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Annual Management and Performance Report for the EU Budget

Volume II

Annexes

#EUBUDGET

FINANCIAL YEAR

2023

2023 INTEGRATED FINANCIAL AND ACCOUNTABILITY REPORTING

Budget

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Annex 1 – Performance achievements in 2023

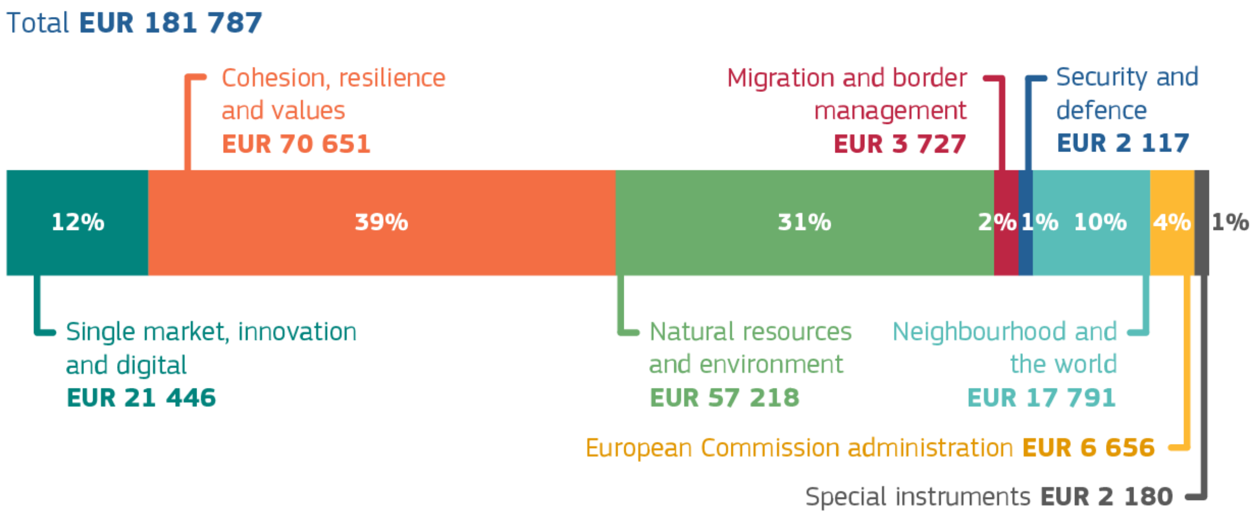
1. Performance of the EU budget

The EU budget is an essential tool to deliver on the EU's priorities. Through its programmes, the budget supports the EU's internal and external policies. It creates EU added value by delivering results that would not be achievable through uncoordinated national spending. EU programmes are tailored to unlock synergies, catalyse private and public funding and provide a coordinated boost to the political priorities of the von der Leyen Commission ([1]).

Budget implementation in 2023

In 2023, the EU's long-term budget (the multiannual financial framework) and NextGenerationEU continued to prove its capacity to act as the anchor of the EU's policy response to unforeseen challenges – such as Russia's war of aggression against Ukraine, the energy crisis, supply chain disruptions, unprecedented natural disasters and humanitarian crises – while at the same time remaining instrumental to the delivery of the Commission's priorities. To achieve this, EUR 182 billion of commitment appropriations was implemented in 2023 from the 2021-2027 EU budget to promote the EU's sustainability and prosperity, in particular by investing in a green and digital recovery. This will allow the EU social economy to become more resilient and strengthen job creation.

Multiannual financial framework: 2023 EU budget commitment appropriations by budget heading (million EUR)



Source: European Commission.

To address the current challenges and continue to drive economic recovery, the EU budget is boosted by the temporary instrument **NextGenerationEU**. The **Recovery and Resilience Facility** is the centrepiece of NextGenerationEU and provides funding to Member States to carry out investments and reforms. From 2021 to 2026, NextGenerationEU will provide **EUR 807 billion** ([2]) of funding across several programmes and priorities, with a strong focus on the green and digital transitions. **In 2023, EUR 238 billion of NextGenerationEU funds was allocated in commitment appropriations**, mainly through the Recovery and Resilience Facility.

(1) Ursula von der Leyen (n.d.), 'A Union that strives for more: My agenda for Europe', European Commission, Political guidelines for the next European Commission 2019-2024, https://commission.europa.eu/system/files/2020-04/political-guidelines-next-commission_en_0.pdf.

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

Monitoring performance

Through the use of the budget appropriations, the EU programmes continued to progress in achieving their key objectives and deliver value for all EU citizens. The progress towards the programme objectives is monitored notably by means of performance indicators.

The state of implementation varies across financial programmes. For a majority of programmes under shared management, such as the cohesion policy funds, it is still too early to make an assessment on the progress of the performance indicators towards reaching their targets, as the focus up to the end of 2023 was on finalising the overlapping 2014-2020 programmes. On the other hand, programmes under direct and indirect management are usually more advanced in the implementing cycle, and the results in 2023 already allow to make this assessment. For those indicators that can be assessed, the vast majority were considered to be on track to reach their targets by the end of the implementation of the programmes.

Breakdown of the 2021-2027 budget by progress of the underlying programmes.

The graph displays progress as measured by the share of the core performance indicators that are on track to meet their respective targets. It does not include indicators for which the results do not allow to make an assessment at this stage.
Source: European Commission.

During 2023, a large number of the EU programmes under the 2014-2020 budget continued to be implemented and to deliver results to EU citizens. A significant number of payments, totalling EUR 65.5 billion, were made in relation to these programmes during 2023. The majority of these payments were associated with the cohesion policy (including the European Regional Development Fund, the Cohesion Fund and the European Social Fund). The EU budget is fundamentally an investment-oriented budget, with a primary focus on generating long-term value for the EU. These programmes have continued to advance towards achieving their respective performance targets.

At the same time, it is vitally important that money spent actually addresses the challenges and delivers the expected results on the ground. The table below shows examples of results from the EU budget achieved under both the 2014-2020 and the 2021-2027 multiannual financial frameworks.

Examples of results achieved:

Climate ([3])

- **32 070 752 megawatt-hours of** estimated **energy efficiency savings per year** from private and public buildings by the InvestEU programme, the European Regional Development Fund 2014-2020 and the Recovery and Resilience Facility, in the period 2014-2023.
- **87 million tonnes of** estimated **carbon dioxide equivalent avoided per year, of which more than half through** the InvestEU programme, the LIFE programme, the European Regional Development Fund 2014-2020 and NextGenerationEU green bonds investments. Additionally, 442 million tonnes of carbon dioxide reduction are expected from the Innovation Fund (of which 232 million tonnes from projects signed in 2023) over their first 10 years of operations.
- **127 851 additional megawatts of** estimated **renewable energy installed** by the InvestEU programme, the European Regional Development Fund 2014-2020, the Cohesion policy funds 2021-2027 and the Recovery and Resilience Facility, in the period 2014-2023.

Digital

- **5.6 million additional homes with internet access** provided via very high-capacity networks by the Recovery and Resilience Facility by mid-2023.
- **3 000 terabits per second of additional capacity** were created by deployed backbone networks, including submarine cables, by the Connecting Europe Facility in 2023.

Employment

- **6.8 million people had found a job** (including being self-employed) thanks to the European Social Fund and youth employment initiative actions between 2014 and 2022.
- **370 000 jobs were directly created** in supported enterprises between 2014 and 2022 by the Cohesion Fund and the European Regional Development Fund.
- **10.3 million people had gained a qualification** thanks to the European Social Fund and youth employment initiative actions by the end of 2022.

The performance analysis in the next section of this Annex, '2. European Commission's priorities', describes how EU programmes have contributed to the political priorities of President von der Leyen. The third section of this Annex, '3. Horizontal policy priorities in the EU budget', provides information at the EU budget level on the financing of initiatives relating to climate, biodiversity, gender equality, digital transition and sustainable development goals ([4]). Lastly, Annex 4, 'Programme performance statements', provides a detailed analysis of the individual programmes and their performance, presented as a website to enhance reader friendliness.

([3]) Aggregated data of core performance indicators, reflecting estimated and expected impact from the EU budget project as from 2014.

([4]) As provided for in point 16(d–g) of the interinstitutional agreement for the 2021-2027 multiannual financial framework.

Performance embedded in the design of the programmes

The common provisions regulation for the 2021-2027 period includes a reinforced midterm review for the European Regional Development Fund, the European Social Fund Plus, the Cohesion Fund, the Just Transition Fund and the European Maritime, Fisheries and Aquaculture Fund. That review should provide a fully-fledged adjustment of programmes based on their performance, while also providing an opportunity to take account of new challenges and relevant country-specific recommendations issued in 2024. Member States may submit to the Commission by 31 March 2025 an amended partnership agreement, taking into account the outcome of the midterm review. The review should also consider whether there is insufficient progress towards reaching the climate contribution target at national level. Moreover, the Just Transition Fund regulation requires by 30 June 2025 a review of the implementation of the Just Transition Fund, which will form the basis of a report to the European Parliament and to the Council.

2023 also marked the move of the common agricultural policy towards a performance-based delivery model. One of the main novelties of the reformed common agricultural policy, which entered into force on 1 January 2023, has been the move towards single programming. The common agricultural policy strategic plans prepared by Member States and approved by the Commission have succeeded in bringing under one single umbrella funding for income support, rural development, and market measures. The new common agricultural policy has become more strategic: 10 specific objectives have been set at the EU level, while leaving Member States the choice of interventions to best fulfil them in their strategic plans. This has allowed the policy to move closer to a performance-based delivery model, whereby all interventions are planned *ex ante* and linked with output indicators.

Reinforcing the reliability of performance information

The Commission continuously works to further improve its **already robust processes for performance reporting**. In 2023, in response to internal and external audit recommendations, the Commission enhanced its control processes for the reliability of performance information on EU financial programmes. In particular, it developed **new guidance and specific requirements to be followed by the various Commission departments** to report on the results of their controls in their Annual Activity Reports for 2023 (which are an important source of information for this Annual Management and Performance Report). In the first year of implementation of this strengthened control approach, various layers of quality controls indicated that departments showed a **good follow-up to the new guidance and requirements**. They did not report any major shortcomings with regard to the reliability of the performance information for their respective financial programmes.

2. Priorities of the European Commission

A European Green Deal

The European Green Deal was born out of this necessity to protect our planet. But it was also designed as an opportunity to preserve our future prosperity.

Ursula von der Leyen

President of the European Commission

Towards net zero greenhouse gas emissions

The summer of 2023 was the hottest ever on record in Europe. Data from the EU's Earth observation programme Copernicus shows that March 2024 was the 10th month in a row to be the hottest on record ([5]). Many parts of the EU saw extreme weather, notably in the form of wildfires and floods.

The **European Green Deal** was born out of necessity to protect our planet. At the same time, it is also meant to preserve our prosperity, in particular by giving a clear sense of direction for investment and innovation and by making modernisation and decarbonisation go hand in hand. **The green transition is a key part of EU policy and its recovery strategy**, and the EU budget plays a vital role in its implementation.

In 2023, around EUR 160 billion or 38% of the EU budget was dedicated to climate mainstreaming objectives ([6]), with important contributions from cohesion policy, the common agricultural policy, and the Recovery and Resilience Facility. On top of this, the **Innovation Fund, one of the world's largest funding programmes for the demonstration of innovative low-carbon technologies**, has committed around EUR 6.5 billion via grants for innovative projects in 22 participant EU / European Economic Area countries by 2023. In 2023, Horizon Europe, the EU's flagship programme for research and innovation, provided 374 grants totalling an EU contribution of EUR 2.37 billion for climate, energy and mobility. It also delivered 232 grants covering EUR 1.23 billion for food, bioeconomy, natural resources, agriculture and the environment.

The Innovation Fund provides support to the commercial development of innovative low-carbon technologies. These bring significant greenhouse gas emissions reductions, covering areas as diverse as energy-intensive industries, renewables, energy storage, net-zero mobility and buildings, hydrogen, and carbon capture, use and storage. Examples of such projects are:

- a green steel production facility: hydrogen-based direct reduction of iron ore in Sweden;
- closed loop technology using geothermal energy to provide clean, dispatchable and baseload energy for district heating and/or power generation in Germany;
- a lithium-ion battery recycling facility for production and refining of black mass in France;
- a green hydrogen production facility in Poland.

([5]) Copernicus (9 April 2024), 'Copernicus: March 2024 is the tenth month in a row to be the hottest on record', press release, https://climate.copernicus.eu/copernicus-march-2024-tenth-month-row-be-hottest-record.
([6]) Based on commitment appropriations.

The **Connecting Europe Facility** has facilitated and financed the implementation of cross-border renewable energy infrastructure under the Cross Border Renewable Energy window with three calls for proposals between 2022 and 2023, totalling EUR 22.5 million. Furthermore, the **Connecting Europe Facility** funded major cross border rail connections in 2023, notably the Brenner Base Tunnel (linking Italy and Austria), Rail Baltica (connecting Estonia, Latvia, Lithuania and Poland with the rest of Europe) and the cross-border section between Germany and the Netherlands (Emmerich–Oberhausen), contributing to a **more efficient, greener and smarter transport infrastructure.**

In addition, in 2023 the EU invested over EUR 540 million in alternative-fuel infrastructure through the **Alternative Fuels Infrastructure Facility**, which will result in 14 000 charging points and 81 hydrogen refuelling stations, along with the electrification of ports and airports.

The **European Regional Development Fund** and the **Cohesion Fund** contribute to projects co-financed by Member States, which help deliver the green transition.

Examples of specific projects include:

- expansion of geothermal systems capacity and of energy production from renewable sources such as biomass in Poland;
- construction of high-speed railway lines in Spain, both on the Mediterranean corridor (Murcia–Almeria) and the Atlantic corridor (Madrid–Lisbon);
- creation and implementation of fire prevention and response capacity in Italy;
- building of a New European Bauhaus sustainable school in Estonia.

Investments under cohesion policy support **completing the EU cross-border transport network and connecting European regions** to the core transport nodes, as well as promoting clean urban transport and energy efficiency. Investment results include 2 164 km reconstructed or upgraded railway lines, improved energy efficiency support to 50 000 enterprises, reductions of public buildings' energy consumption of 6 000 GWh per year and improved energy performance of around 600 000 households.

Ensuring a fair transition

The green transition can only be successful if it happens in a fair way, leaving no one behind. To this end, the EU has established the **Just Transition Mechanism.** Under this funding mechanism, the Commission, by the end of 2023, adopted programmes by Member States in support of 96 territories through 70 Territorial Just Transition Plans, totalling EUR 19.7 billion.

In May 2023, the EU set up the **Social Climate Fund**, which will mobilise at least EUR 86.7 billion over the 2026-2032 period to support Member States' protection, during the green transition, of the most vulnerable groups affected by the new carbon pricing to be introduced for the sectors of buildings and road transport. Moreover, the EU is funding initiatives aimed at ensuring a fairer transition via the **European Social Fund Plus**, which invested EUR 16.3 billion in people in 2023, supporting actions and structural reforms aimed at social inclusion, improvement of education and skills, and employment.

While investing in climate mitigation and adaptation, the EU also acted in solidarity with the countries hit by major natural disasters such as floods and forest fires. In 2023, the **European Union Solidarity Fund** provided assistance in the amount of EUR 755 million to Germany (floods), Belgium (floods), Romania (drought) and Italy (floods), and received new applications for support from Türkiye (earthquake), Italy (floods), Greece (floods) and Slovenia (floods).

Making use of green bonds

The Commission is financing up to 30% of NextGenerationEU by means of Green Bonds. This is expected to make the **Commission the largest green bonds issuer in the world**. The issuance of the first NextGenerationEU green bond took place in October 2021 and the Commission has remained active in the market ever since. In 2023, it raised over EUR 12 billion via green bonds. As of 1 August 2023, 14 Member States (compared to 7 as of 19 October 2022) had reported to the Commission **EUR 21 billion worth of expenditure that is eligible for NextGenerationEU Green Bond financing**. This information is continuously updated in the NextGenerationEU green bond online dashboard ([7]).

In December 2023, the Commission published its **first impact report for NextGenerationEU green bonds** ([8]). The report estimates that the full implementation of all quantifiable milestones and targets in the national Recovery and Resilience Plans up until 2026 that are eligible for financing via NextGenerationEU green bonds will result in **44 million tonnes of carbon dioxide equivalent per year of avoided emissions.** These reductions are coming from areas as different as improved energy efficiency, hydrogen production, wind power, improvements in waste management and rail infrastructure.

([7]) NextGenerationEU Green Bond Dashboard: https://commission.europa.eu/strategy-and-policy/eu-budget/eu-borrower-investor-relations/nextgenerationeu-green-bonds/dashboard_en.

([8]) European Commission (2023), Directorate-General for Budget, *Green bonds – Impact and allocation report – NGEU report 2023*, Publications Office of the European Union, Luxembourg, https://data.europa.eu/doi/10.2761/302803.

Helping conserve biodiversity

In 2023, around **EUR 20 billion, corresponding to around 5% of the EU budget, was dedicated to the biodiversity mainstreaming objective via a variety of programmes.** For instance, under the common agricultural policy, the European Commission has been helping farmers to restore, conserve and enhance biodiversity in their farms, along with preserving and maintaining landscape features. Under cohesion policy programmes, the EU is investing in biodiversity actions ranging from climate change adaptation measures to rehabilitation of industrial sites and nature protection and restoration ([9]).

Under the Global Europe window of the Neighbourhood, Development and International Cooperation Instrument, the Commission provided support to Africa's Great Green Wall initiative and to new partnerships on forests, along with renewed engagement for ocean protection, including in the Mediterranean region.

The **LIFE programme** is the EU's funding instrument for supporting actions on the environment and climate. Since 2021, it has committed **over EUR 1.3 billion for about 500 projects across the EU** in four different strands: clean energy transition, climate, change mitigation and adaptation, nature and biodiversity and the circular economy and quality of life.

Concerning biodiversity, various kinds of actions have been funded all over Europe, such as:

- protection and restoration of dry grassland habitats in the Dinara mountains in Croatia;
- conservation of endangered fish species in the tributaries of the upper Po river in Italy;
- rewilding of subtidal seagrass in Ria de Aveiro in Portugal;
- restoration and preservation of salt lakes and salt areas in Austria; and
- support to European bison populations in Romania.

([9]) More information on cohesion policy contribution to biodiversity can be found on the Open Data Platform: https://cohesiondata.ec.europa.eu/stories/s/21-27-Cohesion-policy-Biodiversity-tracking/rza5-iu48.

A Europe fit for the digital age

Europe's strengths lie not only in digital applications. Our research and development into semiconductors is recognised the world over. We build incredible supercomputers.

Ursula von der Leyen

President of the European Commission

Developing and deploying digital technologies and investing in digital skills

The European Union has set a clear path for its **digital transition** and has become a global pioneer in online rights. As the future is digital, it is essential to preserve a European edge on critical and emerging technologies, and the EU budget is helping to make this happen.

The **digital Europe programme supports the development and deployment of key digital technologies.** Examples include high-performance computing, cloud-to-edge infrastructure, data spaces and artificial intelligence, blockchain, cybersecurity and semiconductors. The programme supports the deployment of and access to **supercomputing to strengthen the competitiveness** of industry and increase cybersecurity to protect critical infrastructure. Supercomputers are also of critical importance for the **Destination Earth** initiative, which will anticipate severe weather conditions and monitor the impact of climate change.

Digital Europe finances infrastructures, data-sharing tools and architectures. It puts in place governance mechanisms for thriving data-sharing AI ecosystems and the next generation of cloud and edge services. In 2023, **artificial intelligence testing and experimentation facilities** were established in the sectors of agrifood, healthcare, manufacturing and smart cities and communities. They offer highly specialised testing and validation services to artificial intelligence innovators, helping them to speed up cutting-edge solutions and bring them to the market. **Common European data spaces** were also set up, covering tourism, skills, manufacturing, health, mobility, smart communities, the Green Deal and agriculture. These will be a key data resource for the artificial intelligence community to train and improve their models.

Digital Europe supports activities aimed at protecting citizens and organisations against large-scale cyber-attacks. In 2023, **National Coordination Cybersecurity Competence Centres** have been established in each Member State to provide access to research and technological expertise in cybersecurity at the national/regional levels and ensuring cross-border cooperation.

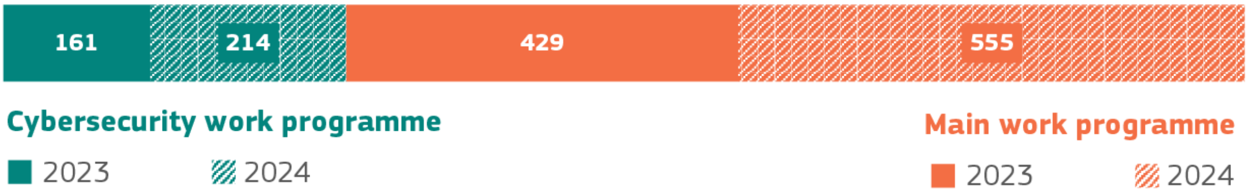
To create **a workforce that has the expertise to use these advanced technologies**, Digital Europe supports the excellence of EU education and training institutions in digital areas. In 2023, over 2 500 students enrolled in the first Master programmes and short-term training courses in artificial intelligence, cybersecurity, the internet of things, blockchain, quantum computing or robotics.

To support public and private organisations in their digital transition, Digital Europe set up a network of 151 **European digital innovation hubs** offering services in 90% of EU regions, in particular to small and medium-sized enterprises. The hubs allow these organisations to test before investing in digital solutions and technologies, and offer financing advice or training and skills development.

Digital Europe further invested in the digitalisation of justice, interoperability and the digitalisation of public sector. For instance, large-scale pilot projects have been supported involving over 360 public authorities and private entities to pilot the **European Digital Identity Wallet.**

Budget commitments for the digital Europe programme (in EUR million)

Total **EUR 1 359 million**

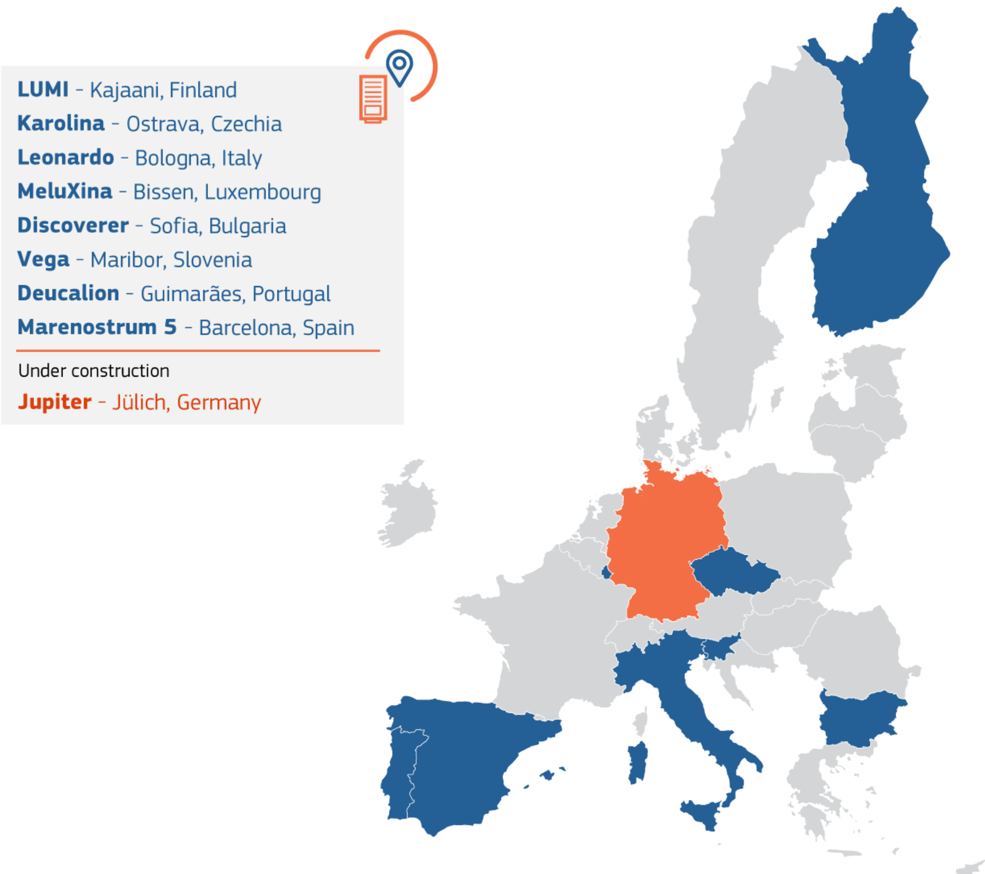


Source: European Commission

In 2023, the **EU took important steps in building up a world-class supercomputer network** in its Member States. The European High Performance Computing Joint Undertaking is the legal and funding entity that enables its 34 participating countries and private partners to coordinate their efforts and pool their resources to make Europe a world leader in supercomputing. In 2023, eight supercomputers went into operation, procured with the support of Horizon 2020 and the Connecting Europe Facility programmes. Three are ranked within the top 10 in terms of performance (November 2023).

The Joint Undertaking also selected a consortium led by European vendors to supply, install and maintain **Jupiter, the first European exascale supercomputer** (a computer capable of performing more than one billion calculations per second). In addition, the Joint Undertaking selected the **Jules Verne consortium to host and operate in France the second exascale supercomputer of the Joint Undertaking**. Hosting agreements were also signed with six sites across the EU (in Czechia, Germany, Spain, France, Italy and Poland) to host and operate Europe's first quantum computers. In this context, procurement procedures were launched in Germany and Poland in 2023.

