, in order for operations by the Commission services to comply with EU data protection law.

Document Management

2020 was a big challenge for the document management team. Despite a reduced team, the following additional tasks had to be completed: The reorganisation and split of DG GROW resulted in many file transfers and the creation of new virtual entities. The document management team was also responsible for the document management of the new DG DEFIS according to the Memorandum of Understanding between the two DGs.

2.2.3 Sound environmental management

A working group to propose and analyse practical measures, called 'Greening GROW Group' was established in 2020. The aim is to propose measures both at the corporate level and DG GROW specific. However, due to the priority set on responding to COVID-19, the DG was not in the position to identify an action to be launched in 2020.

2.2.4 Example of economy and efficiency

On 1 January 2020, a new Directorate-General for Defence Industry and Space (DG DEFIS) was created out of two Directorates and one Unit from DG GROW. In order to generate economies and efficiencies, a Memorandum of Understanding (MoU) was signed between

both DGs on the provision of resources services. In 2020, DG GROW provided services and advice to DG DEFIS in the following areas: budget, financial management and assurance, annual reporting and strategic planning, document management, communication, data protection, business continuity, logistics, decision making process, correspondence, international affairs, IT services and security. With the increasing resource capabilities in DG DEFIS, the provision of such services was continuously reduced during the year.