Supercomputers in the EU



Source: European Commission

Investing in artificial intelligence

The **EU is on the way to becoming the global leader in safe artificial intelligence**, which offers many benefits for people, businesses and governments. The EU's **AI Act**, which was agreed with the co-legislators in December 2023, is the first-ever comprehensive legal framework on artificial intelligence worldwide. The European Commission has been actively supporting the development, deployment, use and take-up of trustworthy artificial intelligence in the EU.

In the 2021 review of the coordinated plan on artificial intelligence, the Commission aimed to allocate **EUR 7 billion** via the **digital Europe programme** and the **Horizon Europe** research programme **to artificial intelligence during 2021-2027**. Under Horizon and Digital Europe, the Commission has already allocated more than **EUR 3 billion** of EU funding for artificial intelligence research and development in the calls from 2021-2022. The target was therefore exceeded by EUR 0.5 billion per year.

The capital support through the **European Innovation Council Fund** (under Horizon Europe) increased significantly in 2021-2023, with over **EUR 440 million** committed in grants and proposed investments to companies developing or deploying artificial intelligence in various application areas. The European Innovation Council Fund is a funding and support programme under Horizon Europe that provides grants and equity investments for deep-tech start-ups and small and medium-sized enterprises. It has provided significant support for artificial-intelligence-based startups and small and medium-sized enterprises, with over **EUR 550 million** invested between 2018 and 2023.

In June 2023, the Commission launched **151 digital innovation hubs and four sectoral Testing and Experimentation Facilities projects.** These facilities are co-funded with the Member States through the digital Europe programme with budgets between **EUR 20-30 million per project**, and aim to support artificial intelligence developers to bring trustworthy artificial intelligence to the market more effectively and facilitate its uptake in Europe. They focus on the following high-impact sectors: agri-food, healthcare, manufacturing and smart cities and communities.

Connecting Europeans: enhancing digital connectivity

The EU budget, including NextGenerationEU, is **enhancing digital connectivity**, which gives all citizens and businesses new opportunities to benefit fully from the digital single market and accelerate economic growth. The amount dedicated to connectivity, including investments in very high-capacity broadband network and 5G network coverage, is estimated to have reached **EUR 14.8 billion** for 2021-2023 ([10]).

The main contributing programmes are the **Recovery and Resilience Facility (with EUR 13.6 billion)**, the **European Regional Development Fund and Cohesion Fund (EUR 764.2 million)** and the **Connecting Europe Facility (EUR 397.3 million)**. The common agricultural policy is also playing an important role in improving broadband access in rural areas, by supporting broadband infrastructure and improved access to e-government. **Broadband access in rural areas increased by 54.9 percentage points over 9 years**. By the end of 2022, 72.9% of rural households in the EU had broadband access to the internet. Thanks to the European Regional Development Fund and the Cohesion Fund, **7.9 million households obtained broadband access** of at least 30 megabits per second between 2014 and 2022. During the same period, 643 000 additional energy users were connected to smart electricity grids.

([10]) This amount does not include any contributions from the common agricultural policy, due to methodological limitations.

Investing in space technology for the benefit of people in the EU

Space technology plays an essential and increasingly important role in the daily lives of people in the EU. Satellites also provide important data in case of natural disasters, improving emergency response coordination.

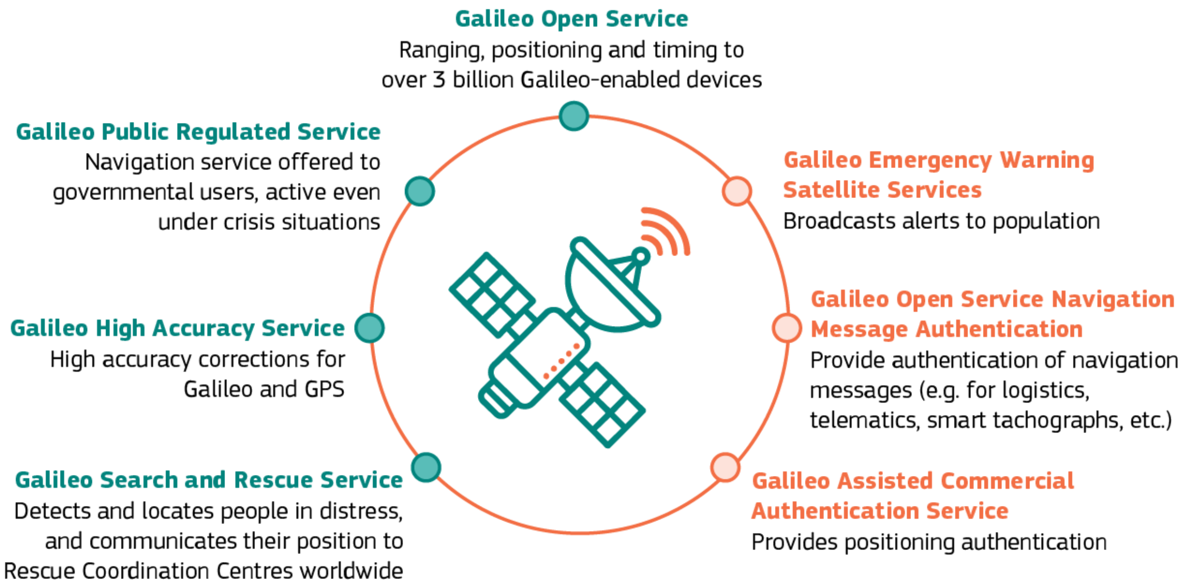
The **EU space programme facilitates the lives of people** both inside and outside the EU in various ways. For instance, the programme contributes to aviation safety, in particular in smaller airports, via its **European geostationary navigation overlay service**, which allows airplanes fitted with appropriate EGNOS-compliant equipment to safely land in conditions of reduced visibility.

Galileo, the European global satellite-based navigation system, has been helping people across the globe to find their way. By 2023, there were about 3.5 billion Galileo-enabled devices (such as smartphones) around the world in use. In March 2023, Galileo was endorsed by the International Civil Aviation Organization for use in civil aviation for aerial navigation and for use in conjunction with the European geostationary navigation overlay service for take-off and landing operations.

Copernicus, the Earth observation component of the EU's space programme, offers a range of information services that are provided free of charge to users: atmosphere monitoring, marine environment monitoring, land monitoring, climate change service, security and emergency management. These users had access to about 108 terabytes of quality-controlled climate data per day in 2023.

In 2023, new features were deployed to enhance the resilience and competitiveness of Copernicus, in particular improvements in its offer of data access and processing tools. Galileo was upgraded to provide an even more accurate location tracking, down to 20 cm, making it three times better than competing global navigation satellite systems.

Overview of Galileo services



As **Europe's space infrastructure expands**, protective measures are becoming increasingly important. The European Union Agency for the Space Programme, in cooperation with 15 Member States, champions this cause through the EU Space Surveillance and Tracking Partnership. This partnership, equipped with a complex system of space surveillance and tracking sensors, serves over 190 registered organisations, protecting more than 400 satellites from the risk of collision with space debris and other operational satellites.

An economy that works for people

We must build the physical backbone of the economy of the future in order to be competitive.

Ursula von der Leyen

President of the European Commission

Research and innovation help to make the economy work for the people

2023 was a challenging year for the EU in relation to the economy. Russia's war of aggression against Ukraine, coupled with geopolitical tensions elsewhere, continued to impact global markets, in particular for food, energy and other raw materials. Amid this context, the European Union deployed an array of measures to ensure that its economy could resist such shocks and continue to work for people.

Research and innovation contribute to improving people's lives and work and to enhancing productivity, competitiveness and job-rich growth. They are also crucial for providing solutions to current and future challenges, for example in terms of environment and climate. **Through Horizon Europe, the EU aims to promote scientific excellence and generate new knowledge and technologies**, thus contributing to advancing the EU's general and specific objectives and policies while tackling global challenges and strengthening the European research area.

With a budget of EUR 15.3 billion for 2023, **Horizon Europe saw the signature of 5 163 grant agreements totalling EUR 14.36 billion**, with the average grant size increased to EUR 2.8 million. While the main work programme constitutes the bulk of Horizon Europe's budget (EUR 25.6 billion for 2021-2024), significant funding has also been allocated through other programme parts, particularly the **European Research Council** (with five calls in 2023 under the excellent science pillar for a total budget of EUR 2.17 billion), Marie Sklodovska-Curie Actions and the **European Innovation Council**. In 2023, the European Innovation Council opened funding opportunities worth over EUR 1.6 billion through its three main funding schemes: pathfinder (EUR 343 million), transition (EUR 128 million) and accelerator (EUR 1.13 billion).

In 2023, the Horizon Europe contribution through the **European Partnership** covered **10 active joint undertakings**, under which 345 grants were signed for a total of EUR 2.9 billion. Moreover, through the EU-Mission instruments, by the end of 2023, 173 Horizon Europe grants involving 3 732 participants had been signed for a total amount of EUR 1.43 billion. Horizon Europe also supports the Sustainable Food Systems for People, Planet, and Climate and the European Partnership for Personalised Medicine, which involves more than 50 international partners and aims at advancing healthcare and promoting personalised therapy, diagnosis and prevention.

The European Institute of Innovation and Technology, which aims at integrating the knowledge triangle of EU education, research and innovation, has been **contributing to building resilient infrastructure**. Between 2021 and 2023, a total of EUR 912 million has been allocated to the Institute to run its activities, aimed at **accelerating the adoption of sustainable innovations in manufacturing technology**, aligning with the goal of promoting inclusive and sustainable industrialisation. Furthermore, the Institute focuses on developing the skills of the future workforce, ensuring inclusivity and sustainability in the manufacturing sector, working towards driving positive change in Europe's industrial landscape.

Developing and improving infrastructure across the EU

The **European Union's Cohesion Fund** and the **European Regional Development Fund** are major driving forces behind **infrastructure development across the EU, especially in regions lagging behind**. 2023 was the final year of implementation for the 2014-2020 programmes. In parallel, 2021-2027 investments have started.

By the end of 2023, over 90% of funds from the 2014-2020 budget period have been invested in projects spanning various sectors. This includes **transportation networks**, like the Via Carpathia highway linking the Baltic, Aegean and Black Seas, or Portugal's motorway network built partly with EU support. EU cohesion policy investments also target **energy efficiency**, **research and innovation, digitalisation** through broadband expansion and **urban development** initiatives. These projects have created jobs, improved connectivity and boosted living standards in less-developed regions, thus fostering economic convergence within the EU by allowing these areas to catch up with their more developed counterparts. The 2021-2027 budgetary period ensures continued support for the European Regional Development Fund and the Cohesion Fund, solidifying their role in building a more balanced, connected and sustainable Europe. The total available envelope allocated to projects in the 2021-2027 cohesion funds programming period amounts to EUR 264 billion. This includes **EUR 59.1 billion** to develop **transport** networks, clean urban transport, rail and road connections to the European cross-border transport network and cycling infrastructure. **EUR 22 billion** will support the **energy efficiency** of housing and enterprises and **deep renovation** of public infrastructure, and **EUR 31 billion** will foster digitalisation and digital connectivity.

The EU has also been investing in energy, transport and digital infrastructure via the **Connecting Europe Facility**, for which EUR 31.7 billion was allocated for the 2021-2027 period, including EUR 4.8 billion for 2023.

Examples of the impact of the Connecting Europe Facility in 2023:

- 7 000 megawatts of **electricity transmission capacity** were added to interconnect electricity networks and to facilitate the integration of renewable energy;
- 326 kilometres of **European Rail Traffic Management System** track-side infrastructure were deployed in four Member States;
- 2 597 **alternative fuel supply points** were in operation along the trans-European transport network by the end of 2023.

In 2023, the Commission also contributed to the design and implementation of actions of the **New European Bauhaus** initiative. By the end of 2023, a total of **EUR 216 million had been allocated for the New European Bauhaus under cohesion policy**. In June 2023, the Commission awarded the New European Bauhaus Prizes to 15 exemplary projects and fresh ideas reflecting the initiative's values. In addition, with a budget of EUR 65 million, the projects from the first Innovative Action call of the European Urban Initiative serve as New European Bauhaus demonstrators to drive positive change in local communities and beyond. Furthermore, 20 municipalities have received technical assistance to improve the design of their projects along the New European Bauhaus values. The experiences of the selected projects were consolidated in a toolbox that can be used for planning and designing New European Bauhaus projects.

In addition, the Commission made use of targeted amendments to the 2014-2020 cohesion policy framework to help tackle the energy crisis resulting from the Russian war of aggression against Ukraine, releasing around EUR 4 billion to 11 Member States under the Supporting Affordable Energy initiative. This allowed Member States to support vulnerable households and small and medium-sized enterprises affected by energy price increases, along with short-time work and equivalent schemes.

Ukraine is being integrated into various EU expenditure programmes. In June 2023, Ukraine obtained **access to the EU's programme for infrastructure funding, the Connecting Europe Facility.** Ukraine can now apply for EU funding for infrastructure projects that will improve its energy, transport and digital connections with the EU. **An investment of EUR 250 million was allocated to nine cross-border projects to improve connections between Hungary, Moldova, Poland, Romania, Slovakia and Ukraine.** The projects include studies and works at rail and road border-crossing points to extend and upgrade infrastructure, improve parking areas and improve transhipment facilities and equipment. In addition, EUR 900 million was made available to EU Member States, mainly for improving cross border connectivity on their territory, also directly benefiting Ukraine.

Developing and supporting rural Europe

Rural development represents a key area of the EU's common agricultural policy, with a dedicated European Agricultural Fund for Rural Development. The fund aims at improving the competitiveness of agriculture, achieving sustainable management of natural resources and climate action, and also supports a balanced territorial development of rural areas.

By the end of 2023, 32 managing authorities in 13 Member States had programmed EUR 638 million of the fund's resources for financial instruments in their 2014-2022 rural development programmes. In total, EUR 443 million has been already declared as expenditure by Member States. At the same time, by the end of 2023, 12 Member States added new financial instruments in their common agricultural policy strategic plans, planning EUR 627 million of European Agricultural Fund for Rural Development financing, for a total shared Commission and Member State public budget of EUR 999 million.

Rural development activities to **promote social inclusion, poverty reduction and economic development** registered several achievements relating to small enterprises and jobs, such as diversification, the creation and development of small enterprises and job creation and maintenance in rural areas. This includes investments in basic services in villages, initiatives creating local jobs and diversifying farm activities. Part of these funds are dedicated to community-led local development, where local action groups decide on local development projects. In the 2014-2022 period, the European Agricultural Fund for Rural Development supported 2 784 local action groups across the EU, covering a significant part of the EU population.

There has also been **progress in terms of the development of and access to services and local infrastructure in rural areas**, participation in local development strategies, employment opportunities created via local development strategies, broadband expansion and better use of information and communications technology in rural areas.

Supporting investments in people

The **EU has been investing in people** by various means, such as the:

- **European Social Fund+**, the EU's main instrument for investing in people's employment, education and skills, along with social inclusion;
- **European Regional Development Fund**, which supports the infrastructure and equipment investments in employment, education and training, along with social inclusion;
- **Just Transition Mechanism**, proposed as part of the European Green Deal investment plan to make sure that no one and no region is left behind in the transition to a climate-neutral economy, which has a pillar focused on reskilling and upskilling of workers from the territories that face the biggest challenges in the transition towards climate neutrality;
- **European Globalisation Adjustment Fund for Displaced Workers**, which co-finances measures to support redundant workers in case of major restructuring events.

Over EUR 116.8 billion (EUR 96.2 billion from the regular budget plus EUR 20.6 billion from NextGenerationEU) has been allocated to the European Social Fund for the 2021-2027 period. In concrete terms, this meant over **3 million people in training and education** in 2022, over EUR 3.6 billion in loans awarded to micro or social enterprises up to December 2023, and over 10.3 million people with new qualifications by December 2022. The European Regional Development Fund allocated around EUR 8.8 billion to **education, training and skills development**.

The Just Transition Mechanism benefits from a EUR 20 billion allocation for the 2021-2027 period. Under the mechanism, Member States have developed **Territorial Just Transition Plans**, which contain an array of measures designed to promote public investment to foster sustainable development, in particular in those territories expected to suffer the greatest job losses, and in areas with industrial facilities with the highest greenhouse gas intensity. This is **helping workers to redevelop their skills to thrive under a greener economy**, and thus helping Member States move away from fossil fuels. For instance, with the help of a EUR 1.64 billion allocation, Czechia committed to phase out coal production by 2033.

Moreover, under the European Globalisation Adjustment Fund for Displaced Workers, about EUR 727 million has been allocated for the 2021-2027 period, including EUR 205.4 million in 2023, resulting in help being provided to thousands of workers in 12 Member States.

A stronger Europe in the world

When I stood here four years ago, I said that if we are united on the inside, nobody will divide us from the outside. And this was the thinking behind the Geopolitical Commission. Our Team Europe approach has enabled us to be more strategic, more assertive and more united.

Ursula von der Leyen
President of the European Commission

Providing humanitarian and military assistance to Ukraine

2023 was a challenging year for the European Union. The Russian war of aggression against Ukraine continued to bring misery and hardship, with missile and drone attacks targeting energy infrastructure, and the weaponisation of global energy and food markets. Moreover, on 7 October 2023, Hamas launched an assault against Israel, leading to conflicts and a very tense situation in the Middle East. Houthi rebels in Yemen have brought disruption to shipping lanes by attacking container ships in the Red Sea.

In response, and along with its intense diplomatic efforts, **by the end of 2023 the EU and its Member States had provided Ukraine and its people with nearly EUR 85 billion in assistance** since the onset of Russia's war of aggression. This included EUR 25.2 billion in macrofinancial aid, with EUR 18 billion allocated in 2023 through the Macro-Financial Assistance Plus instrument. Macrofinancial assistance aids partner countries facing financial challenges by stabilising economies and facilitating reforms. These funds support Ukraine's essential services, infrastructure restoration and institutional reforms, including anti-corruption and judicial initiatives.

Military assistance to Ukraine from the EU and its Member States totalled over EUR 27 billion, including EUR 6.1 billion from the **European Peace Facility**. Notably, a joint procurement initiative in March 2023 delivered ammunition to Ukraine, bolstering its defence capabilities. Additionally, the EU Military Assistance Mission has trained approximately 39 000 Ukrainian soldiers, marking the EU's first instance of military training during wartime.

The EU budget also provided substantial humanitarian aid to Ukraine, totalling EUR 300 million in 2023 and EUR 785 million since February 2022, to address immediate needs and facilitate long-term recovery. Additionally, the EU and its Member States contributed with almost EUR 800 million in in-kind assistance through the Union Civil Protection Mechanism and the rescEU stockpile ([11]). Through its **Emergency Response Coordination Centre**, the EU coordinated its largest-ever civil protection operation, providing emergency assistance to affected populations. This included dispatching emergency items to Ukraine and deploying Union Civil Protection Mechanism (rescEU) assets, such as medical equipment to address critical needs. The **EU Partnership Mission in the Republic of Moldova** was also launched under the **Common Foreign and Security Policy**.

The EU's historic decision to initiate accession negotiations with Ukraine underscored its recognition of Ukraine's alignment with EU standards. Simultaneously, the **EU imposed robust sanctions against Russia in** response to its aggression, targeting individuals, entities and key economic sectors. Thirteen sanctions packages have been adopted since February 2022, aimed at weakening Russia's economy and deterring further aggression. These measures include financial sector restrictions, export banson critical technology and industrial goods to Russia, import bans meant to cut Russia's revenue streams, and a variety of measures in the energy and transport sectors, among others. To increase their impact and prevent their circumvention, these measures are coupled with strengthened cooperation with non-EU countries.

([11]) Including assistance provided in 2022, 2023 and during the first 5 months of 2024.

The Neighbourhood, Development and International Cooperation Instrument – Global Europe allocation, initially planned for programmes with Belarus and Russia for 2021-2027 (EUR 160 million), was transferred to **Interreg cross-border cooperation programmes that benefit Moldova and Ukraine**.

Under the Neighbourhood, Development and International Cooperation Instrument – Global Europe programme, the European Union finances a EUR 40 million project ‘EU Support to the East of Ukraine – Recovery, Peacebuilding and Governance’, implemented by the UN Development Programme, UN Women, the UN Population Fund and the UN Food and Agricultural Organisation. Moreover, a total of EUR 300 million was mobilised by the Commission for the humanitarian needs of more than 17.7 million Ukrainians.

The EU’s response to the Middle East crisis

The **EU strongly condemned the brutal terrorist attacks by Hamas in Israel on 7 October 2023.** While acknowledging Israel’s right to self-defence, the EU emphasised the need to protect all civilians in accordance with international humanitarian law, calling for continued, safe humanitarian access. Additionally, the EU has been collaborating with various humanitarian partners on the ground and working with regional and international partners to prevent further conflict escalation and promote a lasting peace, based on the two-state solution and relevant UN Security Council resolutions.

The escalation of violence in the Middle East led to the displacement of almost the entire Gazan population of 2.2 million people and **massive humanitarian needs in all sectors**, accentuated by the serious risk of famine. Violence also escalated in the West Bank, including East Jerusalem. The **Commission responded by quadrupling its assistance to Palestinians** to more than EUR 100 million to address the most basic needs.

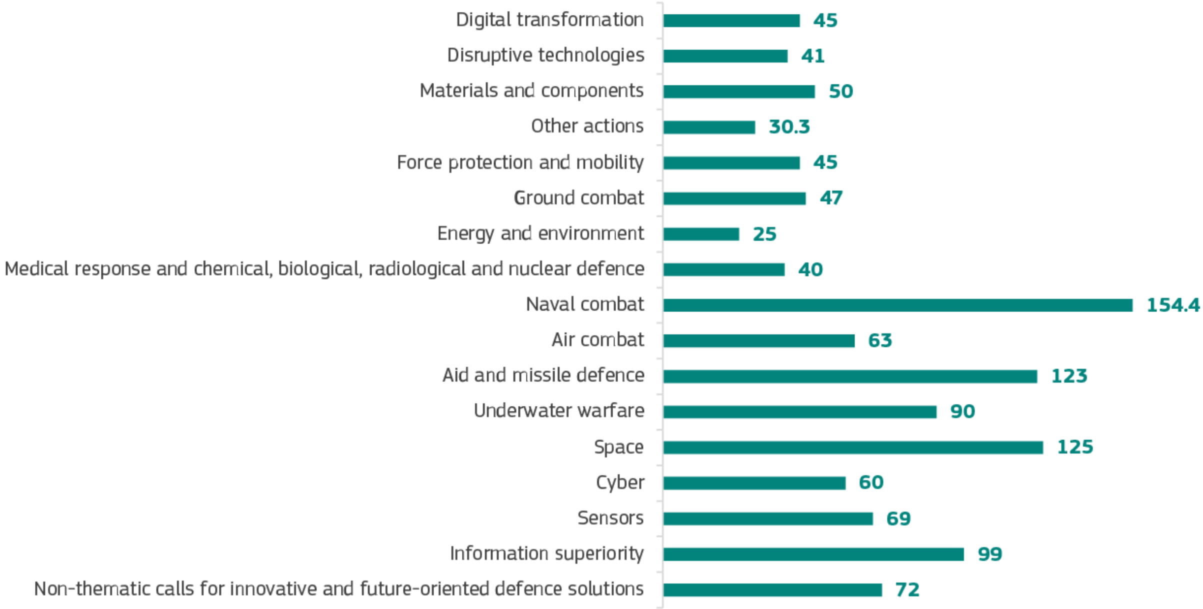
In 2023, the EU, in coordination with humanitarian partners (e.g. United Nations Children’s Fund, International Committee of the Red Cross, World Food Programme), operated **32 humanitarian air bridge flights** in 2023 in the context of this crisis, and 1 310 tonnes of essential supplies were mobilised. The aid includes nutritional items, shelter and logistical equipment, hygiene kits and medicines.

Strengthening European defence and security

In 2023, the EU strengthened its defence and industry through legislative initiatives and funding, including the **Act in Support of Ammunition Production** and European Defence Industry Reinforcement through the Common Procurement Act. The EU has also addressed security challenges by adopting its first **Space Strategy for Security and Defence** and updating its **Maritime Security Strategy and Action Plan**. These initiatives align with the EU’s broader security objectives and aim to bolster its resilience in the face of evolving threats.

The **European Defence Fund is a key supporter of defence research and development in the EU**. It has provided over EUR 2.9 billion for 101 collaborative projects across the Member States since 2021. In 2023 alone, the fund allocated EUR 1.2 billion to vital defence areas such as space situational awareness, countering hypersonic missiles and developing a European patrol corvette. The European Defence Fund supports innovation in the defence sector via the **EU Defence Innovation Scheme**, a EUR 2 billion scheme to help smaller companies, newcomers and particularly innovators.

European Defence Fund budget per category of action in 2023 (in EUR million)



Source: European Commission

The EU also supports European defence and security through initiatives aimed at **ensuring a secure and sustainable supply of critical raw materials**. As part of the **Green Deal Industrial Plan**, the Commission introduced proposals for a Critical Raw Materials Act and a Net-Zero Industry Act. These acts are designed to simplify the regulatory environment for the clean-technology sector and support the EU's net-zero manufacturing capacity. Ensuring access to a secure and sustainable supply of these materials is vital for sectors such as defence and aerospace, amid increasing global demand and geopolitical challenges.

In March 2023, the EU adopted the **IRIS² satellite constellation program**, investing EUR 2.4 billion from the EU budget. This initiative aims to ensure secure government communications, support military and defence operations and expand commercial broadband services, especially in remote areas.

Additionally, the EU launched the **Strategic Compass for Security and Defence**, a comprehensive plan to strengthen EU security and defence by 2030. The EU's partnership with NATO remains a key component of its security and defence efforts, and the European Peace Facility has become integral to the EU's global support for partners.

Promoting international partnerships and providing emergency aid across the globe

The Commission moved forward in 2023 with the **Global Gateway** strategy. The strategy is **deployed to make Europe stronger in the world.** It is being delivered through a Team Europe approach, which brings together the EU and EU Member States with their financial and implementing institutions, along with the European Investment Bank and the European Bank for Reconstruction and Development. It also seeks to **mobilise the private sector** in order to leverage investments investments in a comprehensive and values-driven manner (a '360 degree approach') for a transformational impact.

The Global Gateway draws from financial resources of the EU and its Member States. The EU's contributions come from the new financial tools in the EU multiannual 2021-2027 financial framework, in particular the **Neighbourhood, Development and International Cooperation Instrument – Global Europe** programme, the **Instrument for Pre-Accession Assistance III**, the digital and international part of the **Connecting Europe Facility**, but also Interreg Europe, InvestEU and Horizon Europe, the EU research and innovation programme.

In 2023, **the EU made significant progress in rolling out the Global Gateway** – launching 225 new flagship projects across Africa, Latin America, the Caribbean, Asia, the Pacific, the Western Balkans and the Eastern and Southern Neighbourhoods. The EU also established partnerships with Latin American and Caribbean countries, including a Global Gateway Investment Agenda expected to mobilise over EUR 45 billion. Moreover, the EU formed a new partnership with the Organisation of African, Caribbean and Pacific States, signing the Samoa Agreement. The EU is also progressing with the implementation of the EUR 150 billion Africa–Europe Global Gateway Investment Package and new Team Europe initiatives. In addition, the EU signed the first Open Architecture guarantees for partner countries under the European Fund for Sustainable Development Plus, and is mobilising EUR 307 million in technical assistance to facilitate the deployment of the European Fund for Sustainable Development Plus guarantees.

With a budget of EUR 13.05 billion for 2023, the **Neighbourhood, Development and International Cooperation Instrument – Global Europe programme implementation was at full speed in 2023**, including the operationalisation of 166 Team Europe initiatives worldwide. Building on the European Year of Youth, the Commission implemented the Youth Action Plan in the EU's external relations and launched the EUR 10 million Youth Empowerment Fund. It also adopted its midterm report on the **EU gender action plan III**, showing important progress towards ensuring that at least 85% of all actions across the Neighbourhood, Development and International Cooperation Instrument – Global Europe deliver on gender equality.

In 2023, the Commission provided assistance to around 130 countries. In the area of education, the EU funded the **Global Partnership for Education**, contributing to giving 2 596 000 children access to primary education and 1 192 000 children to secondary education. In the area of digital, in 2023 the **Commission launched the 'MEDUSA' project** providing high-speed internet connectivity between the European Union and North Africa. The Commission also launched Copernicus centres in Chile and Panama under the EU-LAC Digital Alliance and in Asia with the Copernicus Centre in the Philippines for better access to data and uptake.

The **women and youth for democracy programme (EUR 40 million)** supports women and youth-led initiatives, including capacity-building and funding for girl-led **initiatives to tackle the legal, societal and economic barriers to equal participation.**

The **Team Europe initiative on manufacturing and access to vaccines, medicines and health technologies** mobilised over EUR 1.3 billion, operating through 89 projects and 23 implementing partners to support specific countries like Egypt, Ghana, Nigeria, Rwanda, Senegal and South Africa in improving their pharmaceutical ecosystems and production capabilities for continent-wide benefits.

The EU and the Member States – via the Team Europe approach – committed more than EUR 18 billion in grants for **food security** action during 2021-2024.

Contributing to **making a stronger Europe in the world**, in 2023 the humanitarian aid programme provided life-saving emergency assistance to 114 countries across the globe and the **Neighbourhood, Development and International Cooperation Instrument – Global Europe** programme ensured medium- and long-term cooperation with partners countries and organisations bringing benefits to 48.4 million individuals.

The **budget for humanitarian aid responded to many crisis situations in 2023.** The initial budget of EUR 1.7 billion was reinforced several times throughout 2023 by a total of EUR 631.1 million, with an allocation of EUR 895.3 million for Africa, EUR 582.4 million for the Middle East and Türkiye, EUR 411.4 million for Asia, Latin America, the Pacific and the Caribbean, EUR 335.5 million for Ukraine, the Western Balkans and the Caucasus, and EUR 197.2 for non-geographical allocations. With this budget, in 2023 the Commission allocated EUR 300 million for Ukraine, EUR 100 million for Palestinians in Gaza, EUR 125 million for Sudan and EUR 149 million for Afghanistan.

Supporting our neighbourhood and candidates for enlargement

A stronger Europe in the world needs a stable and prospering neighbourhood with strong rule of law, fundamental rights, functioning democratic institutions and a market economy. The year 2023 witnessed **historic developments** and new dynamics in the enlargement negotiations. Following the Commission’s recommendation, the European Council decided to **open accession negotiations with Moldova and Ukraine**, and to grant the **status of candidate country to Georgia.** Moreover, the European Council stated that it will open accession negotiations with Bosnia and Herzegovina, once the necessary degree of compliance with the membership criteria is achieved. **North Macedonia** and **Albania** made smooth progress throughout the primary steps of the accession negotiations.

With the **Instrument for Pre-Accession Assistance III** ([12]), the EU is the largest donor in the enlargement region. By the end of December 2023, the Commission had committed (for annual programmes) or earmarked (for multiannual programmes) around EUR 8.68 billion out of EUR 14.162 billion available in the Instrument for Pre-Accession Assistance III funds.

In 2023 alone, the Commission committed EUR 2.5 billion through the Instrument for Pre-Accession Assistance III and made available EUR 12.6 billion of guarantee cover for **European Investment Bank loans** and EUR 399 million of guarantee cover under the ‘open architecture’ part of the European Fund for Sustainable Development Plus for the Neighbourhood negotiations. All investments contribute significantly to the implementation of the Economic and Investment Plans for the Eastern and Southern Neighbourhoods.

The implementation of the economic and investment plan for the Western Balkans continued in 2023, reaching a total of 59 flagship investments for EUR 8.9 billion in key railway, road and water interconnections, renewable energy, energy efficiency and power interconnectors, waste and water management, digital infrastructures, energy efficiency in the sectors of education and health, and support to the business sector. The European Union has so far contributed EUR 2.6 billion to the investments, blending grants with concessional loans and provisioning for guarantees.

In 2023, the Commission also proposed a **new growth plan for the Western Balkans** ([13]), aiming at increasing the region’s socioeconomic convergence with the EU and accelerating EU integration through targeted reforms. On 14 May 2024, the European Parliament and the Council adopted the regulation setting up the Reform and Growth Facility for the Western Balkans, which is expected to provide EUR 2 billion in grants and EUR 4 billion in loans to the EU’s partners in the region in the 2024-2027 period.

([12]) Regulation (EU) 2021/1529 of the European Parliament and of the Council of 15 September 2021 establishing the Instrument for Pre-Accession assistance (IPA III), OJ L 330, 20.9.2021, pp. 1–26, ELI: http://data.europa.eu/eli/reg/2021/1529/oj.

([13]) Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions: New growth plan for the Western Balkans, COM(2023)691 final.

The **Western Balkans energy package** disbursement proceeded well in 2023. The Commission has disbursed 90% (EUR 450 million) of the EUR 500 million in the form of budget support. The disbursements have been made in favour of Albania (EUR 72 million), Bosnia and Herzegovina (EUR 63 million), Kosovo (*) (EUR 67.5 million), Montenegro (EUR 27 million), North Macedonia (EUR 72 million) and Serbia (EUR 148.5 million). The remaining EUR 50 million will be disbursed in 2024, after the Commission's assessment confirms the positive implementation of the overall energy action plans and of the public finance management reform, together with a continuous positive track record in maintaining stable macroeconomic policy and budget transparency.

(*) This designation is without prejudice to positions on status, and is in line with United Nations Security Council Resolution 1244/1999 and the International Court of Justice Opinion on the Kosovo declaration of independence.

The EU has been actively supporting its neighbours in times of need. With 66 requests for assistance received and processed, along with 50 updates of requests for Ukraine (totalling 116 requests) and 24 EU civil protection missions deployed, in 2023 **the Union Civil Protection Mechanism responded to floods, earthquakes and fires across Europe** and the world. In response to these crises, the EU allocated an initial budget to the programme of EUR 188 million that comprised EUR 101.6 million of initial allocations, EUR 27 million of reinforcement for doubling the Union Civil Protection Mechanism (rescEU) aerial firefighting fleet during the 2024 forest fire season and EUR 59.4 million aimed at increasing aerial firefighting capacity. The devastating earthquake in Syria and Türkiye, the evacuation of EU citizens from Sudan and the magnitude of forest fires in Europe last summer triggered budgetary reinforcements of EUR 65 million, arriving at a total of EUR 253 million (excluding NextGenerationEU funds).

The Union Civil Protection Mechanism **also provided** assistance to Ukraine **in 2023 in the following ways:**

- in 2023 the EU signed the binding Administrative Agreements with Ukraine and Moldova, welcoming them into the Union Civil Protection Mechanism;
- 60 000 tonnes of life-saving assistance were deployed to Ukraine in 2023 under the Union Civil Protection Mechanism (rescEU), bringing the total to 140 000 tonnes since the conflict started;
- the Union Civil Protection Mechanism answered to 50 updated requests for assistance from Ukraine in 2023 alone.

Promoting our European way of life

Every day, we see that conflict, climate change and instability are pushing people to seek refuge elsewhere. I have always had a steadfast conviction that migration needs to be managed. It needs endurance and patient work with key partners. And it needs unity within our Union.

Ursula von der Leyen

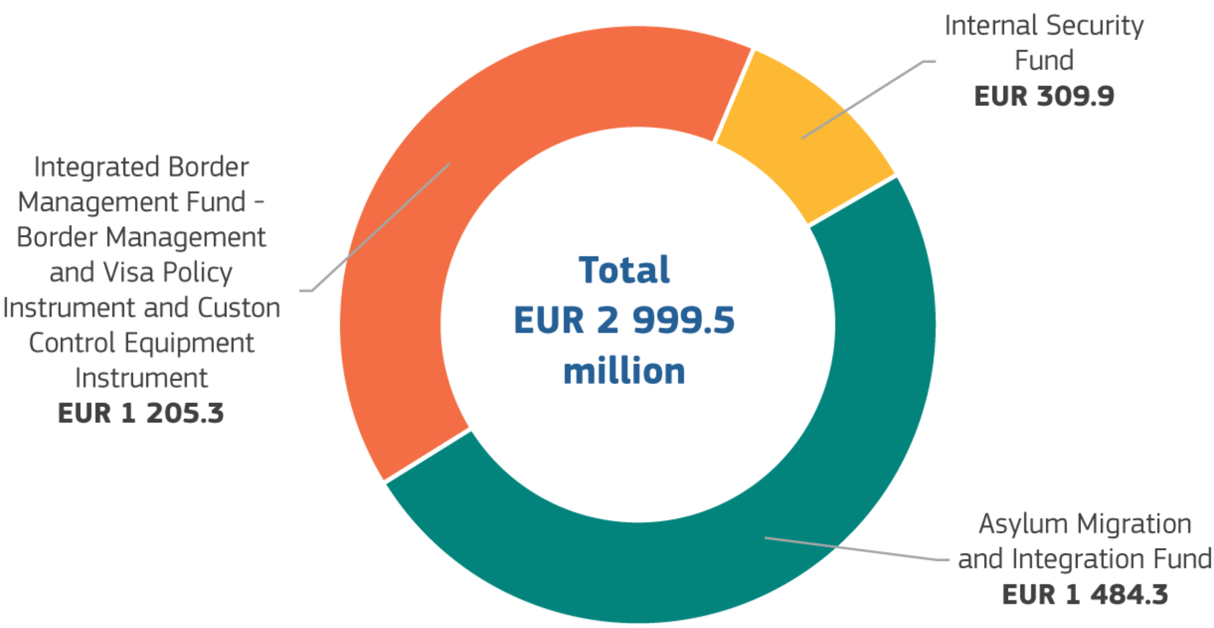
Addressing migration pressure and asylum

In 2023, the **migration pressure** at the European Union's external borders continued remained significant, with 1 million people applying for asylum in the EU, an increase of 20% compared to 2022. A constant effort has been made to rapidly address immediate needs through operational and targeted action. In April 2024, these came to fruition when the new **Pact on Migration and Asylum** was agreed.

In 2023, the Commission implemented a budget of close to EUR 3 billion to support Member States in this area, mainly through three Funds:

- the **Asylum, Migration and Integration Fund**,
- the **Integrated Border Management Fund**, and
- the **Internal Security Fund**.

Security, Border Management and Asylum and Migration Funds budget 2023 (in EUR million)



Source: European Commission

For the **Asylum, Migration and Integration Fund**, 44% of the total Member State programme allocation in 2023 was allocated towards the **Common European Asylum System**. This supported the creation of 750 reception places for unaccompanied minors, on top of the 1 159 places refurbished in line with the EU acquis. Moreover, 19 003 people were resettled under solidarity and fair sharing between Member States.

In the area of legal migration and integration, over 280 000 non-EU nationals have already been supported in their early integration, including temporary protection beneficiaries fleeing from Ukraine. In combatting irregular migration, over 18 000 individuals returned voluntarily to their countries with the support of the fund.

EU funding also makes a major contribution to the supporting the EU's partnerships with countries worldwide to address the root causes of migration. With 10% of the Neighbourhood, Development and International Cooperation Instrument – Global Europe programme earmarked for actions related to migration and forced displacement, more than 190 projects are under way, worth about EUR 5.3 billion. This means for example that EUR 691 million has been devoted to actions in North Africa in 2021-23, with almost two thirds of this devoted to strengthening migration and asylum governance and management.

Together, the EU and its Member States are the world's leading donor in support to refugees, contributing to 41.8% of global funding. Over the past few years, approximately with 80% of the EU humanitarian budget has been allocated each year to projects addressing the needs of forcibly displaced persons and their host communities worldwide.

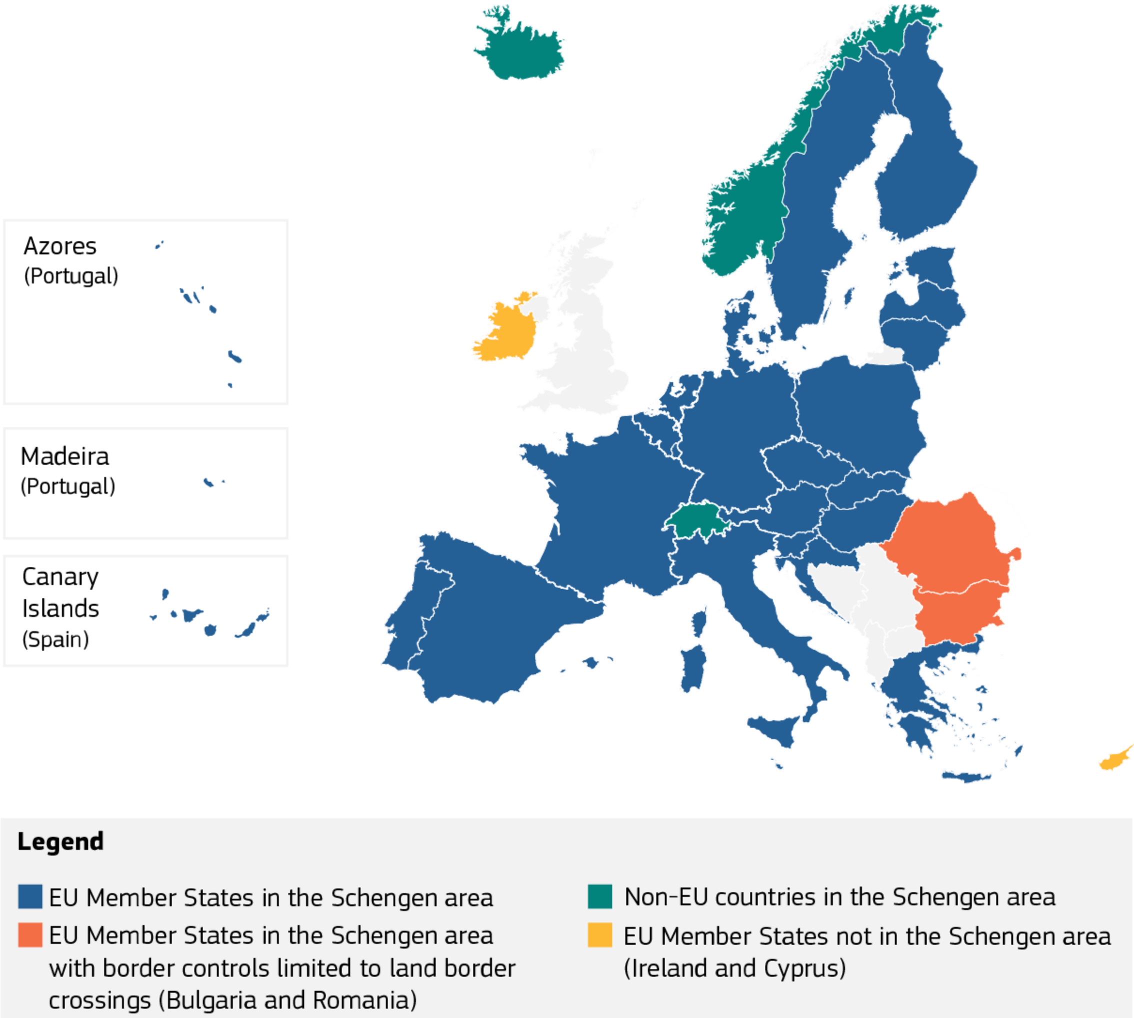
The 2023 budget allocated to the **Integrated Border Management Fund** followed the European Council conclusions of 9 February 2023, focusing on control of the EU external borders, and therefore included EUR 141.2 million aimed at enhancing the electronic surveillance systems at external land borders and EUR 201.1 million allocated to increase the European Border and Coast Guard operational capacity for national and EU actions to protect the EU's external borders.

The **Internal Security Fund** helped the EU to respond to the deterioration of the geopolitical context and compounded security threats. The European Council conclusions of 26 and 27 October highlighted such increased risks to internal security not only in relation to terrorist attacks directed at individuals but also to critical infrastructure. The Council conclusions called to engage in concerted efforts to mobilise all relevant policy areas at the EU and Member State levels, including by 'strengthening law enforcement and judicial cooperation, information exchange through the full use of relevant databases, protection of the external borders, fight against smugglers and close cooperation with third countries.' The fund has supported 651 interventions in all sectors of the economy between 2014 and 2023.

Ensuring free movement within the EU

In the current challenging geopolitical and economic context, a **fully functioning Schengen area is instrumental to stability, resilience and recovery**. On 1 January 2023, **Croatia** joined Schengen as its 27th member. Moreover, on 30 December 2023 the Council, fully supported by the European Commission, took the unanimous decision to welcome **Bulgaria and Romania** into the area, starting with lifting controls at air and sea borders as of March 2024. The Schengen area now allows 420 million people to travel between Member States without the requirement of going through border controls.

Countries in the Schengen area (as of April 2024)



Source: European Commission

Smart borders require **modern, effective and efficient management**, which strikes a balance between facilitation for travellers and internal security. In 2023, the Commission finalised legislation for the implementation of the Entry/Exit System (14) and progressed with legislation to implement the European Travel Information and Authorisation System (15), including allocating EUR 25.5 million to facilitate the automatic border crossing and the revised Visa Information System (16). The systems will enhance management and control of our external borders and thus improve internal security. To increase the interoperability between information technology systems for border management, the EU has been investing EUR 0.6 billion during 2021-2027.

(14) Regulation (EU) 2017/2226 of the European Parliament and of the Council of 30 November 2017 establishing an Entry/Exit System (EES) to register entry and exit data and refusal of entry data of third-country nationals crossing the external borders of the Member States and determining the conditions for access to the EES for law enforcement purposes, and amending the Convention implementing the Schengen Agreement and Regulations (EC) No 767/2008 and (EU) No 1077/2011, ELI: http://data.europa.eu/eli/reg/2017/2226/oj.

(15) Regulation (EU) 2018/1240 of the European Parliament and of the Council of 12 September 2018 establishing a European Travel Information and Authorisation System (ETIAS) and amending Regulations (EU) No 1077/2011, (EU) No 515/2014, (EU) 2016/399, (EU) 2016/1624 and (EU) 2017/2226, ELI: http://data.europa.eu/eli/reg/2018/1240/oj.

(16) Regulation (EU) 2021/1134 of the European Parliament and of the Council of 7 July 2021 amending Regulations (EC) No 767/2008, (EC) No 810/2009, (EU) 2016/399, (EU) 2017/2226, (EU) 2018/1240, (EU) 2018/1860, (EU) 2018/1861, (EU) 2019/817 and (EU) 2019/1896 of the European Parliament and of the Council and repealing Council Decisions 2004/512/EC and 2008/633/JHA, for the purpose of reforming the Visa Information System, ELI: http://data.europa.eu/eli/reg/2021/1134/oj.

ERASMUS+

Erasmus+ is the EU mobility programme in the fields of education, training, youth and sport. For over 35 years, the programme has been among the **most successful initiatives of the EU**, profoundly enabling people, organisations and policies across Europe by fostering skills, collaboration and mutual discovery. In 2023, the programme also continued to help the EU to achieve its objectives in areas such as inclusion and diversity, active citizenship and democratic participation, along with the green and digital transitions in the EU and internationally. The Erasmus+ programme had a 2023 budget of more than EUR 3.9 billion.

In 2023, **ERASMUS+ supported a range of activities aimed at supporting education and personal development, such as the examples shown below:**

- **720 000 learners** participated in mobility activities in 2023;
- **50 European Universities alliances**, involving more than **430 higher education** institutions from all parts of Europe, are involved in the **2023 Erasmus+ call**;
- **2.3 million European student cards** were issued by universities and other institutions by the end of 2023;
- for the first time, **sport coaches** and other **sport staff** participated in **learning mobility opportunities**: this novelty was highly appreciated by grassroots sport organisations,attracting considerable demand from **5 054 participating organisations and institutions**;
- the **Erasmus+ app** registered over **218 000 downloads**;
- a record increase of digital exchanges between higher education institutions was registered and a total of **27 Erasmus+ Teacher Academies** were supported in 2023.

The implementation of the **European strategy for universities** continued at full speed in 2023. The 2023 Erasmus+ calls also supported 100 000 traineeships for higher education students. The 2023 Erasmus+ calls also supported new innovative approaches to learning and teaching, including living labs, student incubators, green and digital skills, and innovators at school.

Two application rounds took place for **DiscoverEU** in 2023; 289 695 young people applied for a travel pass, and 71 642 were selected. In 2023, the budget for **youth participation activities** was reinforced, involving more than 18 400 young people. The **European Youth Portal** totalled 10 132 367 visits in 2023 and remained in the top 10 of the most visited europa.eu websites in 2023.

Since the start of Russia's war of aggression against Ukraine, **the Erasmus+ programme has been mobilised**, thanks to its built-in flexibility, to support projects promoting educational activities and facilitating the **integration of people fleeing the war in Ukraine** into their new learning environments, along with activities supporting organisations, learners and staff in Ukraine. Participating organisations have been encouraged to focus their activities as they see fit. A focus was placed on key action 1 (mobility) projects, relating to their capacity to support incoming mobility from Ukraine and facilitate the integration of learners and staff fleeing the war in Ukraine.

European Solidarity Corps

The EU is built on solidarity. The **European Solidarity Corps** finances projects giving young people the opportunity to volunteer in a range of areas, from helping the disadvantaged and delivering humanitarian aid to contributing to health and environmental action across the EU and beyond. The volunteering projects awarded in 2023 had a tight focus on inclusion and diversity with 978 awarded projects and 705 projects addressing participation in democratic life. Calls in 2023 resulted in over 4 500 applications for volunteering and solidarity projects, with 2 401 projects awarded.

Investing in European culture

The **creative Europe programme** is the EU's direct fund providing support to the cultural and creative sectors, with an established budget of **EUR 2.44 billion** for the 2021-2027 multiannual financial framework period and EUR 334.3 million for 2023 alone. The programme aims to safeguard, develop and **promote European cultural and linguistic diversity and heritage** and to increase the competitiveness and the economic potential of the cultural and creative sectors, and in particular the audiovisual sector.

In 2023, close to **EUR 85 million was allocated to cultural projects, including European cooperation projects**, the circulation of European literary works, platforms for the promotion of emerging artists, pan-European cultural entities, and the networks of cultural and creative organisations. In particular, an envelope of EUR 60 million was dedicated to the funding of the cooperation projects, allowing the selection of 138 proposed projects. **Over EUR 185 million was awarded to audiovisual projects, including the creation of films, television series and video games**, providing support to distribution and innovation, and helping producers to reach wider audiences through a network of European cinemas, European festivals, pan-European film promotion, subtitling and film education. Moreover, in 2023, **creative Europe signed the first agreement with a financial institution** under the MediaInvest equity tool for EUR 25 million, which benefited 1 802 artists and cultural professionals with the 'culture moves Europe' mobility scheme, and supported 465 transnational partnerships and 127 programmes addressed to socially marginalised groups.

Creative Europe contributed to the Green Deal with the EU youth cinema: Green Deal 2024-2026, an audience development project, in 6 languages across 12 countries, aimed at fostering an environmentally conscious young community. On the green, albeit digital, side, the programme supported MIAM!, a real-time computer-generated imagery production pipeline for three-dimensional animation based on video game solutions that allows to minimise carbon impact. Moreover, a European carbon emissions calculator for audiovisual productions was funded.

Cultural projects witnessed an **ever-increasing number of applications to its actions**. In particular, the applications for the **European cooperation projects** rose from 461 proposals in 2021 to 831 in 2023 for a 78% increase.

EU cohesion policy, in particular through the **European Regional Development Fund**, has been supporting European regions in their efforts to add value to geographical assets and cultural and historical heritage. The 2021-2027 cohesion policy includes EU **support for culture and cultural heritage that amounts to EUR 5.4 billion across 19 Member States** and in territorial cooperation programmes ([17]).

Fighting cancer in Europe

In the frame of **Europe's beating cancer plan**, in 2023, the **EU4Health programme** mobilised EUR 187.3 million for cancer prevention, screening and treatment, along with mental health support for cancer patients and families, and quality of life improvements for cancer survivors. The EU4Health programme itself, with an operational budget of EUR 735.8 million for 2023, includes the fight against cancer as a cross-cutting item.

In 2023, the EU4Health implementation resulted in the piloting of the inter-specialty cancer training programme developed through the completed 'INTERACT-EUROPE' project, the launch of the digital infrastructure supporting the European Cancer Imaging Initiative and 12 new projects aimed at beating cancer. In 2023, the Commission also published the country cancer profiles as part of the European Cancer Inequalities Registry. The actions carried out in the area of health also included the **2023 Cancer Mission call part of Horizon Europe**, which saw 103 eligible proposals submitted and 13 grant agreements signed.

([17]) These figures only take into account the direct allocations to culture and cultural heritage and do not capture the full European Regional Development Fund support to the sector.

A new push for European democracy

Democracy is about our individual right to be heard. But democracy is also our collective responsibility. Every new generation is responsible to keep our democracy healthy. To make it more representative and inclusive. To protect it from internal and external threats.

Ursula von der Leyen

President of the European Commission

Promoting the rights and values of the EU

In 2023, democracy in the European Union faced several challenges, such as rising extremism, election interference, the spread of manipulative information and threats against journalists. Faced with that in 2023, the EU supported democracy in various ways, including reaching an agreement on the **European Media Freedom Act** and adopting the **Defence of Democracy** package in December 2023. In this package, the Commission underlines that democracy is supported under various EU programmes, including Erasmus+, the European Solidarity corps, Horizon Europe, digital Europe and creative Europe in the fields of **election support, media and disinformation actions and civic space enhancement**. Moreover, the pre-accession assistance programme, the cohesion policy funds and the Neighbourhood, Development and International Cooperation Instrument – Global Europe programmes provide support to civic space engagement, media and disinformation actions and election supports both within and outside Europe ([18]).

Following up on the **Conference on the Future of Europe**, the Commission implemented in 2023 the Citizens' Engagement Platforms, with the three European Citizen Panels providing suggestions accepted by the Commission on food waste, virtual world and learning mobility.

The EU budget has allocated over EUR 1.1 billion between 2021-2027, including EUR 214 million in 2023, to the **citizens, equality, rights and values programme** to promote the rights and values of the EU. This programme supports a broad range of organisations that promote and protect EU values and rights, increase awareness of rights, values, principles culture, history, laws and policies, enhance capacity and foster cross-border cooperation and mutual knowledge, understanding and trust. It also supports training and capacity-building, along with town twinning and the exchange of good practices between Member States' authorities and bodies. Over **31.4 million people are expected to be reached by 2021-2023 projects**. In 2023 alone, 262 projects worth a total of EUR 150.4 million aimed at promoting equality.

Moreover, the citizens, equality, rights and values programme **enhanced civic participation at the EU level, supporting the European Citizen's Initiative** with EUR 2 million in 2023. The initiative registered its 100th proposal in 2023, entitled 'Connecting all European capitals and people through a high-speed train network'. The programme also allowed, via procurement contracts, the organisation of workshops on 'public campaign for combatting hate speech and hate crime', mutual learning and exchanges of good practices on gender equality; an event on '30 years of citizenship rights' and a number of Eurobarometer surveys.

([18]) Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions on Defence of Democracy, COM/2023/630 final.

The **citizens, equality, rights and values programme** finances projects and initiatives on a wide range of topics, all aimed at promoting EU values. In 2023, the programme:

- committed an envelope of EUR 24.9 million for the call aiming to **prevent and combat gender-based violence and violence against children**, under the Daphne strand of the programme;
- supported the **fight against racism, xenophobia, discrimination** and other forms of intolerance, with a budget of EUR 20 million via a dedicated call on equality;
- provided support to 83 framework partners in the area of **EU values and the European Network of Equality Bodies**;
- **supported 1 045 civil-society organisations** in the area of EU values: 463 in the area of equality, rights and gender equality, 1 266 in the area of citizen's engagement and participation and 3 313 in the area of fighting violence.

Enabling young Europeans to participate in civic society and democratic life

One of the main takeaways of the European Year of Youth 2022 was that **young people have a strong interest in society** and want to be involved. In the second quarter of 2023, work started on a Commission communication with a set of actions that focus on how the Commission can give young people a say concerning the decisions that affect them. The 10th cycle of the **EU Youth Dialogue**, which is the biggest participatory process for young people in the EU, started in July 2023.

In 2023, the budget for **youth participation activities** was reinforced, involving more than 18 400 young people. The Commission embarked on the **preparations for the European Youth Week 2024**, which took place from 12 to 19 April 2024 and focused on fostering active citizenship and democratic participation among young people.

Tackling cybersecurity challenges, disinformation, and safeguarding the 2024 EU elections

In November 2023, the European Commission, together with the European Parliament and the European Union Agency for Cybersecurity, organised a **cybersecurity exercise** as part of a range of measures being implemented by the European Union to **ensure free and fair elections** in June 2024. The drill, which also involved representatives from national electoral and cybersecurity authorities, allowed participants to exchange experiences and best practices, along with enhancing their capacity to respond to cybersecurity incidents.

As part of the preparation for the 2024 EU elections, the Commission has provided support to the Network and Information Systems Cooperation Group ([19]) to **update** its **Compendium on Election Cybersecurity and Resilience**. This update (published in March 2024) was essential due to the rapid **evolution of cybersecurity risks and threats to the integrity of elections**, which include developments in deep fake

([19]) The group's overall mission is to achieve a high common level of security for network and information systems in the European Union. It supports and facilitates the strategic cooperation and the exchange of information among EU Member States. It is composed of representatives of the EU Member States, the European Commission and the European Union Agency for Cybersecurity. The Chair position is filled by the Member State holding the presidency of the Council of the European Union.

audiovisual materials created by means of artificial intelligence, ‘hacktivists for hire’ and cyber-attacks and threats supported by hostile actors amid a volatile geopolitical context.

In addition, the **European Digital Media Observatory** and its hubs were established in 2023 to strengthen the detection and analysis of disinformation campaigns. **Safer Internet Centres** offered counselling and reporting services to young users across the EU, including the reporting of suspected online child sexual abuse material from the public, leading to its takedown. This complements the EU’s 2022 **Digital Services Act**, which aims to create a safer digital space where the fundamental rights of users are protected and to establish a level playing field for businesses.

3. Horizontal policy priorities in the EU budget

This section provides information on the financing of initiatives relating to climate, biodiversity, gender equality and sustainable development goal objectives, as provided for in point 16(d–g) of the Interinstitutional Agreement of 16 December 2020. Information on the contribution of the EU budget to the European Commission's priority of promoting the digital transition is also provided.

Green budgeting

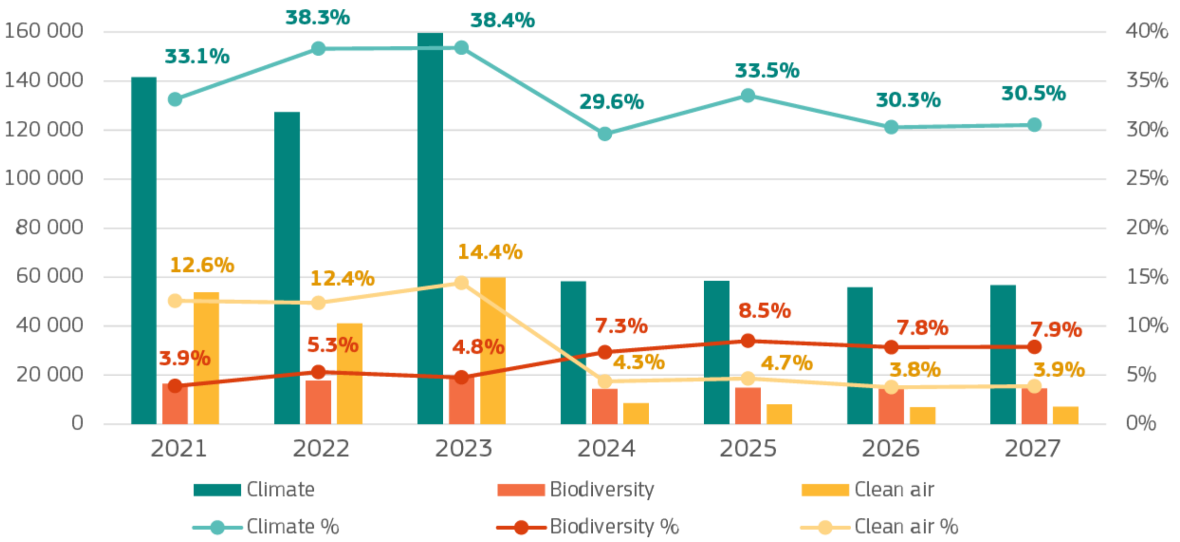
The Commission uses green budgeting as an instrument to enhance the transparency of the EU budget in terms of funding to support climate and environmental objectives, in line with the Paris Agreement and the European Green Deal. In March 2022, the Commission committed to further pursuing its work on green budgeting, together with the French Presidency of the Council of the European Union and several Member States.

The Commission has set the green transition as one of its key priorities for 2019-2024, as set out by President von der Leyen in her political guidelines. The European Green Deal, adopted in 2019, confirms this ambition. In line with the Green Deal, the European Climate Law, adopted in 2021, specifically prescribes that the EU should become climate-neutral by 2050 and sets an intermediate target of reducing net greenhouse gas emissions by at least 55% by 2030 compared to their 1990 levels. In addition, the Commission has proposed a reduction of at least 90% by 2040.

To underscore its commitment to its climate and environmental goals, the EU has set quantitative targets for its 2021-2027 multiannual financial framework and NextGenerationEU funding. In particular, **the EU has committed to dedicating at least 30% of its multiannual financial framework and NextGenerationEU budget to climate-relevant expenditure, and 7.5% of the 2024 annual budget and 10% of the 2026 and 2027 annual budgets to protecting and enhancing biodiversity**.

The EU's green budget is established around four areas: climate adaptation, climate mitigation, biodiversity and clean air. It also includes a strong 'do no (significant) harm' component that covers both climate and environmental objectives. All activities have to comply with this principle, in line with the relevant legislation.

Expected green contribution (budgetary commitments)in the 2021-2027 period (million EUR) ([20])



Source: European Commission.

([20]) As the same action can contribute to more than one objective, it is important to recall that horizontal priorities (e.g. climate, biodiversity and clean air figures) cannot be summed up to avoid double counting.

The data available for the 2021-2027 period show that the **EU budget is on track to reach its 30% target for climate mainstreaming**, thanks to the strong performance of the Recovery and Resilience Facility and the RepowerEU initiative, which are also contributing to clean air tracking. All the data used in this report use expected commitment appropriations.

For biodiversity mainstreaming, while the projection for 2024 is close to the target, the 2026 and 2027 targets will be more difficult to achieve. More details are available in the specific section on biodiversity below.

It is important to note that other funds managed by the Commission also contribute to the green budget priority, despite not being part of the multiannual financial framework, such as the Innovation Fund, the Modernisation Fund and the upcoming Social Climate Fund. The revenues from these funds come from the EU Emissions Trading System.

The amounts above are calculated based on commitment appropriations, as shown below.

- For direct management, estimates are prepared by each service based on the most updated data available (including data from the financial system for climate mainstreaming only). For future estimates, work programmes, sectorial targets and historical values are used.
- For shared management, past and future figures are presented on the basis of the programmes and common agricultural policy strategic plans agreed with the Member States and updated according to the annual reports.
- For indirect management, the figures are based on the existing targets and agreements with the implementing partners, along with their annual reports.
- Past expenditures are corrected every year following a quality review operated by the different services to reflect the additional information received on the project selected.

Focus on results ([21])

32 070 752 megawatt-hours of estimated energy efficiency savings per year from private and public buildings.	**87 million tonnes of carbon dioxide equivalent avoided per year**, of which more than half through NextGenerationEU green bond investments. Additionally, 442 million tonnes of carbon dioxide reduction are expected from the Innovation Fund over the first 10 years of operations.	**126 851 additional megawatts** of renewable energy capacity installed.

A focus on results is fundamental for green budget action and the EU budget in general. The results stemming from available indicators can be used to achieve more targeted spending and to improve steering of the EU budget. It can also make the green transition more efficient by improving accountability. The latter is also important in view of the need to contribute to multiple international commitments.

([21]) Aggregated data of core performance indicators reflecting estimated and expected impact from the EU budget project as from 2014.

The focus on energy efficiency, emissions reduction and renewable energy expansion is crucial for achieving the EU's climate neutrality goals and achieving the 2030 targets. The above results show that the Member States are diversifying their energy mix and gradually reducing their reliance on fossil fuels, thus lowering energy costs. This also results in decreased emissions of greenhouse gas, helping combat climate change, and of air pollutants.

Measuring the actual impact of NextGenerationEU investments

In December 2023 the Commission unveiled the first impact report for NextGenerationEU green bonds, which was presented at the United Nations Climate Change Conference (COP28) in Dubai. This report marks a fundamental transparency achievement, allowing us to measure the **concrete climate impact of the investments** financed by NextGenerationEU green bonds.

Building on the robust EU green bond framework, the report relies on detailed analyses of the milestones and targets for green-bond-financed investments under the Recovery and Resilience Facility to provide the foundation for the calculation of their climate impact, allowing to measure progress on the path to a sustainable future and ensuring a direct link between funding and climate impact.

The analysis reveals that after full implementation, NextGenerationEU **green bond investments have the potential to avoid greenhouse gas emissions by a total of 44 million tonnes of carbon dioxide equivalent per year** – equivalent to 1.2% of the EU's total emissions in 2022. This number represents approximately 57% of the investments financed by green bonds, meaning that subsequent analyses and reports will present an even clearer picture of the true climate impact. While the impact of currently realised expenditure is naturally lower at the initial project stages, the report estimates a reduction equivalent to 224 143 tonnes of carbon dioxide annually. This number will increase quickly with the accelerating implementation of the Recovery and Resilience Facility.

Taxonomy

This year, for the first time, several key programmes within the 'programme performance statements' (Annex 4 of this report) include an analysis on their alignment with the EU taxonomy for sustainable activities. This addition provides a key starting point for future analyses of how EU spending contributes to a greener future ([22]).

While the analysis of taxonomy alignment in the Recovery and Resilience Facility has been detailed previously in the context of NextGenerationEU green bond reporting, this year's 'programme performance statements' broaden the scope to encompass other critical programs. This approach offers a more comprehensive view of the EU's commitment to sustainable financing across its various initiatives.

([22]) Taxonomy alignment is not a prerequisite for funding.

Climate mainstreaming

Achievements

Around 29 million citizens benefited from flood protection between 2014 and 2022, thanks to the interventions financed by the **European Regional Development Fund and the Cohesion Fund.**

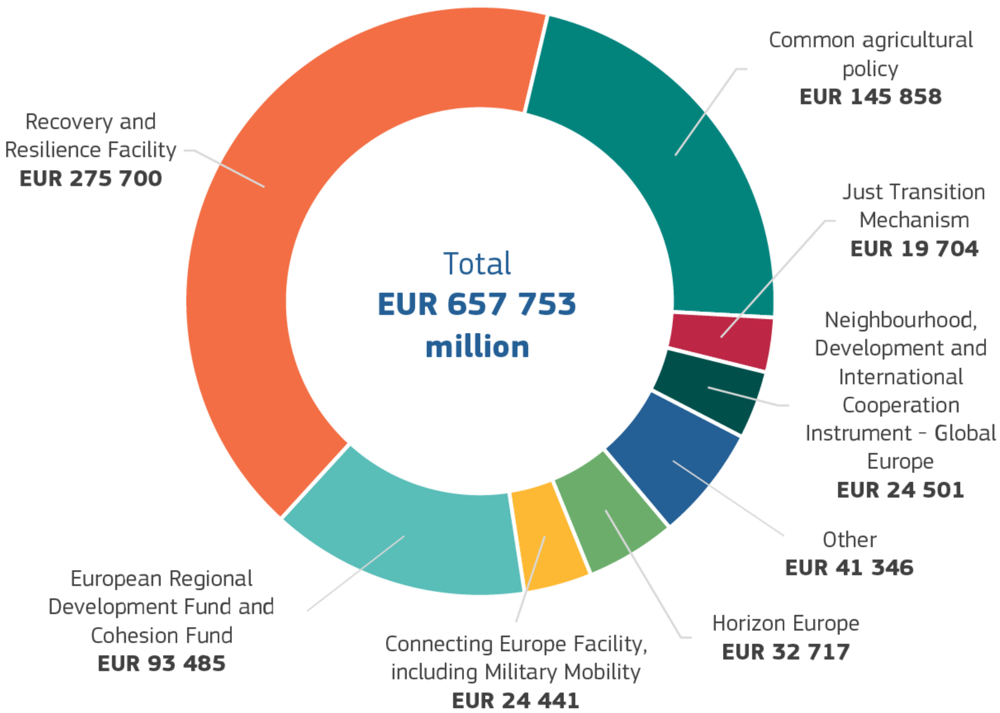
The **common agricultural policy** supports carbon storage (carbon farming measures, peatland restoration, etc.) and contributes to the prevention and reduction of greenhouse gas emissions. Around 188 000 hectares of agricultural land were afforested by 2022 thanks to common agricultural policy support in the 2014-2022 period

With over 300 regional and local authorities committed to the cause, and 50 actively engaged in developing risk assessments, the Climate Adaptation mission financed under **Horizon Europe** is laying the groundwork for resilient communities in the face of climate challenges.

The 'Renewable energy new electric skills' project, financed under the **European Social Fund+**, addresses the need for new skills by creating training courses for electrotechnical roles. These courses cover key areas such as the installation of photovoltaic systems and the conversion of traditional vehicles to electric models. The project aims to equip local workforces with the skills needed to thrive in this evolving sector.

How much do we spend?

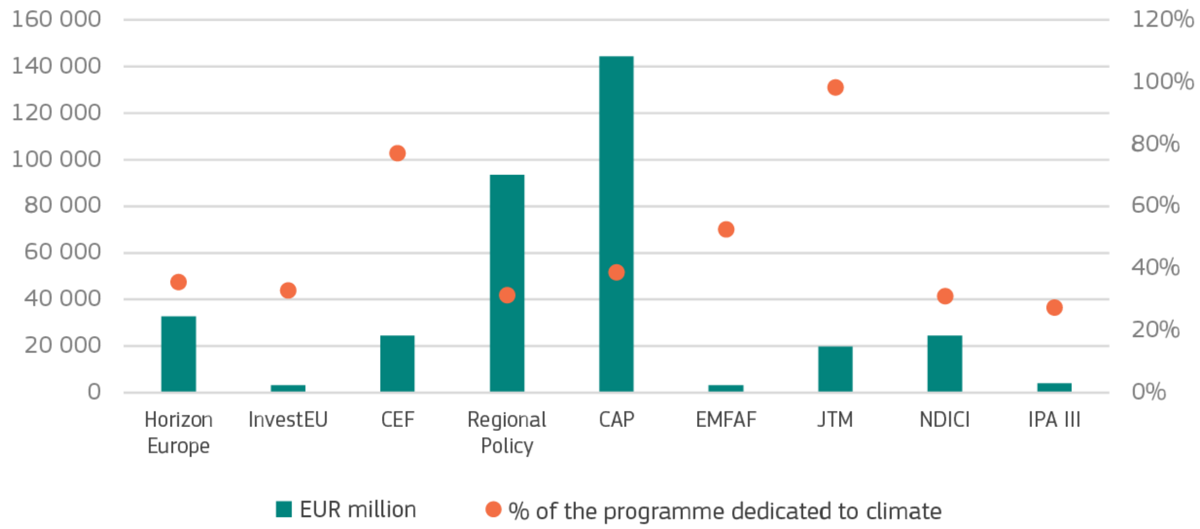
Climate contribution in the 2021-2027 period (million EUR)



Source: European Commission.

For the 2021-2027 period, the EU budget – including NextGenerationEU – is projected to contribute EUR 658 billion to climate spending, representing 34.3% of the budget envelope, surpassing the initial target of 30%.

Planned expenditure in the 2021-2027 EU budget in absolute amounts and estimated percentage of each programme envelope



Horizon Europe, InvestEU Fund, **CEF** – Connecting Europe Facility, including Military Mobility, **Regional Policy** – European Regional Development Fund and Cohesion Fund, **CAP –** common agricultural policy, **EMFAF –** European Maritime Fisheries and Aquaculture Fund, **JTM –** Just Transition Mechanism, **NDICI –** Neighbourhood, Development and International Cooperation Instrument – Global Europe, **IPA III –** Pre-accession Assistance.

Source: European Commission.

On the basis of available information, the EU budget is on track to fulfil both the overall 30% target and its sectoral targets for spending contributing to climate. The 'programme performance statements' (Annex 4 of the Annual Management and Performance Report) include a dedicated section presenting the estimated climate contribution for each programme and the actions undertaken to ensure proper financing of this priority.

Using the percentage of climate spending per programme calculated for budgetary commitments, it is possible to make an estimate for the amount of climate-related spending at the payment level, which stands at 33.9%. On this basis, Member States contributing to the EU budget can calculate their share of green budget contribution for the EU budget. This estimate excludes the Recovery and Resilience Facility, as this is financed by bonds and not by Member State contributions. In line with their sectorial regulations, the Ukrainian Facility and Western Balkan Facility will contribute to climate and biodiversity mainstreaming. The contributions will be reported as from the next reporting cycle when information is available.

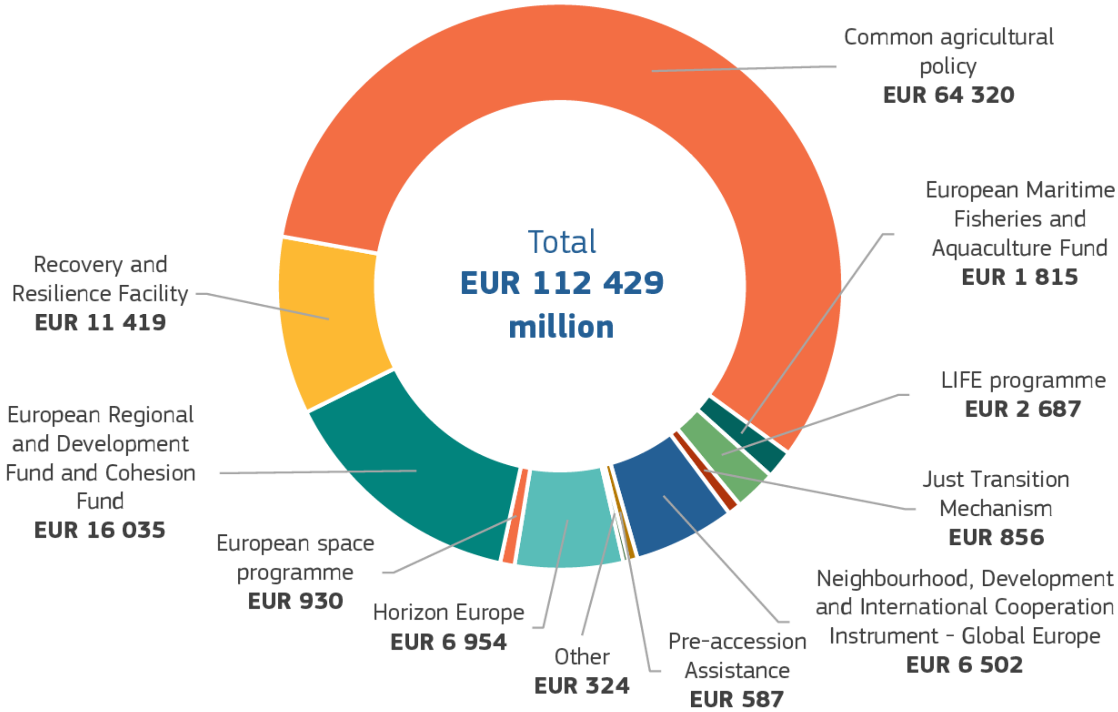
Biodiversity mainstreaming

Achievements

More than 100 species are improving their conservation status as a result of 31 **LIFE** projects funded in 2021.	Thanks to the **European Maritime and Fisheries Fund**, 10 427 operations were supported relating to better management of Natura 2000 and other marine protected areas between 2014 and 2022.
The **common agricultural policy** supported 20.3 million beehives in 2022.	17 695 km^2 of marine, terrestrial and freshwater ecosystems protected and/or sustainably managed with EU support under the **Neighbourhood, Development and International Cooperation Instrument.**

How much do we spend?

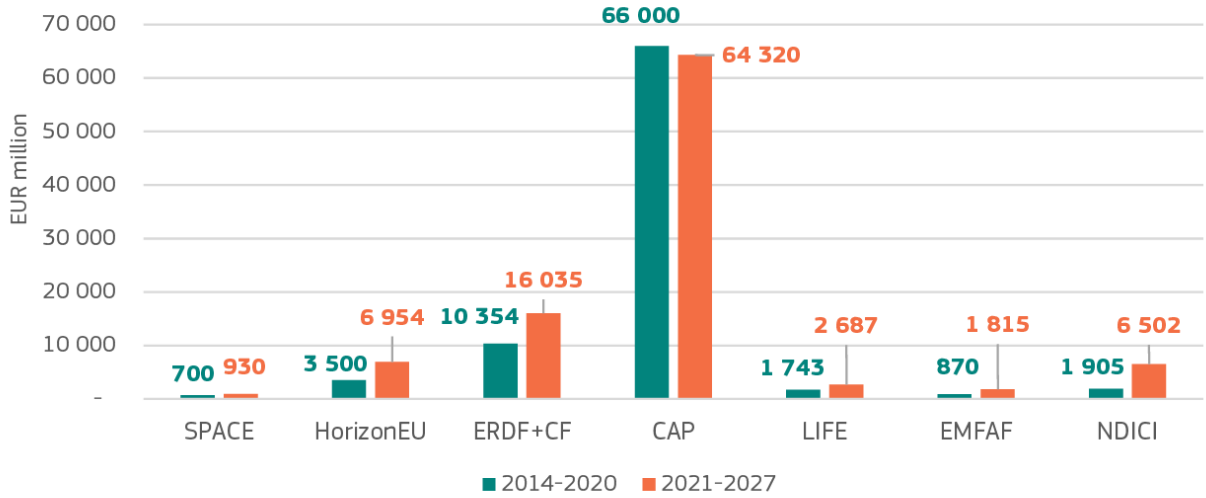
Biodiversity contribution in the 2021-2027 period (million EUR)



Source: European Commission.

For the 2021-2027 period, the EU budget – including NextGenerationEU – is dedicating EUR 112 billion, or 6% of the multiannual financial framework, to the fight against biodiversity loss. While the projection for 2024 is close to the 7.5% target, the 2026 and 2027 10% targets will be more difficult to achieve. The Commission is working to further increase the financing in this area with the help of all stakeholders, as already done for direct management programmes such as Horizon Europe and the Neighbourhood, Development and International Cooperation Instrument. In external action, for instance, the Commission estimates confirm that the EU budget is on track to double its financing towards non-EU countries, compared to the 2014-2020 multiannual financial framework.

Biodiversity contribution comparison of the 2014-2020 and 2021-2027 periods (million EUR) ([23])



SPACE – Space programme, **HorizonEU** – Horizon Europe, **ERDF+CF** – European Regional Development Fund and Cohesion Fund, **CAP** – common agricultural policy, **LIFE** programme, **EMFAF** – European Maritime Fisheries and Aquaculture Fund, **NDICI** – Neighbourhood, Development and International Cooperation Instrument.
Source: European Commission.

It is worth noting that the common agricultural policy methodology for the 2023-2027 period has a higher level of granularity and ambition compared to the methodology used in 2014-2022, allowing for more precise and conservative estimates compared to the past. As from the draft budget 2024, the contribution of the common agricultural policy to biodiversity is estimated by the Commission through the application of EU coefficients (100%, 40% and 0%) and weighting factors (100%, 70% and 50%) that aim to reflect the differentiated contribution of each type of interventions towards the biodiversity objective. Furthermore, given the design of the common agricultural policy and the cohesion policy funds – and the financial programming of the two programmes - it is not possible to guide resources towards specific years.

In line with their sectorial regulations, the Ukrainian Facility and Western Balkan Facility will contribute to climate and biodiversity mainstreaming. The contributions will be reported as from the next reporting cycle when information is available.

Clean air

Achievements

The **LIFE** 'GREEN-STOVE' project produces an innovative pellet stove that can significantly reduce pollutant emissions and optimise the use of biomass as an alternative to fossil fuels for residential heating, ensuring 92% efficiency and much cleaner combustion.

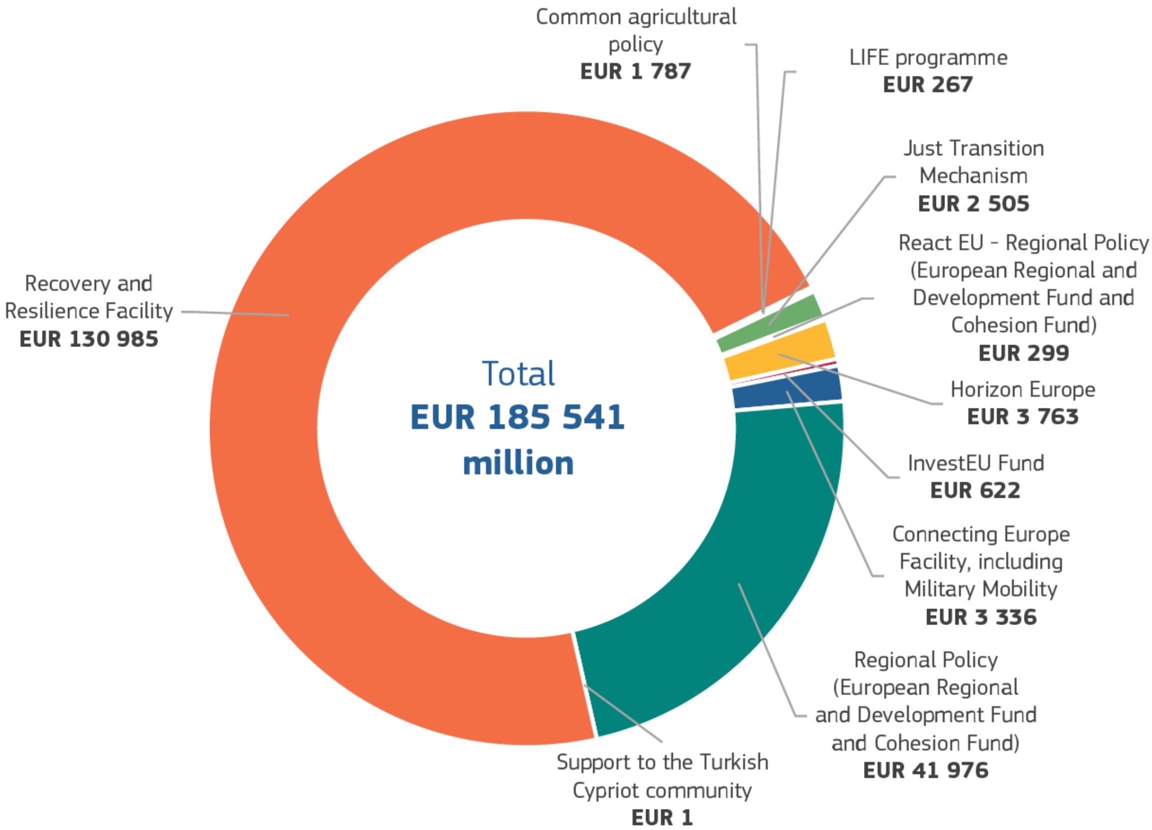
Thanks to the **EU aid programme for the Turkish Cypriot community**, the replacement of 45 km of the sewage network in Famagusta has helped correct all the defects in the system, which led to the city being plagued with foul smells for years. Ten air quality monitoring network stations were provided, which form an integrated network measuring air quality across the Turkish Cypriot community.

([23]) Comparison of 2021-2027 funds with the existing previous funds in 2014-2020 (e.g. Copernicus 2014-2020, SPACE 2021-2027).

The 2Zero Emission Partnership, financed under **Horizon Europe**, aims to accelerate the development of zero tailpipe-emission road transport in Europe, contributing to improved air quality and mobility safety for both people and goods. By fostering innovation, production and services in the field of road transport, the partnership ensures future European leadership in this critical area. Building upon the successes of previous initiatives like the European Green Cars Initiative and the European Green Vehicles Initiative, the 2Zero partnership brings together stakeholders to implement an integrated system approach covering battery electric vehicles and fuel cell electric vehicles. Through collaboration with various European technology platforms, the partnership extends its scope to cover the integration of zero tailpipe-emission vehicles into the ecosystem, thereby boosting EU competitiveness and technological leadership.

How much do we spend?

Clean air contribution for the 2021-2027 period (million EUR)



Source: European Commission.

For the 2021-2027 period, the EU budget – including NextGenerationEU – is dedicating EUR 186 billion, or 9.7% of the multiannual financial framework, to clean air priorities.

The European Union has been working for decades to achieve clean air, striving for levels that minimise health risks and environmental damage. Thanks to stricter regulations on emissions and integrating clean air priorities into various policies, air quality has demonstrably improved across the EU. This success is a result of collaborative efforts at all levels – EU, national, regional, and local. EU funding has also been instrumental, directly supporting clean air projects and weaving clean air goals into other investments like infrastructure development.

To ensure continued progress, the EU monitors how its funding contributes to Member States' clean air objectives. This monitoring serves a dual purpose: it helps assess the effectiveness of current funding programmes in supporting clean air policies and informs future funding allocations. The expenditure calculations now take into account the new legislative basis for the common agricultural policy and the introduction of RePowerEU.

Gender equality mainstreaming

The Commission established gender equality as a cross-cutting objective for all policy areas. The Commission's long-standing commitment to gender equality gained new momentum with the adoption of the 2020-2025 gender equality strategy, which delivers on the Commission's commitment to achieving a European Union of equality. It sets out policy objectives and initiatives to achieve significant progress towards a gender-equal Europe by 2025.

Since the beginning of the COVID-19 pandemic the Commission has moved decisively to develop a comprehensive set of initiatives, comprising both first-response measures and more structural measures, in the context of NextGenerationEU and the reinforced multiannual financial framework. The resulting policy response focuses on fair and inclusive recovery. It ensures that equality is at the heart of recovery, and is designed to mitigate the disproportionate impact that the crisis has had on many vulnerable groups in society, irrespective of sex, racial or ethnic origin, religion or belief, disability, age or sexual orientation.

Achievements

InvestEU backed total investments of EUR 2.4 billion supporting gender equality in 2023. The programme aims to provide tailored advisory support and capacity building to improve access to finance for female-founded and female-led companies.

Horizon Europe requires for applying entities to have a Gender Equality Plan in place to be eligible for funding. The EU Award for Gender Equality champions, awarded for the first time in March 2023, seeks to foster a community of champions who can inspire and encourage other academic and research organisations towards becoming gender equality champions.

The '100 Percent' project, backed by the **European Social Fund**, offers free consultancy to Austrian companies to help them close the salary gap. The project supports companies to design transparent remuneration systems and to recognise and improve opportunities for women at work.

Recovery and resilience investments are complemented by structural reforms that can be supported by the Technical Support Instrument, and which have a considerable impact on gender equality. These include the reforms to close the gender pay gap in Estonia, to combat gender inequalities in Portugal, to better regulate the profession of nursing assistants in Sweden, to improve the prenatal and neonatal health screening in Bulgaria, and the Spanish Public Health Strategy, which incorporates a gender and equity perspective in all public health actions.

In Yemen, the Commission mobilised over EUR 5 million in **partnership with Save the Children** to monitor and report grave violations and other serious child rights violations and to deliver life-saving child protection. This action was implemented with a specific focus on gender: following specific consultations with girls; targeting specific problems for girls (child marriage, early pregnancies, school dropout and lack of safety); and with the aim of ensuring women's and girl's empowerment, equal access services and community participation.

Under the **Neighbourhood, Development and International Cooperation Instrument programme**, in the Eastern Partnership, the EUR 9.7 million EU4Gender equality programme 2020-2023 continues to aim to strengthen equal rights and opportunities for women and men in the Eastern Neighbourhood by challenging gender stereotypes, work on violence prevention and championing men's participation in care work. The programme also includes a reform helpdesk that supports governments' reform work towards equal opportunities for women and men.

How much do we spend?

In line with the 2020-2025 gender equality strategy, NextGenerationEU and the 2021-2027 multiannual financial framework provide a wide range of EU funding and budgetary guarantee instruments to support initiatives promoting women's labour market participation and work–life balance, investing in care facilities, supporting female entrepreneurship, combating gender segregation in certain professions and addressing the imbalanced representation of girls and boys in some sectors of education and training. Furthermore, dedicated funding is provided for projects benefiting civil-society organisations and public institutions that implement specific initiatives, including preventing and combating gender-based violence.

The Commission developed its methodology to measure expenditure relating to gender equality at the programme level in the 2021-2027 multiannual financial framework. In this endeavour, the Commission has benefited from fruitful exchanges with the European Institute for Gender Equality, and from constructive engagement with the European Court of Auditors in the context of their special report on gender mainstreaming in the EU budget, published in May 2021.

The methodology was used for the first time across all spending programmes for the financial year 2021, in the context of the 2023 draft budget. This was ahead of the commitments under the interinstitutional agreement accompanying the 2021-2027 multiannual financial framework, in terms of both timeline and scope. For the financial years 2022 and 2023, the methodology was used without modifications. This year, the monitoring of gender expenditure has been enhanced with the inclusion in the 'programme performance statements' (Annex 4 of the present report) of the gender disaggregated data available per programme.

The results of the methodology to measure expenditure relating to gender equality reflect the continuous efforts to reinforce the integration of gender mainstreaming into the EU budget. In line with the methodology, a programme may qualify for one or more gender scores based on the objectives pursued by its respective interventions. The total of the EU budget, based on the aggregation of the 2023 interventions qualifying for each score, has been allocated as shown below.

- **Score 2**: interventions the principal objective of which is to improve gender equality corresponded to 2% of the EU budget implemented in 2023 and were included in 13 programmes.
- **Score 1**: interventions having gender equality as an important and deliberate objective (but not as the main reason for the intervention) corresponded to 9% of the EU budget implemented in 2023 and were included in 16 programmes.

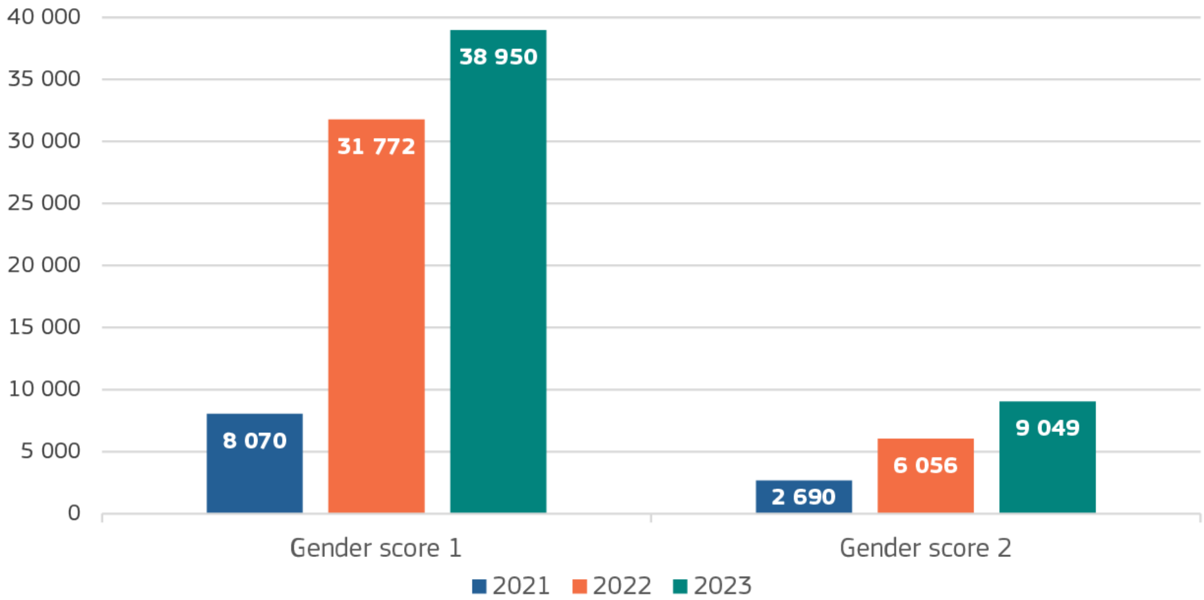
- **Score 0***: interventions having the potential to contribute to gender equality corresponded to 20% of the EU budget implemented in 2023 and were included in 30 programmes.
- **Score 0**: interventions not having a significant bearing on gender equality corresponded to 69% of the EU budget implemented in 2023 and were included in 29 programmes.

In 2023, 11% of the EU budget contributed concretely to the promotion of gender equality (scores 2 and 1), while 20% has the potential to contribute (score 0*) to this objective. On the other hand, 69% of the EU budget can be considered not to have a (significant) bearing on the promotion of gender equality on the basis of the information currently available.

The 2023 results reflect the progress achieved by various programmes in terms of both implementation and reporting capacity, allowing to capture the contribution of the EU budget to gender equality at a more granular level. A key example is the Recovery and Resilience Facility. Following a Commission exercise to flag the Recovery and Resilience Facility measures that include a focus on gender equality, this year the EU budget commitments for this facility from 2021 to 2023 have been assigned scores of 2, 1 and 0, from the previous 0* score.

In 2023, the total EU budget expenditure on projects receiving gender scores 2 and 1 has increased significantly, compared to the amounts reported for 2021 and 2022 in previous years.

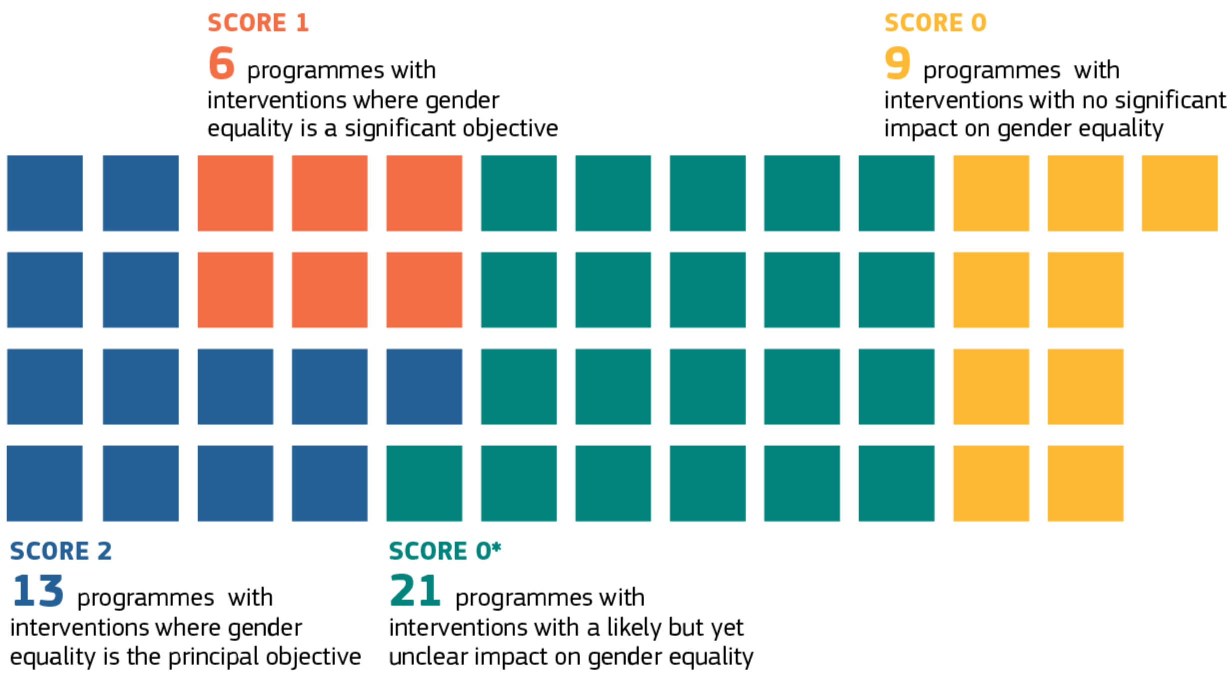
Contribution to gender scores 1 and 2 for 2021, 2022 and 2023 (million EUR) (*)



(*) Based on the amounts reported in the Annual Management Performance Report for the financial years 2021, 2002 and 2023.
Source: European Commission.

When looking at the share of the expenditure in each gender score, it is important to underline the impact in 2023 of the revision of the Recovery and Resilience Facility plans for the RepowerEU chapter. Excluding the measures implemented to tackle the energy crisis with the RepowerEU chapters in the Recovery and Resilience Facility, the share of implemented budget commitments would show an increase of score 2 from 2.1% to 2.5%, and score 1 from 9.1% to 11.9%. In the graph below, programmes are classified on the basis of the highest score they receive, even if only a part of the programme envelope contributes.

Number of programmes with gender equality intervention (classified by their highest score)



Source: European Commission.

Recovery and Resilience Facility

Under the Recovery and Resilience Facility ([24]), the 27 plans adopted contain 136 measures with a focus on gender equality. The investments fully devoted to gender equality include, for instance, the national roll-out of 'early aid' for socially disadvantaged pregnant women in Austria; incentives to foster female entrepreneurship in Italy; the creation of a support line for women in rural and urban areas; and the set-up of a national plan to tackle gender-based violence in Spain. Investments contributing directly or indirectly to gender equality include the improvement of working conditions for professions traditionally performed by women (e.g. the operationalisation of work cards for domestic workers in Romania); investments to boost up/re-skilling of disadvantaged groups, including girls and women (e.g. the 'Solas recovery skills response' programme in Ireland and the funding activities to increase the engagement of women and improving their awareness of information and communication technology career opportunities in Latvia); and investments to improve delivery of care to older people and people with disabilities, a task often taken up by women in the household (e.g. the improvement of home health care in Greece).

These crucial investments are complemented by structural reforms, supported by the Technical Support Instrument, which will have a considerable impact on gender equality. These include the reforms to close the gender pay gap in Estonia, to combat gender inequalities in Portugal, to better regulate the profession of nursing assistants in Sweden and to improve the prenatal and neonatal health screening in Bulgaria. The combination of investments and reforms is one of the main novelties of the Recovery and Resilience Facility. The interplay between gender-related investments and reforms will ensure a higher impact of the Recovery and Resilience Facility spending.

([24]) European Commission (February 2024), 'Mid-term evaluation of the Recovery and Resilience Facility (RRF)', https://commission.europa.eu/about-european-commission/departments-and-executive-agencies/economic-and-financial-affairs/evaluation-reports-economic-and-financial-affairs-policies-and-spending-activities/mid-term-evaluation-recovery-and-resilience-facility-rrf_en.

Gender-disaggregated data

This year the 'programme performance statements' (Annex 4 of this report), which provide detailed performance information at the programme level, have been enhanced to include the relevant gender-disaggregated information available for each programme. This includes a wide array of gender-disaggregated data aimed at improving the monitoring of the performance of the programme in relation to gender equality. For some programmes, particularly those under shared and indirect management, the availability of gender-disaggregated data is constrained by the programme regulations and the implementation agreements.

Looking ahead to the post-2027 multiannual financial framework, the co-legislators have agreed to include in the financial regulation a requirement to ensure that all data collected in relation to performance indicators of the financial programmes will be gender-disaggregated where appropriate. This is a significant step towards improving gender equality monitoring in our programmes and complements the updated 'better regulation guidelines', which will ensure that future *ex ante* impact assessments of all relevant spending programmes duly consider the effects on gender equality from the start.

Examples of gender-disaggregated data reported in the programme performance statements (Annex 4 to this report)

Under the Recovery and Resilience Facility, out of the 1.7 million participants receiving education and training support by the facility in 2023, 1.1 million were female participants, 0.6 million were male participants and 416 were non-binary participants. In addition, the total number of 623 840 people in employment or job searching activities supported by the facility in 2023 is subdivided into 390 479 female, 233 349 male and 12 non-binary participants across all age groups.

Under Horizon Europe, in 2023, out of 54 411 researchers ([25]) involved in upskilling activities (training, mentoring/coaching, mobility and access to research and innovation infrastructures) in projects funded by the programme ([26]), 44.5% were female researchers, 55.4% were male researchers and 0.1% were non-binary researchers.

Under Erasmus+, in 2022 60% of the provided mobility opportunities were taken up by women. The gender distribution varies depending on the field of education: school education has the highest percentage of women (70%), followed by adult education (69%), higher education (61%), youth (57%) and vocational education (52%) ([27]).

Under the citizens equality right and values programme, the data collected shows that projects selected for funding in the 2023 plan involve and target more women than men (52% v 45%, while around 3% are non-binary.

Under the humanitarian aid programme, the percentage of beneficiaries disaggregated by gender is as follows: 52% female, 45% male, 3% unknown ([28]).

([25]) It covers only category C and category D researchers.

([26]) Excluding the European Institute of Innovation and Technology cascading grants and Joint Research Centre direct activities.

([27]) European Commission (2023), Directorate-General for Education, Youth, Sport and Culture, *Erasmus+ annual report 2022*, Publications Office of the European Union, Luxembourg, https://data.europa.eu/doi/10.2766/211791.

([28]) Data extracted from EVA Actions operational data. The data compiled in this internal database have been directly encoded by partners and officers. However, dates have not been double checked to avoid double counting, and thus do not reflect on the final number of beneficiaries from humanitarian actions financed by the Commission in 2023.

Digital tracking

The digital transition is one of the top political priorities of the Commission, as identified in several strategic papers and in the Recovery and Resilience Facility, also due to it being a necessary contributor to what is known as ‘open strategic autonomy’. The digital transition implies an evolutionary and transformative process whereby the EU seeks to attain global leadership in the digital field in a fair and democratic manner. It is a key driver for the EU’s prosperity, economic recovery and resilience and a critical enabler of innovative solutions to address global challenges.

On 9 March 2021, the Commission presented its vision for the EU’s digital transformation by 2030, with a digital compass for the EU’s digital decade that evolves around four digital dimensions:

- skills,
- secure and sustainable digital infrastructure,
- digital transformation of businesses, and
- digitalisation of public services.

On 14 December 2022, the co-legislators adopted the Digital Decade policy programme, taking up the digital compass and its vision, setting up quantitative EU targets for the four cardinal points to be reached by 2030, and establishing a cooperation mechanism with the Member States to progress towards these targets.

Skills

Information and communication technology specialist: 20 million specialists and gender convergence
Basic digital skills: at least 80% of the population

Digital transformation of businesses

Technology uptake: 75% of EU companies using cloud / artificial intelligence / big data
Innovators: grow scale-ups & finance to double EU unicorns
Late adopters: more than 90% of small and medium-sized enterprises reach at least a basic level of digital intensity

Secure and sustainable digital infrastructures

Connectivity: gigabit speed for everyone, 5G everywhere
Cutting edge semiconductors: double the EU share in global production
Data – edge & cloud: 10 000 climate-neutral highly secure edge nodes
Computing: first computer with quantum acceleration

Digitalisation of public services

Key public services: 100% online
e-health: 100% of citizens having access to medical records
Digital identity: 80% of citizens using digital identification

Achievements

5 605 735 dwellings gained access to very high-capacity internet networks, including 5G networks and gigabit speed, through measures under the **Recovery and Resilience Facility** by mid-2023.

Three supercomputers procured by the European High Performance Computing Joint Undertaking and made fully operational in 2023 ranked among the world's top 10 in November 2023.

Under the Connecting Europe Facility, 3 000 terabits per second of additional capacity were created in 2023 by deployed backbone networks, including submarine cables.

Under the space programme, 3.5 billion Galileo-enabled devices were in use in 2023. The positioning accuracy performance of Galileo is three times better when compared to other global navigation satellite systems, with excellent availability.

How much do we spend?

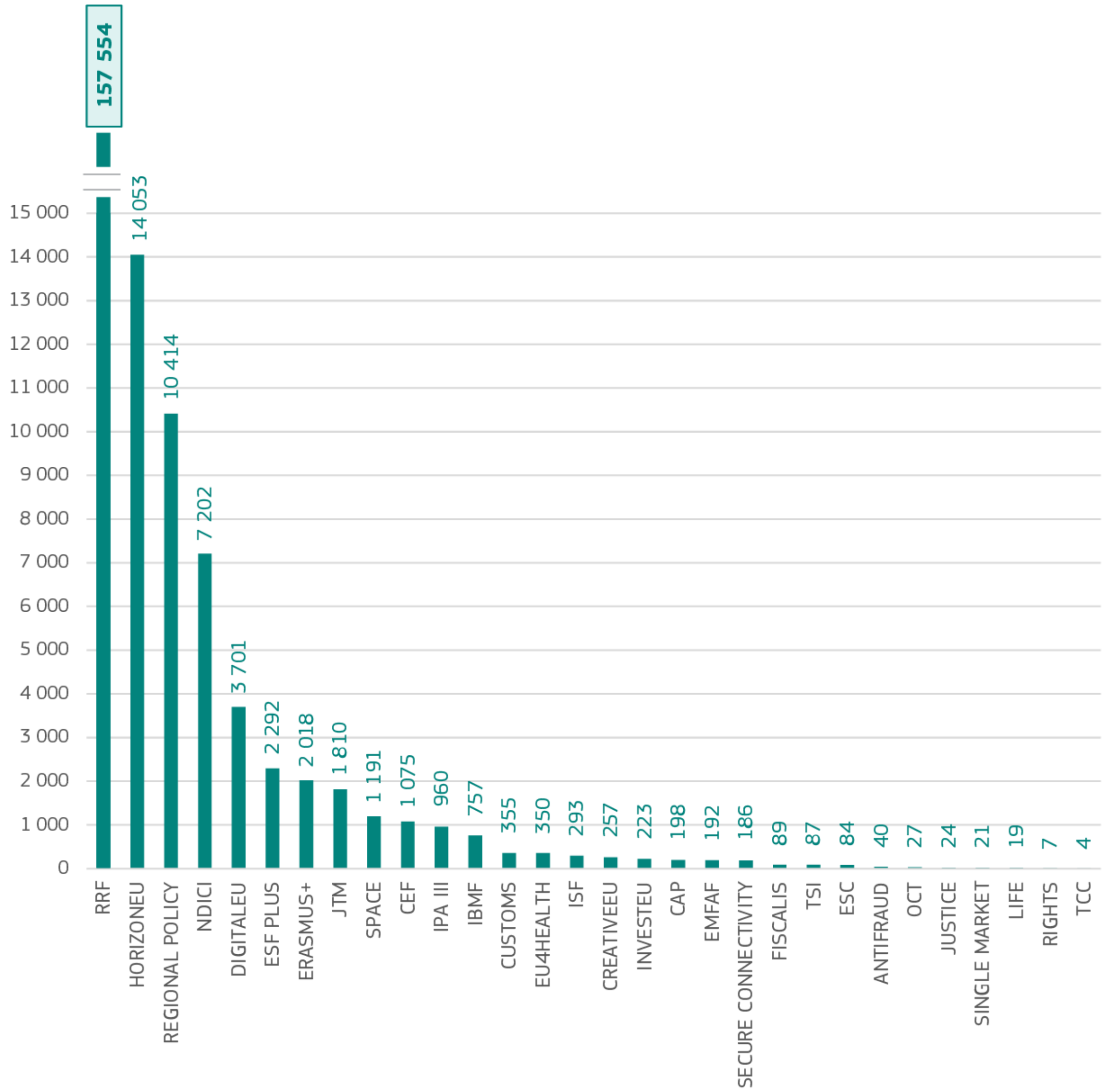
The 2024 stocktaking exercise of the EU spending programmes was conducted for the implementation of the 2021-2027 EU budget during the years 2021-2023. The findings of the stocktaking exercise, as presented below, show that the EU budget, including NextGenerationEU, is channelling significant contributions to all of the digital transition's key dimensions.

This stocktaking exercise is a crucial stepping stone towards a dedicated tracking methodology for digital expenditure. The Commission's ambition is to build on the findings of the stocktaking exercise concerning the concrete contribution of the EU budget towards the digital transition to develop a fully-fledged, robust methodology to be applied consistently across all programmes and providing a solid aggregate contribution of the EU budget towards the digital transition. The exercise is being continued this year and has given some results showing which areas the funding is dedicated to. Since not all programmes are in the position to apply the proposed methodology, the results do not yet show the complete picture.

Based on the results of the stocktaking exercise, **EUR 205.5 billion of the EU budget (including NextGenerationEU) was dedicated to the digital transition from 2021 to 2023, which represents almost 17.5% of the total EU budget** ([29]). An important part of this was contribution of the Recovery and Resilience Facility, which in the same period contributed 24% of its entire budget towards the digital transition.

([29]) Given that a fully-fledged tracking methodology for the digital contributions of the EU budget has not yet been established, any aggregation of the contributions of individual programmes at this stage should be interpreted with caution. This is because the methodologies employed by individual spending programmes may not be strictly comparable. Despite this, such aggregation can still provide a general estimate idea of the total digital contribution from the EU budget.

Estimated contributions to the digital transition of the EU budget programmes, in 2021-2023 (cumulatively) (*)



(*) Including NextGenerationEU, in EUR billion.
For readability purposes, the scale is broken, as the Recovery and Resilience Facility provides more than 10 times more support to the digital transition than the next most contributing programme.

The abbreviations used stand for: **RRF –** Recovery and resilience facility; **HORIZONEU** – Horizon Europe; **NDICI –** Neighbourhood, Development and International Cooperation Instrument – Global Europe; **DIGITALEU** – digital Europe programme; **ESF PLUS** – European Social Fund+; **JTM** – Just Transition Mechanism; **SPACE** – EU Space Programme; **CEF** – Connecting Europe Facility; **IPA III** – Instrument for Pre-accession Assistance III; **IBMF** – Integrated Border Management Fund; **ISF** – Internal Security Fund; **CREATIVEEU** – Creative Europe Programme; **CAP** – common agricultural policy; **EMFAF** – European Maritime, Fisheries and Aquaculture Fund; **SECURE CONNECTIVITY** - EU Secure Connectivity Programme; **TSI** – Technical Support Instrument; **ESC** – European Solidarity Corps; **OCT** – Decision on the Overseas Association, including Greenland; **RIGHTS** – Citizens, Equality, Rights and Values Programme; **TCC** – Turkish Cypriot community.

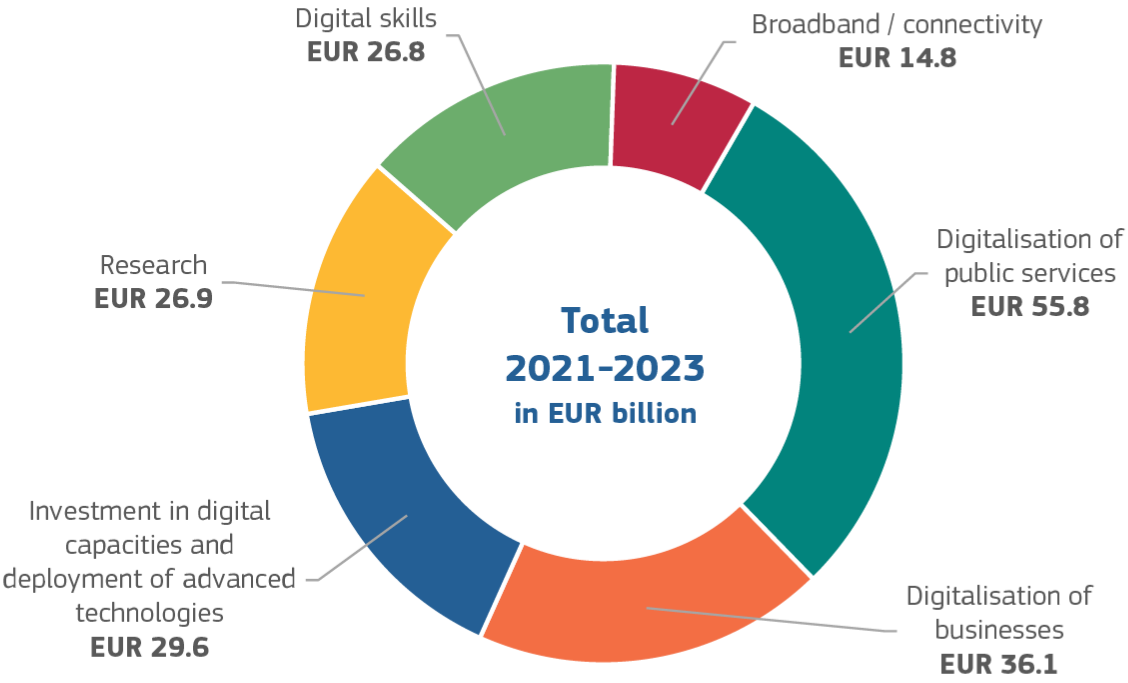
Source: European Commission, based on the 2024 stock-taking.

Almost all programmes that are part of the EU budget contribute to the digital transition. Constraints on data availability only allowed digital-relevant expenditure for the 2021-2023 period to be tracked for 30 spending programmes (out of 48 with EU budget implemented in 2023). Among them are programmes that are likely to have substantial contributions, particularly the European Defence Fund and the union secure connectivity programme. Furthermore, the digital contribution of some programmes is likely to be largely underestimated at this stage: this is the case of the common agricultural policy and InvestEU.

In terms of thematic concentration, the EU budget is primarily supporting government and public bodies in digitalising key sectors, in particular health systems and transport. Significant efforts are also being made to support the digitalisation of businesses, to help the acquisition of digital skills (advanced and basic) and to support research and innovation, along with key advanced digital infrastructure and technologies (such as quantum computing, artificial intelligence and cloud/edge computing). More information is provided in the next section.

For shared management programmes and the Recovery and Resilience Facility, the digital contribution can be calculated for the entire implementation period of the programme, i.e. not at the individual year level. The amount presented for each year is obtained by comparing the total digital contribution over the entire implementation period to the share of the programme envelope committed for that year.

Estimated contributions to the digital transition by key digital dimensions (2021-2023) (*)

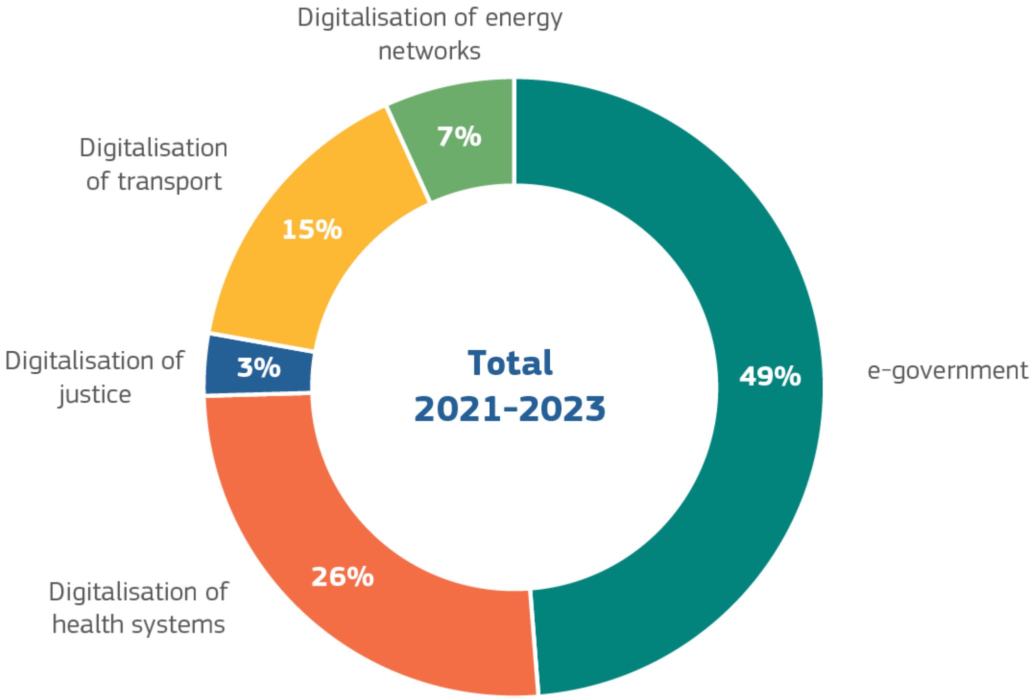


(*) Including NextGenerationEU, in EUR billion.
External actions programmes and the common agricultural policy could not be taken into account due to methodological limitations.
Source: European Commission, based on the 2024 stock-taking exercise.

Digitalisation of businesses and public services

The result of the 2024 stock-taking exercise shows that the EU budget (including NextGenerationEU) is making a significant contribution to the digitalisation of the private and public sectors. Our estimates for the years 2021 to 2023 are EUR 55.8 billion for the support of the EU budget to e-government (including the digitalisation of health and justice systems, or of the transport and energy network) and EUR 36.1 billion for the support to the digitalisation of businesses. The Recovery and Resilience Facility as well as the European Regional Development Fund and the Cohesion Fund are important contributors to these investments. In the years 2021 to 2023, 9% of the EU amounts from the European Regional Development Fund and the Cohesion Fund have been used to finance interventions that advance the digital transition, in particular supporting small and medium-sized companies and public services.

Estimated contributions of the EU budget to the digitalisation of public services (2021-2023) (*)



(*) Including NextGenerationEU.
These amounts are the result of the first stock-taking exercise conducted for the years 2021 to 2023 and exclude the external action programmes and the common agricultural policy due to methodological limitations.
Source: European Commission, based on the 2024 stock-taking exercise.

Supporting the development and deployment of digital technologies and research

From 2021 to 2023, the estimates indicate that the EU contributed EUR 29.6 billion to investment in digital capacities and deployment of advanced technologies, and EUR 26.9 billion to research, including EUR 14 billion from Horizon Europe. The main contributing programmes are the Recovery and Resilience Facility, Horizon Europe, the space programme, the European Regional Development Fund, the Cohesion Fund, the Just Transition Mechanism and the digital Europe programme.

Investing in digital skills

In the years 2021 to 2023, the EU budget including NextGenerationEU is also making a significant contribution to both basic and advanced digital skills, estimated at EUR 26.8 billion. The main programmes contributing are the Recovery and Resilience Facility (EUR 23.7 billion) and the European Social Fund+ (EUR 2.3 billion). Another important contributor was Erasmus+.

Enhancing digital connectivity

The EU budget including NextGenerationEU is contributing to enhancing digital connectivity, which will give all citizens and businesses new opportunities to benefit fully from the digital single market and accelerate economic growth. Amounts dedicated to connectivity, including investments in very high-capacity broadband network and 5G network coverage, are estimated to have reached EUR 14.8 billion for 2021-2023. The main programmes contributing are the Recovery and Resilience Facility (with EUR 13.6 billion), the cohesion policy funds (EUR 764.2 million) and the Connecting Europe Facility.

The common agricultural policy is playing a key role to improve broadband access in rural areas, by supporting broadband infrastructure and improved access to e government. Based on the latest rural development programmes, over the course of the current programming period, the common agricultural policy will have helped nearly 13 million people living in rural areas to benefit from improved access to information, communication and technological services and infrastructure.

The European Social Fund+ focuses on investment in digital skills. For example, the 'Renewable energy new electric skills' project addresses the need for new skills by creating training courses for electrotechnical roles. The new skills are acquired through augmented reality, which makes training more engaging and ensures that it remains relevant in a rapidly advancing digital landscape. Another example is 'Línia Dona', which helps disadvantaged women find work in Catalonia. The training complements job placement and includes, among others, digital skills.

Under the Connecting Europe Facility, 3 000 terabits per second of additional capacity were created by deployed backbone networks, including submarine cables. A total of EUR 450 million was awarded to 24 projects to support the digitalisation of the trans-European transport network railway network, through support to the European Railway Traffic Management System technology. The programme also supports smart electricity grids projects and contributes to the inclusiveness of outermost regions and overseas countries and territories by connecting them with up-to-date submarine backbones and ensuring that they can also benefit from advanced wireless and mobile connectivity.

Under the space programme, 3.5 billion Galileo-enabled devices were in use in 2023. The positioning accuracy performance of Galileo is three times better when compared to other global navigation satellite systems, with excellent availability. During the year, 260 000 registered users of the Copernicus climate change service had access to about 108 terabytes of quality-controlled climate data per day. Copernicus provides a wide range of Earth observation data and related model products. These models allow for forecasts and predictions to be made in certain thematic areas and are valuable content for a vast range of commercial applications, both in the professional and consumer domains.

The twin transition: exploiting synergies

The twin green and digital transitions are deeply interconnected, offering the potential to create significant synergies. The EU budget is instrumental in this process, acting as a key enabler in unlocking these synergies. It provides the necessary financial support for initiatives that align with the objectives of both transitions, thereby ensuring that the potential benefits can be fully realised. The table below illustrates some of the synergies that are being achieved with the support of the EU budget.

EU space data is improving the production of renewable energies while providing valuable insights about the energy potential of natural resources like the sun and wind.

The EU Galileo satellite system supports the implementation of smart grids to improve overall energy efficiency through its precise timing synchronisation services that are essential for adjusting demand to distribution across a wide geographical area. In addition, Galileo authentication services trigger the concept of authenticated timing, eliminating the danger of using inaccurate signals in such a critical infrastructure.

Copernicus, the EU's Earth observation system, **supports the implementation and operation of renewable energy infrastructure** by ensuring efficient placement and predicting energy generation through weather forecasting and monitoring. The Copernicus Climate Change Service provides climate indicators of electricity consumption, alongside estimates of the combined production from all renewable sources at the national and sub-national levels in Europe. These two sets of indicators help planners and policymakers identify the pros and cons of different energy mix options and optimise investment decisions accordingly.

The EU budget and the sustainable development goals

What do we do?

The United Nations' 2030 Agenda for Sustainable Development, with its 17 sustainable development goals and 169 targets, has given new impetus to global efforts to achieve sustainable development. The EU has played an important role in shaping the agenda, through public consultations, dialogue with partners and in-depth research. The EU is committed to playing an active role to maximise progress towards the sustainable development goals, as outlined, for example, in the communication 'Next steps for a sustainable European future', in the Commission staff working document 'Delivering on the UN's sustainable development goals – A comprehensive approach', and recently in the first-ever EU voluntary review on progress in the implementation of the 2030 Agenda for Sustainable Development, adopted on 15 May 2023.

This lasting commitment to the UN sustainable development goals constitutes an overriding political priority for the von der Leyen Commission. Progressing towards the sustainable development goals is an intrinsic part of the President's political programme, and an array of deeply transformative policies had already been presented in 2020, such as the European Green Deal, the Climate Law, a new industrial strategy for Europe, and continue to this day with the Green Deal industrial plan presented in 2023, the 2024 annual sustainable growth survey and the new European skills agenda, among others.

This commitment gained even greater relevance in light of the global COVID-19 pandemic and global turmoil, which provided an impetus and strengthened the need to build back better towards a more inclusive, sustainable, just and resilient future for all, leaving no one behind. Notably, the 2024 annual sustainable growth survey reaffirmed the four priorities under the European semester, namely promoting environmental sustainability, productivity, fairness and macroeconomic stability, with a view to fostering competitive sustainability. This approach is in line with the UN's sustainable development goals, which are an integral part of the European semester and underpin Member State recovery and resilience plans under the Recovery and Resilience Facility. Therefore, the European semester will continue to be a main vehicle for monitoring and promoting progress towards the sustainable development goals, also in a context of increased attention on sustainable and inclusive well-being beyond gross domestic product.

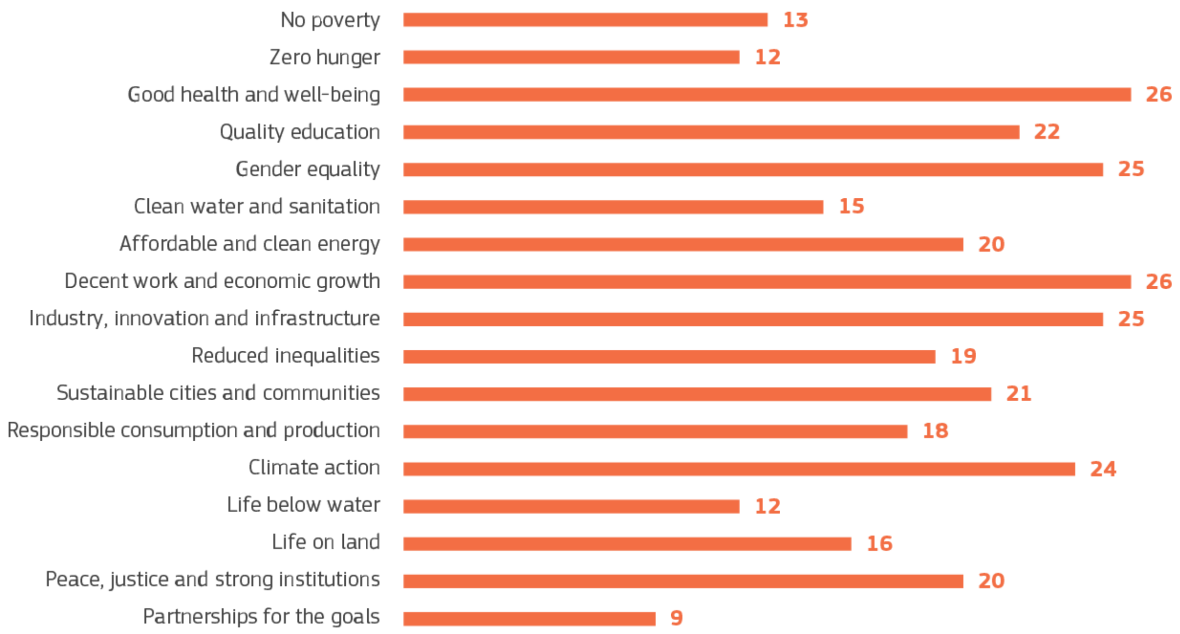
These priorities ensure that the new growth agenda efficiently mobilises resources for the benefit of people and the planet. To this end, a holistic and balanced approach is required, in which the EU works better together with the Member States and across policy fields. Given the division of competences between the Member States and the EU, close coordination is crucial to achieving the sustainable development goals.

Looking at the current multiannual financial framework, in its 2021 communication on better regulation, the Commission adopted further policymaking improvements to ensure that our policies support the recovery and resilience of the EU and its twin green and digital transitions in the best possible way. In this context, the Commission decided to mainstream the sustainable development goals with a view to helping ensure that every legislative proposal contributes to the 2030 sustainable development agenda.

To this end, the Commission now systematically identifies the relevant sustainable development goals for each proposal and examines how the initiative supports their achievement. What is more, links to the sustainable development goals will be included throughout evaluations and impact assessments.

At the EU level, sustainable development challenges are addressed through policies and regulatory instruments. As far as the former are concerned, the EU budget, through its spending programmes, provides a significant contribution to sustainable development by complementing national budgets, in line with the principle of subsidiarity. In doing so, the design and implementation of the EU spending programmes aim to deliver on the objectives in each policy field, while promoting sustainability through the initiatives and interventions of the relevant programmes in a connected and consistent way. In particular, 46 out of 50 of the EU spending programmes contributed towards at least one sustainable development goal in 2023.

Number of programmes contributing to individual sustainable development goals



Source: European Commission.

In light of the cross-cutting nature of the sustainable development goals, and in order to ensure a holistic approach in addressing sustainable development, over 99% of the budget of EU spending programmes contribute to sustainable development goals. What is more, the vast majority of the programme (39 programmes) are designed to address multiple sustainable development goals through their policy actions. The Commission presents the sustainable development goals to which each EU programme contributes, along with examples of their contribution. This is with a view to further enhancing the reporting on the performance of its programmes and providing a deeper understanding of EU policy coherence. The infographic illustrates, in a non-exhaustive manner, the many examples of the contribution of EU programmes to the sustainable development goals.

The 2023 EU voluntary review on sustainable development goals reaffirmed that the EU budget is an effective instrument to deliver major progress on the 2030 agenda and, looking ahead, states that the EU will take further the commitment to inform on the implementation of the sustainable development goals in all relevant EU programmes.

1 NO POVERTY

Thanks to the adoption of its Territorial Just Transition Plan, Romania received EUR 2.14 billion from the **Just Transition Fund** to combat and tackle energy poverty and support a just climate transition to a more attractive and greener economy.

2 ZERO HUNGER

EU humanitarian funding for nutrition, which aims at providing life-saving interventions to the most vulnerable populations, has targeted severely malnourished children in Sudan, as well as children under 5 years of age and pregnant and lactating women in many countries including Syria. Moreover, the EU supports World Food Programme initiatives such as a voucher programme for fresh food with high nutritional values in Syria or emergency food distribution and cash in South Sudan.

3 GOOD HEALTH AND WELL-BEING

The **EU4Health** programme delivers actions to implement the 'Healthier together', 'Europe' beating cancer plan' the 'Mental Health' initiatives and addresses selected health risk factors and health determinants. For 2022 and 2023, EUR 69.7 million has been allocated through the EU4Health programme for actions that promote good mental health.

4 QUALITY EDUCATION

Under the **Neighbourhood, Development and International Cooperation Instrument – Global Europe programme**, EU investments via the Global Partnership for Education from 2021 to 2023 enabled 2.6 million children to access primary education and 1.2 million to access secondary education. The partnership is the largest global education fund for lower-income nations and fosters a unique multi-stakeholder approach. It assists partner countries in addressing education challenges, implementing reforms and aligning stakeholders to drive results. With around 68 partner countries, the partnership prioritises support for the most vulnerable populations, ensuring universal access to education.

5 GENDER EQUALITY

The **citizens, equality, rights and values programme** prioritises equality across all its initiatives. In its 'Daphne' strand, the programme combats gender-based violence and encourages male engagement in advocating for gender equality. In 2023, the strand supported a call aiming to prevent and combat gender-based violence and violence against children with EUR 24.9 million.

6 CLEAN WATER AND SANITATION

Under the **common agricultural policy**, EU Member States have outlined measures in the policy's strategic plans to reduce nutrient losses and pesticide use by 50% by 2030, thereby protecting water resources.

7 AFFORDABLE AND CLEAN ENERGY

The **Connecting Europe Facility** supports energy infrastructure projects of common interest that have significant socio-economic benefits. An example is the 330-kilovolt interconnector between Tartu, Estonia and Valmiera, Latvia, as an important part of the efforts to synchronise electricity grids of the Baltic countries with the rest of the EU's electricity system. The line was part of Phase 1 of the 'Baltic synchronisation' project, which received a total facility grant of EUR 323 million.

8 DECENT WORK AND ECONOMIC GROWTH

Under the **Instrument for Pre-accession Assistance**, 'SMEs Go Green Digital in the Western Balkans' (EUR 22.5 million) contributes to increasing access to finance to enable higher utilisation of digitalisation, automation and competitiveness technologies, supporting the greening of small and medium-sized enterprises, and increasing innovation, competitiveness, growth and trade potential of the private sector via targeted investments and increased awareness within the enterprises, thus facilitating regional and EU integration.

Through **Horizon Europe**, 'EIT Manufacturing' empowers companies to foster climate-friendly practices and community impact via its 'Knowledge and innovation community' model. It also fast-tracks the integration of sustainable manufacturing innovations, in line with the aim of fostering inclusive and sustainable industrialisation. Furthermore, EIT Manufacturing prioritises cultivating future workforce skills and promoting inclusivity and sustainability in the manufacturing sector, thus contributing significantly to reshaping Europe's industrial landscape.

The **European Social Fund+** supports the 'YES Forum', a European network dedicated to empowering young people facing challenges. The forum fosters social inclusion and enhances professional skills to improve the prospects of vulnerable young people, addressing poverty and inequalities. Its activities include providing opportunities in rural areas, promoting education professionals, and reducing 'not in education, employment or training' rates through vocational education and training enhancements.

The **LIFE programme** supports the 'LIFE SNEAK' project, which aims at the reduction of noise from roads in the densely populated urban area of Florence, Italy, where traffic noise and vibrations combine to cause severe disturbance to the population. This will be achieved by means of low-noise/vibration surfaces and retrofitting solutions.

By the end of 2023, the **Recovery and Resilience Facility** supported the introduction of climate action contracts to support the introduction of new, cleaner production technologies for energy-intensive industries in Germany.

The **Innovation Fund** is designed to answer this goal and take urgent action to combat climate change and its impacts. The 'Ecoplanta' project aims at reducing carbon dioxide emissions from municipal non-recyclable waste to produce methanol, while the 'ReLieVe project intends to build up a lithium-ion battery recycling facility for the production and refining of black mass.

Regional fisheries management organisations promote the conservation and sustainable use of the oceans, seas, and marine resources by improving management measures adopted following scientific advice and by promoting healthy tuna stocks in the Atlantic and Indian Oceans, and through the governance framework established by sustainable fisheries partnership agreements with a number of non-EU countries.

The **European Regional Development Fund** is helping to save properties and lives threatened by an increasing number of forest fires during the Mediterranean region's hot and dry summer months. The fund-financed 'OFIDIA2' project supports a network of high-definition cameras, sensors and weather stations connected to control rooms covering 100 hectares of forest in Apulia, Italy. In Greece, cameras, drones and two off-road vehicles watch over more than 15 000 km^2 of forest in Epirus.

The new EU mission in Armenia enhances confidence-building between Armenia and Azerbaijan by conducting routine patrols and reporting on ground situations and conflict incidents. It fosters a safe and stable environment in conflict-affected areas of Armenia, promoting human security and fostering the normalization of relations between the two nations. The Commission allocated EUR 16.6 million for the mission in 2023 under the **common foreign and security policy.**

The **International Thermonuclear Experimental Reactor** is a research facility on fusion as a future source of sustainable energy, with the participation of seven international partners (Euratom, China, India, Japan, Russia, South Korea and the United States) representing more than half of the world's population. Euratom provides 45.45% of all components and cash contributions to the facility through the European Joint Undertaking for ITER and the Development of Fusion Energy.

Annex 2 – Internal control and financial management

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

The European Commission must fulfil its crucial role in shaping and implementing the European Union's policies while making the best possible use of taxpayers' money. It is, therefore, essential to ensure that EU spending is effective, efficient and economical while also compliant with the applicable rules. The Commission strives to achieve the highest standards of financial management while striking the right balance between a low level of error, prompt payments and reasonable costs of controls.

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

In 2023, the expenditure managed by the Commission amounted to EUR 170.7 billion [30] (see figure that follows). This encompasses the share of the EU budget managed by the Commission, along with the European Development Fund [31] and the EU trust funds. This expenditure was done through more than 260 000 payments, ranging from a few hundred euro (for Erasmus+ mobility grants) to hundreds of millions of euro (for large projects such as the International Thermonuclear Experimental Reactor or Galileo and Copernicus, along with budgetary support for partner countries). This shows how the recipients of EU funds are very diverse and numerous. Those expenditure concern both programming periods 2014-2020 and 2021-2027. In 2023, the number of payments related to the latter started to increase and is expected to reach significant levels in the years to come.

Relevant expenditure of the EU budget implemented by the Commission in 2023, by policy area (as percentages and billion EUR)

Single market, innovation and digital	Cohesion, resilience and values	Natural resources and environment	Migration and border management	Security and defence	Neighbourhood and the world	European public administration
EUR 19.1 billion (11%)	EUR 67.3 billion (39%)	EUR 58.1 billion (34%)	EUR 3.0 billion (2%)	EUR 0.14 billion (0%)	EUR 14.2 billion (8%)	EUR 8.9 billion (5%)
More than 5 000 grants were signed under the Horizon Europe research programme by 31 December 2023.	Around 4.4 million enterprises have been supported and almost 63 million people have been covered by improved health services since 2014.	6.2 million beneficiaries were supported with agricultural funds under a variety of different schemes.	19 003 non-EU nationals were resettled under EU schemes in 2023.	The European Defence Fund awarded total EU support of EUR 832 million to 41 defence industrial cooperation projects by December 2023.	Assistance was provided to around 130 non-EU countries on five continents.	

Source: European Commission annual activity reports.

([30]) The amount of the Commission's relevant expenditure corresponds to the payments made in 2023 minus the pre-financing paid out in 2023, plus the pre-financing paid out in previous years and cleared in 2023 (for definitions and more details, see Annex 5). This amount does not include the payments made in the context of the Recovery and Resilience Facility, which are covered in Annex 3.

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

Similar to previous years, around 70% of the budget [32] was implemented under shared management with Member States (especially expenditure on cohesion policy and agriculture), whereby Member States' bodies selected projects, distributed funds and managed expenditure in accordance with EU and national law and reported back to the Commission about the results achieved. By its supervision, the Commission is ensuring that the management and control systems of the Member States function effectively. The rest of the budget was implemented either directly by the Commission or indirectly, in cooperation with entrusted entities like international organisations, the European Investment Bank or national promotional banks. The table that follows describes the three management modes.

2023 expenses by management mode – Recovery Resilience Facility excluded and included

(without RRF*)	Examples of programmes/spending	Other actors involved, in cooperation with the Commission	(with RRF*)
23%	**Direct management** Funds are implemented by the Commission.		39%
	Horizon programmes; Connecting Europe Facility; administrative expenditure	N/A (funding goes directly to the beneficiaries)	
9%	**Indirect management** Funds are implemented in cooperation with external entities.		7%
	Erasmus+; part of development and humanitarian aid; pre-accession assistance	Agencies, joint undertakings, United Nations, World Bank, European Investment Bank, European Bank for Reconstruction and Development, non-EU countries	
68%	**Shared management** Funds are implemented in cooperation with Member States' national and/or regional authorities, which have a first level of responsibility in budget implementation.		55%
	Agricultural funds; Maritime and Fisheries Fund; European Regional Development Fund; Cohesion Fund; European Social Fund and youth employment initiative; migration, border management and security funds	Paying agencies for the common agricultural policy: 75; operational programmes for cohesion policy funds: 441, in all Member States	

(*) RRF = Recovery and Resilience Facility

Source: European Commission draft annual accounts 2023 – Statement of financial performance.

Russia's war of aggression in Ukraine, the lasting economic consequences of the COVID-19 pandemic (i.e. high inflation, productivity challenges and global trade pressure) and emerging international conflicts continue to add pressure onto the Commission's capacity to deliver and its already scarce resources. More than ever, this requires effective internal control to ensure the strict application of the principles of economy, efficiency and effectiveness when spending the EU budget.

(32) Not including the Recovery and Resilience Facility.

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

As the authorising officer of the Commission, the College of Commissioners is politically responsible for the management of the EU budget and thus accountable for the work of the Commission's departments. The EU budget's governance is built on a clear division of responsibilities between the political and management levels, an independent internal audit supported by the Audit Progress Committee that includes external experts, an independent accountant, a strong commitment to performance management and compliance with the legal framework, transparency and high ethical standards, and transparent reporting.

The Commission's governance system and chain of accountability are tailored to its unique model of decentralised decision-making in budget implementation. The College of Commissioners delegates the day-to-day operational management to 51 authorising officers by delegation ([33]) who manage and steer their departments to deliver on the objectives in their strategic plans, taking into account available resources. Each authorising officer by delegation is accountable for the share of the EU budget implemented in their department.

In their annual activity reports, the authorising officers by delegation report in a transparent way on the performance and results achieved, on the functioning of their internal control systems and on the financial management of their share of the EU budget – taking account of the assurance provided by Member States under shared management and the implementing partners in indirect management. Each annual activity report contains a declaration of assurance. It may be qualified with a reservation if an authorising officer by delegation identifies weaknesses with a significant impact.

The annual management and performance report syntheses the annual results for the EU budget at the Commission level, based on the assurance and reservations contained in all the annual activity reports. This report is part of the Commission's integrated financial and accountability reporting package ([34]), which is adopted by the College of Commissioners.

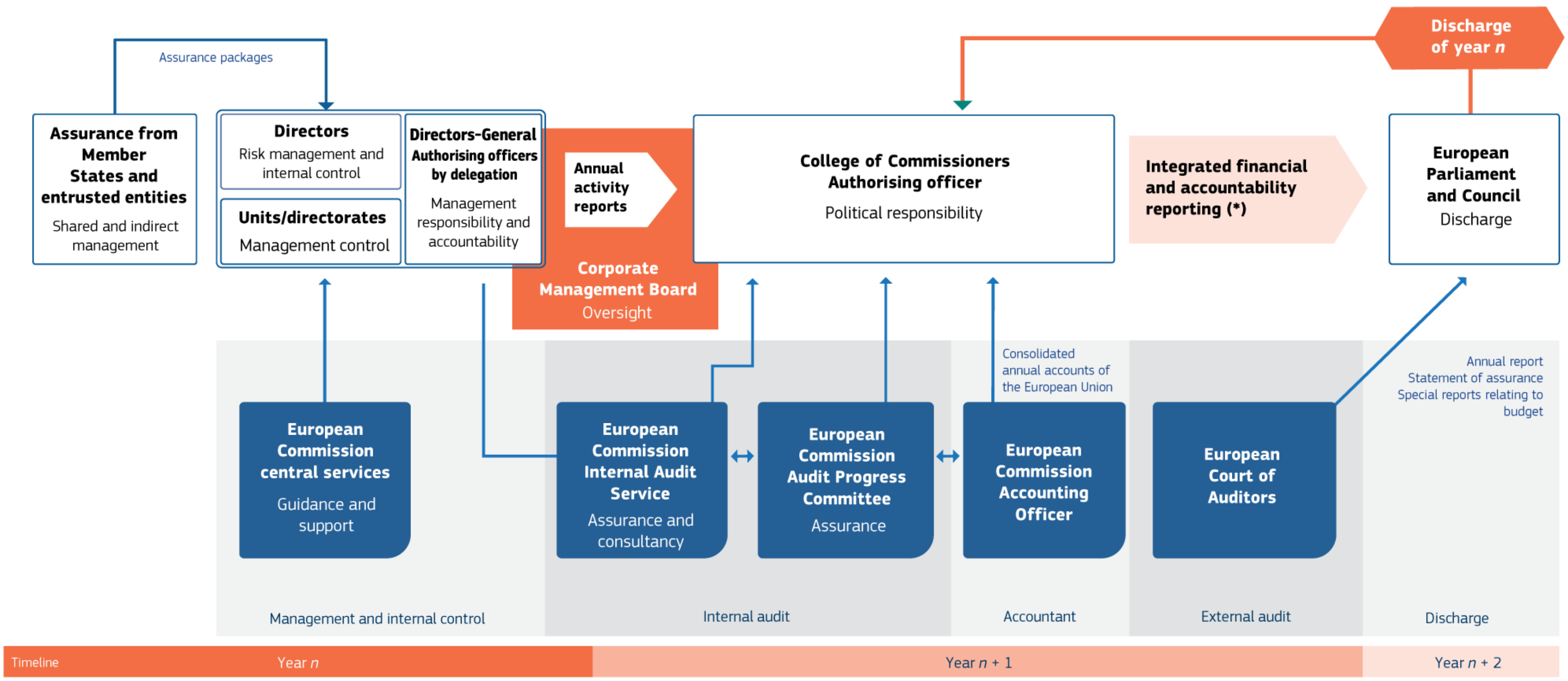
The ensuing annual budgetary discharge procedure allows the European Parliament and the Council of the European Union to hold the Commission politically responsible for the implementation of the EU budget. The Parliament's decision takes into consideration the Commission's integrated financial and accountability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

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

([33]) The term 'authorising officers by delegation' covers Directors-General of the Commission, heads of executive agencies, offices, services, task forces, etc. Article 74(1) of Regulation (EU, Euratom) 2018/1046 on the financial rules applicable to the general budget of the Union (financial regulation) states that: 'The authorising officer shall be responsible in the Union institution concerned for implementing revenue and expenditure in accordance with the principle of sound financial management, including through ensuring reporting on performance, and for ensuring compliance with the requirements of legality and regularity and equal treatment of recipients.'

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

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



(*) Integrated financial and accountability reporting:
- Consolidated annual accounts of the European Union
- Annual management and performance report
- Long-term forecast of future inflows and outflows
- Annual internal audit report
- Report on the follow-up to the discharge

1.3. A robust internal control framework contributing to the achievement of the Commission's objectives

1.3.1. The internal control framework continued to evolve with its environment

The Commission relies on a strong corporate internal control framework based on the highest international standards ([35]). It also employs a robust risk management policy to identify, assess and manage risks at every level of the organisation, in order to provide assurance about the achievement of its objectives. The Commission ensures that the amounts allocated from the EU budget are invested for their intended purpose, in strict compliance with the financial rules in order to minimise, detect and prevent errors, avoid double funding, prevent fraud, enhance transparency and pave the way to the discharge.

The Commission's Central Financial Service provided continued support to the Commission departments in enhancing, updating and fine-tuning their internal control systems.

- To harmonise and safeguard data related to its internal control environment, the Commission has developed an IT corporate tool called the central register of internal control systems. The tool was rolled out in 2023 and is used by all Commission departments. It registers risks, reservations, internal control monitoring criteria, exceptions and non-compliance events. It contributes to the Commission's digital agenda by streamlining and digitalising the internal control environments and processes. Further functionalities are being developed in 2024 in order to enhance its efficiency and user-friendliness.
- Regarding the implementation of the NextGenerationEU recovery plan, risk management and control mechanisms continued to be streamlined and reinforced based on the experience gained. Since its endorsement in 2020, a particular focus has been put on adapting internal control systems to the needs of the related operations. This is explained in more detail in Annex 3.
- In parallel, the Commission also enhanced the efficiency and effectiveness of the borrowing and lending operations underpinning the financing of policy programmes, like NextGenerationEU, support for Ukraine through the macro-financial assistance+ programme and ongoing support to other neighbouring countries. The launch of a unified funding approach in January 2023 enabled the Commission to extend the benefits of the more flexible and cost-efficient debt management strategy used for financing NextGenerationEU, the macro-financial assistance+ programme for Ukraine and other future borrowing and lending programmes. The Commission completed its funding programme for 2023 by the end of November, raising a total of EUR 115.9 billion over the course of the year. The 2023 issuance brought the total outstanding amount of EU bonds to just over EUR 443 billion by year end, with EUR 48.9 billion issued in the form of NextGenerationEU green bonds.

([35]) The Committee of Sponsoring Organizations of the Treadway Commission's *Internal Control–Integrated Framework*, the 'golden standard' for internal control systems.

- The Commission developed a strong governance and risk management framework centred on an independent Chief Risk Officer supported by a Compliance Officer ([36]) to cope with the increased complexity and the size of borrowing and lending operations resulting from the financing of EU actions in response to COVID-19 (NextGenerationEU and 'Support to mitigate unemployment risks in an emergency') as part of its risk and compliance policy fraud-related risks that could potentially stem from NextGenerationEU operations were reassessed in 2023. The mitigating measures put in place were deemed adequate and appropriate. In a recent special report ([37]), the European Court of Auditors concluded that the Commission had quickly put in place a debt management system, providing the funds required for NextGenerationEU in good time. The Commission also met all key regulatory requirements concerning debt portfolio and risk management.
- On the revenue side, the Commission also applied strong internal control systems and updated its control strategies where necessary. In 2023, beyond the controls on traditional and own resources based on value added tax, which imply close cooperation with Eurostat on verification activities concerning gross-national-income-based resources, the Commission further developed the design of controls of the new own resource based on non-recycled plastic.
- In 2023, the Commission worked on a new strategy for managing debtors ([38]), adopted in February 2024. It introduced four strategic measures aiming to speed up the recovery process: recovery performance standards, transparent compliance monitoring and reporting, reinforced accountability with corporate escalation mechanisms, and synergies and efficiencies brought by partial centralisation (including combined waiver decisions).
- As in past years, the Commission paid particular attention to Article 61 of the financial regulation on conflicts of interest. This was, among others, acknowledged by the European Court of Auditors ([39]). In addition, the Commission delivered targeted awareness-raising measures, guidance, advice and presentations of its 2021 conflicts of interest guidance to Member State authorities and expert networks.

1.3.2. A mature internal control framework adapted to the functioning of the Commission departments

Overall, in 2023, the Commission departments concluded that the internal control principles underlying their internal control systems were present and working as intended. This overall assessment confirmed that the Commission departments have continued their efforts to address deficiencies in their internal control systems identified in 2022. Progress booked in 2023 resulted, among others, from

([36]) At the end of 2021, the Commission issued the NextGenerationEU high-level risk and compliance policy, in line with the Commission's general internal control framework. It provides an appropriate risk management and compliance framework to protect the financial interests of the EU and to ensure the probity, integrity and transparency of NextGenerationEU operations such as borrowing, debt management and lending operations. In 2022, the Commission continued to develop the governance and control frameworks by putting in place processes and control points across all the core borrowing and lending activities, including funding planning, execution of borrowing transactions, liquidity management, cost calculation and allocation. These processes ensured that all aspects of borrowing and lending operations were implemented in accordance with a robust set of risk controls, fully documented and implemented consistently by the responsible teams and subject to rigorous oversight by a second line of defence (an independent Chief Risk Officer).

([37]) European Court of Auditors, *NGEU Debt Management at the Commission – An encouraging start, but further alignment with best practice needed – Special report 16/2023*.

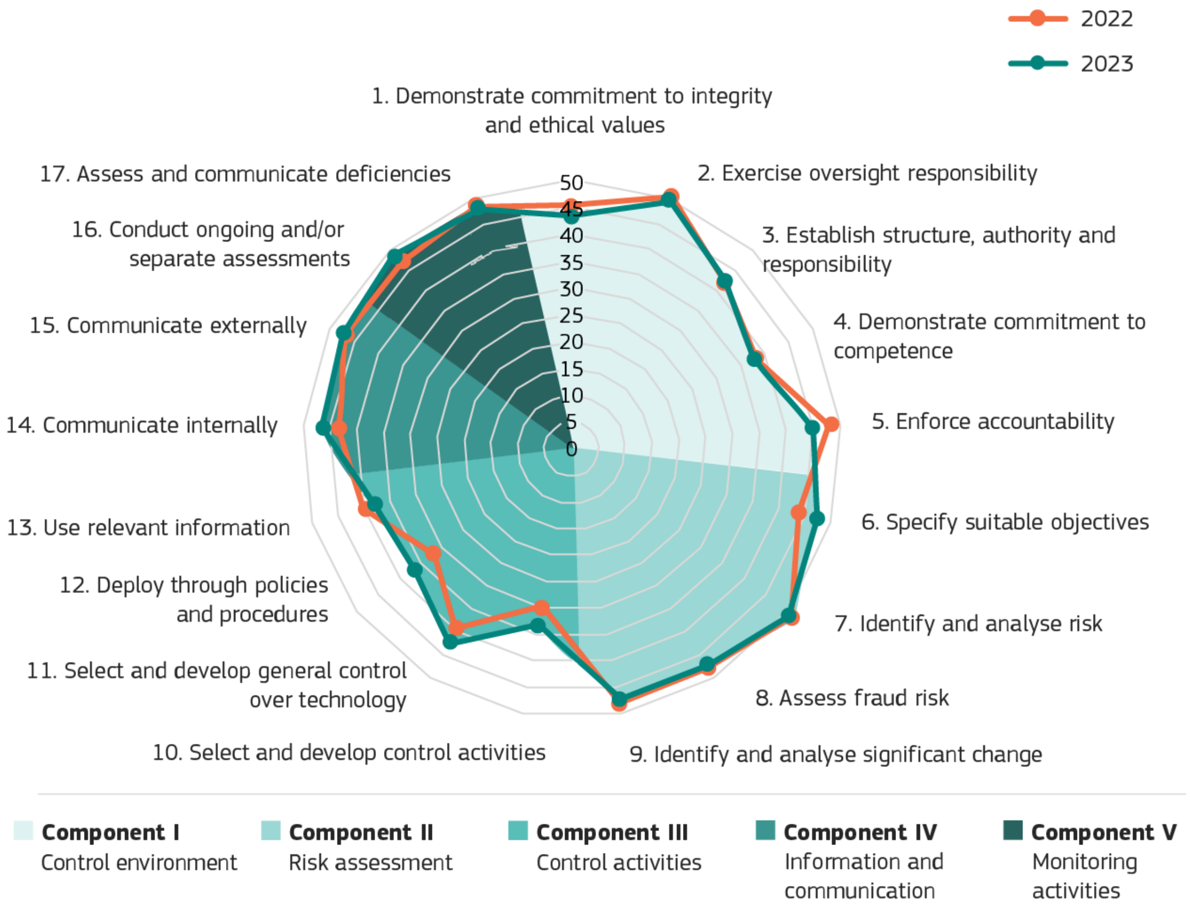
([38]) Communication to the Commission – An enhanced corporate strategy for the management of the Commission's debtors, COM(2024) 588 final of 6 February 2024.

([39]) European Court of Auditors, *Conflict of interest in EU cohesion and agricultural spending – Framework in place but gaps in transparency and detection measures – Special report 06/23*.

training, awareness raising on certain financial procedures, the development and adoption of a business continuity plan, an anti-fraud strategy, a procedure for reporting exceptions and non-compliance events and an IT security plan for a newly established department collection of statistics, monitoring attendance at mandatory training, compliance with data retention rules.

For some internal control principles, improvements are still needed, corresponding to mostly minor deficiencies that were identified, in part, through a 2023 staff survey and reported in the annual activity reports of the departments. The departments concerned put action plans in place to address the weaknesses identified, including increasing staff engagement (lower than expected according to the staff survey of a department), mitigating potential difficulties with deploying staff to EU delegations in hardship countries and addressing a shortage of specialised professional profiles both in EU delegations and at headquarters. Actions are also currently taken to clarify further the assessment of the audit and control milestones and the protection of sensitive non-classified information in the area of the Recovery and Resilience Facility. Those action plans were supported by corporate services that regularly monitored the progress made. The overall situation is presented in the chart that follows.

Assessment of the functioning of the components and internal control principles(*)



(*) The number of Commission departments that reported that internal control components and principles were upheld and functioned properly in 2022 and 2023.
Source: European Commission annual activity reports.

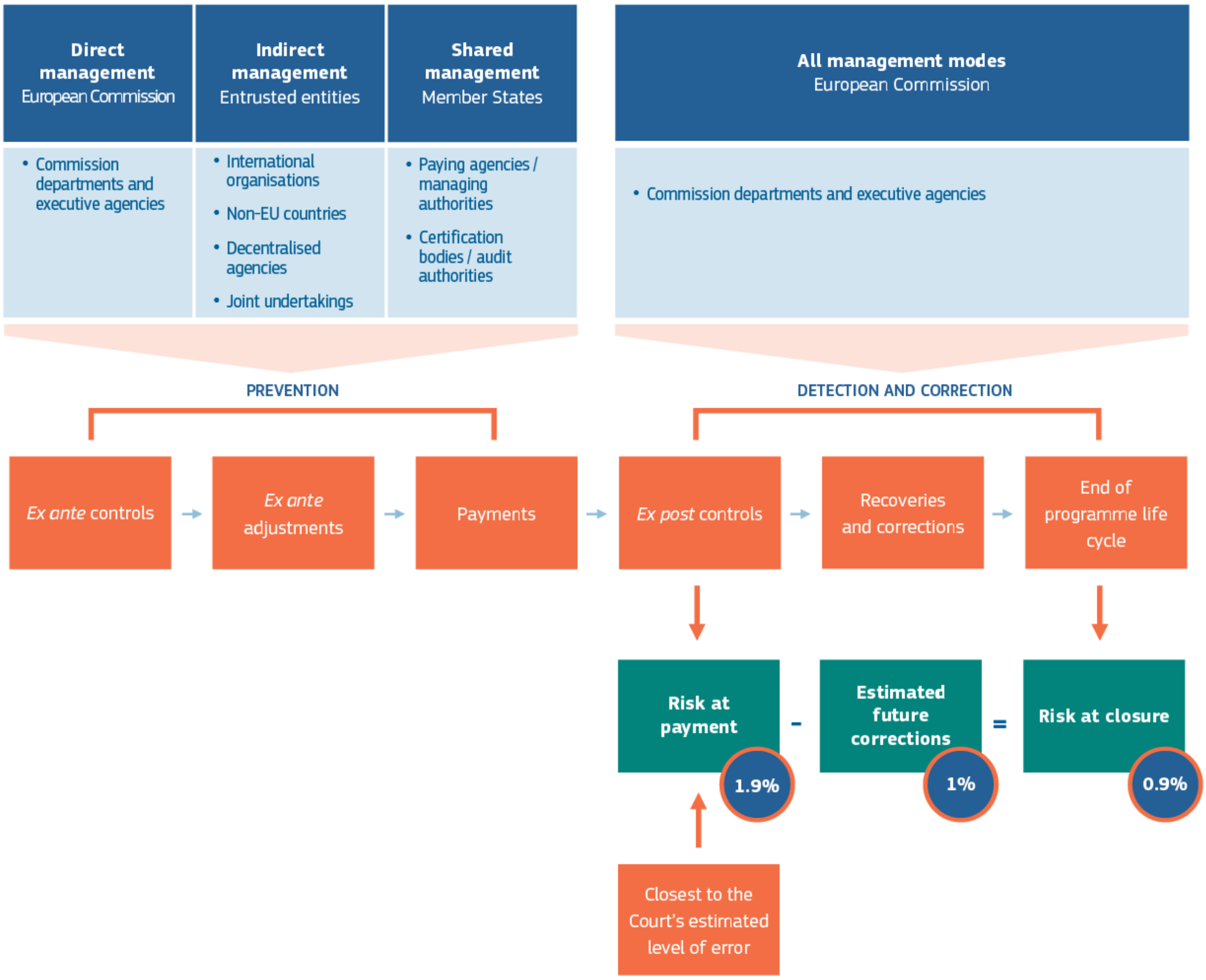
1.4. Multiannual control strategies to ensure that expenditure is legal and regular

Authorising officers, as managers of the EU budget, put in place multiannual control strategies to prevent, detect and correct errors. In line with their responsibility to carry out individual payments, they need to build their assurance from the bottom up and in detail (i.e. by programme or other relevant segment of expenditure). This allows the Commission to detect weaknesses and errors in a detailed and differentiated manner for each programme or segment of expenditure, to identify the root causes of systemic errors (e.g. the complexity of rules in certain policy areas, such as research or cohesion), to take targeted and proportionate corrective actions and to ensure that lessons learned are used to improve the management and control systems and the design of future financial programmes.

EU spending programmes are multiannual by design, and so are the related control strategies. This implies that the detection and correction of errors may take place continuously, until programme closure. Moreover, the control strategies are risk-differentiated (i.e. they are adjusted to the characteristics and risks associated with different management modes, actors involved, policy areas and/or funding arrangements).

Control strategies usually entail preventive controls (*ex ante* controls) carried out before the Commission payment takes place and corrective controls (*ex post* controls) carried out after the payment has been made. The Commission's key preventive and corrective mechanisms are detailed in Annex 5.

The European Commission's multiannual control cycle



NB: For additional information regarding the 2023 risk at payment and at closure, see Section 2.1.
Source: European Commission.

With the 2021-2027 funding programmes (40) coming up to speed, the Commission has continued to adjust control strategies to programme specificities. This is, in particular, the case for the research area, for external actions and for agriculture, where performance-based policy has been introduced for the majority of the payments. The Commission's Central Financial Service supported the Commission departments on these aspects.

(40) Except for the new common agricultural policy, where the programming period is 2023-2027.

1.5. Fight against fraud: the Commission's anti-fraud strategy and further proposals

1.5.1. Revision of the Commission's anti-fraud strategy

The **Commission has zero tolerance for fraud**. Pursuant to Article 325 of the Treaty on the Functioning of the European Union, the Commission and the Member States protect the EU budget from fraud and other illegal activities. The Commission's anti-fraud strategy from 2019 plays a significant role in preventing the possible misuse of EU money. On 11 July 2023, the Commission adopted a **Communication on the revision of the strategy's action plan** ([41]) accompanied by a new action plan ([42]). The revision was a joint effort of Commission services and executive agencies, coordinated by the European Anti-Fraud Office.

The new action plan is more targeted and strategic than the previous one, reflecting some of the overall objectives of the Commission. It includes 44 actions under seven themes that cover the Commission's priorities in fighting fraud. The plan envisages actions to increase the use of IT tools by the Commission and Member States for the prevention, detection and investigation of fraud. Other themes cover the **Recovery and Resilience Facility**, customs fraud, strengthening the EU anti-fraud architecture and the Commission's anti-fraud and ethics culture.

In 2023, the European Anti-Fraud Office further supported **Commission services** in the design of their anti-fraud strategies and ensured coordination and cooperation across services on anti-fraud matters through the Fraud Prevention and Detection Network.

The European Anti-Fraud Office continued its **strategic analytical work**, notably by updating its risk framework for the Recovery and Resilience Facility and deepening its analysis of the detection and reporting of irregularities and fraud in different sectors, along with differences in reporting among Member States. The 2022 annual report on the protection of the EU's financial interests ([43]), adopted on 27 July 2023, integrated for the first time an analysis of the conflicts of interest in the use of EU funds. The Office also continued to cooperate with Member States on anti-fraud matters in the context of the Advisory Committee for the Coordination of Fraud Prevention and with the Anti-Fraud Coordination Services of Member States, EU candidate countries and potential candidate countries.

The European Anti-Fraud Office also continued to perform **investigative activities**, reporting on them in its annual report ([44]).

([41]) Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee, the Committee of the Regions and the Court of Auditors – Commission anti-fraud strategy action plan – 2023 revision, COM(2023) 405 final of 11 July 2023.

([42]) Commission staff working document – Action plan – 2023 revision, SWD(2023) 245 final of 11 July 2023.

([43]) European Commission, European Anti-Fraud Office, 34th annual report on the protection of the European Union financial interests and the fight against fraud – 2022, Publications Office of the European Union, 2023, https://data.europa.eu/doi/10.2784/795600.

([44]) European Commission, European Anti-Fraud Office, *OLAF Report 2022*, Publications Office of the European Union, Luxembourg, 2023, https://data.europa.eu/doi/10.2784/846935.

1.5.2. Other tools to increase the efficiency of the fight against fraud

In December 2023, a regulation of the European Parliament and of the Council laying down measures for a **high common level of cybersecurity at the institutions, bodies, offices and agencies of the EU** ([45]) was adopted and entered into force in January 2024. The regulation lays down measures for the establishment of an internal cybersecurity risk management, governance and control framework for each EU entity, and it sets up a new Interinstitutional Cybersecurity Board to monitor and support its implementation by EU entities. It provides an extended mandate for the Computer Emergency Response Team for the EU institutions, bodies and agencies as a threat intelligence, information exchange and incident response coordination hub, a central advisory body and a service provider.

Pursuing its efforts to respond quickly and effectively to evolving cybersecurity threats, including the threat of cyber-fraud, and minimise their potential impacts, the Commission upgraded its technical capabilities in this area by continuing to promote a strong cybersecurity culture through awareness-raising sessions, training and phishing exercises. The corporate capability to manage cybersecurity incidents was reinforced in order to protect and defend the institution in the area of cybersecurity monitoring, detection and incident response. More detection rules were automated. Automated rules play a bigger role in improving the efficiency of the corporate cyber incident response capability. In the area of threat intelligence, the Commission explored new strategies to exploit the threat intelligence feeds currently provided by the interinstitutional Cybersecurity Service for the Union Institutions, Bodies, Offices and Agencies.

As part of the framework for fraud prevention and the fight against fraud, the early detection and exclusion system allows for the early detection of fraudulent or unreliable economic operators, their exclusion by banning them from obtaining EU funds (for a certain number of years) and the possible imposition of financial penalties. The early detection and exclusion system proceedings are based on information collected through audits and checks carried out by authorising officers by delegation, final judgments or administrative decisions by national authorities, decisions by international organisations and, for the most part, European Anti-Fraud Office investigations. The early detection and exclusion system works based on a strong and fruitful interaction between the authorising officers responsible and an interinstitutional panel responsible for centralising the exclusion requests and safeguarding the rights of the person or entity concerned by the proceeding (e.g. rights of defence). The exclusions registered in the early detection and exclusion system database are also currently made available to all entities entrusted with budget implementation tasks in all management modes.

In 2023, the legislator agreed to several changes to the financial regulation regarding the early detection and exclusion system in order to: (1) promote the use of the early detection and exclusion system; (2) enhance its effectiveness; (3) make the system more efficient. The targeted revision of the financial regulation will also bring other important improvements to the system, such as introducing an expedited procedure, new exclusion grounds like the refusal to cooperate in investigations, and the possibility to exclude affiliated entities and beneficial owners of a primary excluded entity from bidding for public contracts and ultimately from obtaining EU funds for a number of years. Furthermore, the legislator agreed to extend the early detection and exclusion system to beneficiaries under shared management and to future instruments in direct management with Member States, with a proportionate and targeted approach. As from 1 January 2028, Member States will have the obligation to check the early detection and exclusion system database with regard to direct applicants, participants and beneficiaries.

([45]) Regulation (EU, Euratom) 2023/2841 of the European Parliament and of the Council of 13 December 2023 laying down measures for a high common level of cybersecurity at the institutions, bodies, offices and agencies of the Union, OJ L, 2023/2841, 18.12.2023, ELI: http://data.europa.eu/eli/reg/2023/2841/oj.

The Commission also took major steps in the fight against corruption with an anti-corruption package that includes a Commission proposal for a directive to combat corruption ([46]) by means of criminal law and a joint Communication ([47]) proposing a regime of sanctions against serious acts of corruption committed outside the EU. It also features an EU network against corruption, established in September 2023, to bring together relevant stakeholders, including anti-corruption practitioners, experts and researchers, along with representatives of civil-society and international organisations. Its key task is to support EU-wide corruption risk mapping to inform the future EU anti-corruption strategy.

1.6. The conditionality regime is being implemented

The regulation on a general regime of conditionality for the protection of the EU budget ([48]) **(conditionality regulation), adopted in December 2020, protects the budget from breaches of the principles of the rule of law** that affect or seriously risk affecting the financial interests of the EU in a sufficiently direct way. The conditionality regulation came into effect on 1 January 2021 and complements other procedures established by EU legislation for the protection of the EU budget. The validity of the conditionality regulation was fully upheld by the Court of Justice of the European Union in two judgments from 2022 ([49]). Following those judgments, the Commission adopted its guidelines on the application of the conditionality regulation ([50]).

The conditionality regulation is part of the 'rule-of-law toolbox' that includes different instruments aimed at safeguarding the respect of rule-of-law principles in Member States. The common provisions regulation ([51]) allows for measures to protect the EU budget in case of non-respect of the Charter of Fundamental Rights of the European Union. The annual rule-of-law report includes recommendations to Member States to improve the rule of law, irrespective of whether the issues are relevant for the protection of the EU budget (i.e. on recommended legislative steps, for example, to improve the integrity of top executive functions, transparency of information on media ownership). The national recovery and resilience plans adopted in 2021 and 2022 under the Recovery and Resilience Facility regulation ([52]) also reinforce the respect for the rule of law and the protection of the EU budget, insofar as they contain milestones addressing country-specific recommendations linked to rule-of-law issues. For example, in the case of Hungary, the remedial measures submitted by Hungary in the context of the

([46]) Proposal for a directive of the European Parliament and of the Council on combating corruption, replacing Council Framework Decision 2003/568/JHA and the Convention on the fight against corruption involving officials of the European Communities or officials of Member States of the European Union and amending Directive (EU) 2017/1371 of the European Parliament and of the Council, COM(2023) 234 final of 3 May 2023.

([47]) Joint communication to the European Parliament, the Council and the European Economic and Social Committee on the fight against corruption, JOIN(2023) 12 of 3 May 2023.

([48]) Regulation (EU, Euratom) 2020/2092 of the European Parliament and of the Council of 16 December 2020 on a general regime of conditionality for the protection of the Union budget, OJ L 433, 22.12.2020, p. 1, ELI: http://data.europa.eu/eli/reg/2020/2092/oj (conditionality regulation).

([49]) See judgment of 16 February 2022, *Hungary* v *Parliament and Council*, C-156/21, ECLI:EU:C:2022:97 and *Poland* v *Parliament and Council*, C-157/21, ECLI:EU:C:2022:98.

([50]) Communication from the Commission – Guidelines on the application of the Regulation (EU, Euratom 2020/2092 on a general regime of conditionality for the protection of the Union budget, COM(2022) 1382 of 18 March 2022.

([51]) Regulation (EU) 2021/1060 of the European Parliament and of the Council of 24 June 2021 laying down common provisions on the European Regional Development Fund, the European Social Fund Plus, the Cohesion Fund, the Just Transition Fund and the European Maritime, Fisheries and Aquaculture Fund and financial rules for those and for the Asylum, Migration and Integration Fund, the Internal Security Fund and the Instrument for Financial Support for Border Management and Visa Policy, OJ L 231, 30.6.2021, ELI: http://data.europa.eu/eli/reg/2021/1060/oj (common provisions regulation).

([52]) Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility, OJ L 57, 18.2.2021, ELI: http://data.europa.eu/eli/reg/2021/241/oj (Recovery and Resilience Facility regulation).

procedure under the conditionality regulation have been transposed into corresponding milestones under the Hungarian recovery and resilience plan.

The Commission has been monitoring the situation across all Member States under the conditionality regulation since January 2021. The Commission will trigger the procedure under the conditionality regulation if all its conditions are fulfilled.

On 15 December 2022, following a proposal from the Commission, the Council adopted measures for the protection of the EU budget under the conditionality regulation in the case of Hungary. The Council decided to suspend 55% of the funds for three programmes ([53]) under the cohesion policy, corresponding to an amount of approximately EUR 6.3 billion in total for the 2021-2027 period, and prohibited entering into new legal commitments with public interest trusts or entities maintained by them (many of which are universities) under any EU programme directly or indirectly managed by the Commission. The Council's implementing decision took into account remedial measures that were proposed by Hungary but not yet completely, adequately or correctly implemented, including the setting up of an independent integrity authority with extensive powers to ensure a level playing field in public procurement procedures and contributing to the prevention, detection and correction of fraud, corruption and conflict of interest. The prohibition regarding public interest trusts and entities maintained by them (universities) has been challenged before the General Court of the European Union (the case is still pending).

Pursuant to the conditionality regulation, Hungary can notify the Commission and request that budgetary measures be lifted or adapted by the Council, following the Commission's assessment, by demonstrating that the situation has been remedied, either in full or in part. In the absence of such written notification from Hungary, the Commission reassessed the situation on 13 December 2023 and decided that Hungary had not adopted new remedial measures that would adequately address the outstanding issues. The Commission, therefore, concluded that the EU budget remained at the same level of risk and that the budgetary measures taken at the end of 2022 by the Council should not be adapted nor lifted. In a parallel process under the rules of the common provisions regulation, the Commission considered that Hungary adequately addressed some of the issues that led to the Commission previously blocking reimbursement of expenditure due to failure to comply with one of its horizontal enabling conditions as regards issues of judicial independence. Therefore, this resulted in the unblocking of a portion of the funds for Hungary under the common provisions regulation.

The Commission reported on the application of the regulation on 12 January 2024. The report focused on: (1) the actions taken by the Commission in the application of the regulation, including the procedure opened in the case of Hungary; (2) the complementarity of the regulation with other relevant instruments like the common provisions regulation; (3) the Commission's evaluation of the effectiveness of the measures adopted so far; and (4) the overall effectiveness of the procedure set by the conditionality regulation. The report preliminarily confirmed the effectiveness and the potential of the protective measures adopted under the Hungarian case.

In 2023, the European Court of Auditors conducted an audit on the rule of law in the EU, focusing on the conditionality regulation, its interplay with the Recovery and Resilience Facility and conditionality under cohesion policy rules. The audit report ([54]), published in January 2024, made positive observations overall on the handling of the conditionality regulation and the proceedings regarding Hungary as the first case that led to a suspension decision. Accepting most of the Court's recommendations, the Commission acknowledged the potential for further improvements and committed to continue to gather and rigorously assess relevant information.

([53]) The environmental and energy efficiency operational programme plus, the integrated transport operational programme plus and the territorial and settlement development operational programme plus.

([54]) European Court of Auditors, *The rule of law in the EU – An improved framework to protect the EU's financial interests, but risks remain – Special report 03/2024*.

1.7. Revision of the financial regulation (recast)

In May 2022, the Commission proposed a targeted revision (recast) of the financial regulation ([55]) to make the budget more agile, transparent and better protected. A political agreement was reached on 7 December 2023. The final text is expected to enter into force in September or October 2024, with a number of provisions that will apply later, in some cases as from 2028.

The recast will achieve necessary alignments with the current multiannual financial framework, will bring improvements in crisis management (lessons learned during the COVID-19 crisis) and in the implementation of EU funds and will enhance the protection of the EU's financial interests, as follows.

- **Adapting the EU's financial rules to a changed world.** The recast will introduce clearer and more flexible rules for procurement in crisis situations. It will also introduce clear rules for in-kind donations and a clear legal basis for the EU to participate in global initiatives. The rules for financial support for third parties in humanitarian aid, emergency support operations, civil protection operations or crisis management aid will be simplified. Additionally, new guidelines for managing distortive foreign subsidies and rules on security and public order will be introduced. These will bring real improvements for better crisis management in the future and strengthen the EU's security and open strategic autonomy.
- **Simplification and streamlining.** Very-low-value grants (under EUR 15 000) will be subject to a significantly smaller bureaucratic burden. The rules for beneficiaries when applying for EU grants will be clarified and simplified, reflecting practical experience. This will ensure that EU funding can be accessed more easily and efficiently to the benefit of final beneficiaries.
- **EU values, gender equality and social rights.** References to the respect for these rights and the environment when implementing the EU budget will be added.
- **Transparency and protection of the EU budget.** A centralised website for transparency on the use of the EU budget and on recipients of EU funding (the improved financial transparency system) will be created. The early detection and exclusion system will be extended to shared management and future instruments in direct management with Member States as from 2028. A modernised data mining and risk-scoring tool, built on the existing Arachne ([56]), will be extended to all management modes; feeding this tool with relevant data will become compulsory as from 2028.

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

([56]) The European Commission has been developing Arachne, an integrated IT tool for data mining and data enrichment, since 2009. It aims to support managing authorities and intermediate bodies in their administrative controls and management checks on projects of the European Regional Development Fund, the Cohesion Fund and the European Social Fund.

Use of the single data mining and risk-scoring tool – Arachne

In its 2022 proposal for a financial regulation recast, the Commission proposed to reinforce the prevention, detection, correction and follow-up of fraud and irregularities by expanding, to all methods of EU budget implementation (shared, direct and indirect management), the standardised electronic recording and storing of data on the recipients of EU funding, including their beneficial owners. The proposed measures included the use of a single integrated information technology system for data mining and risk scoring (provided by the Commission) to access and analyse data on the recipients of EU funding and allow the identification of contracts and recipients that might be susceptible to risks. The information technology system should facilitate risk assessment for the purposes of selection, award, financial management, monitoring, investigation, control and audit. It should also contribute to the effective prevention, detection, correction and follow-up of fraud, corruption, conflicts of interest, double funding and other irregularities.

Following the political agreement of 7 December 2023, the financial regulation recast requires a modernised data mining and risk-scoring tool, built on the existing tool, to be used in all management modes. The current data mining and risk-scoring tool, Arachne, is used by Commission services and by a number of Member States on a voluntary basis in shared management and for the Recovery and Resilience Facility. Compulsory feeding of the tool with data will be required from all Member States as from the next financial framework. The Commission must assess the readiness of the revised tool by 2027 with respect to interoperability with other IT systems and databases (avoiding duplication of reporting), risk indicators targeted at user needs, artificial intelligence for analysing and interpreting data and data protection. On that basis, the possibility of compulsory use may be rediscussed by the co-legislators.

In 2023, in parallel to the discussions on the proposal for a financial regulation recast, Commission departments worked with the tool's users, including the EU institutions and the solution provider, to discuss further features of the tool, such as technical requirements, data protection, risk indicators and data categories.

2. Cost-effective controls protecting the EU budget.

To ensure that controls remain cost-effective, the Commission aims to strike the right balance between the following.

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

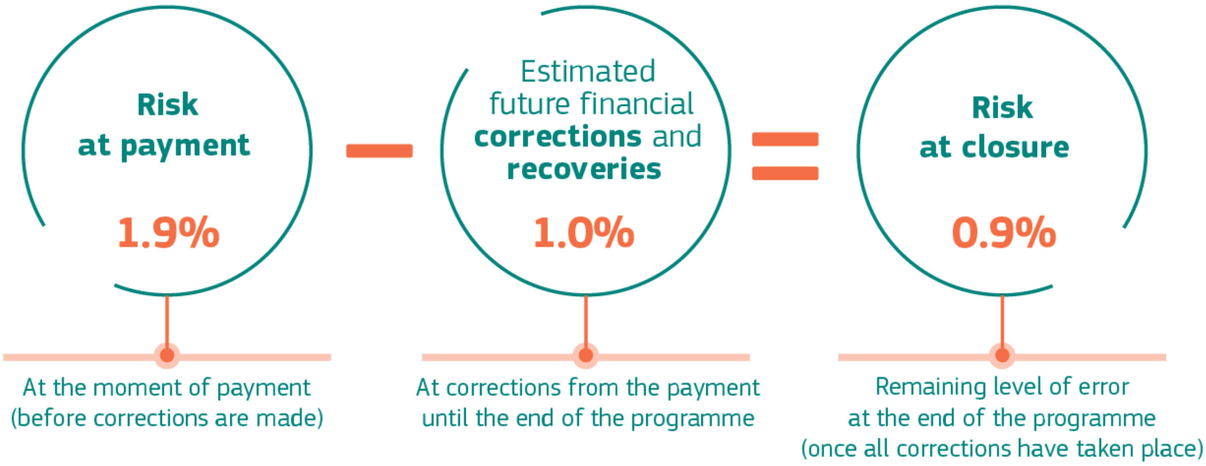
Cost-effectiveness is obtained with the differentiation of the control: riskier areas trigger a higher level of scrutiny and/or frequency of controls, whereas low-risk areas should lead to controls that are less intensive, less costly and less burdensome. Other ways to ensure the cost-effectiveness of controls include reducing the risk of errors through simplified rules and/or processes, such as simplified cost options (i.e. lump sums, flat rates and unit costs), cross-reliance on existing assessments and/or audits and controls performed by other entities and achieving economies of scale by pooling the control functions.

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

2.1.1. Overall results for 2023

The Commission considers that the budget is effectively protected when, by the closure of the programmes at the latest (i.e. when all controls, corrections and recoveries have been implemented), the risk at closure is below 2%. This is the same materiality threshold used by the European Court of Auditors. For more details on these concepts and the methodology used to determine these estimates, along with the control results for each policy area, see Annex 5. Based on the audits and controls carried out, each year the Commission departments estimate the level of risk for the legality and regularity of EU spending at two stages of the multiannual control cycle: at payment and at closure of the programmes.

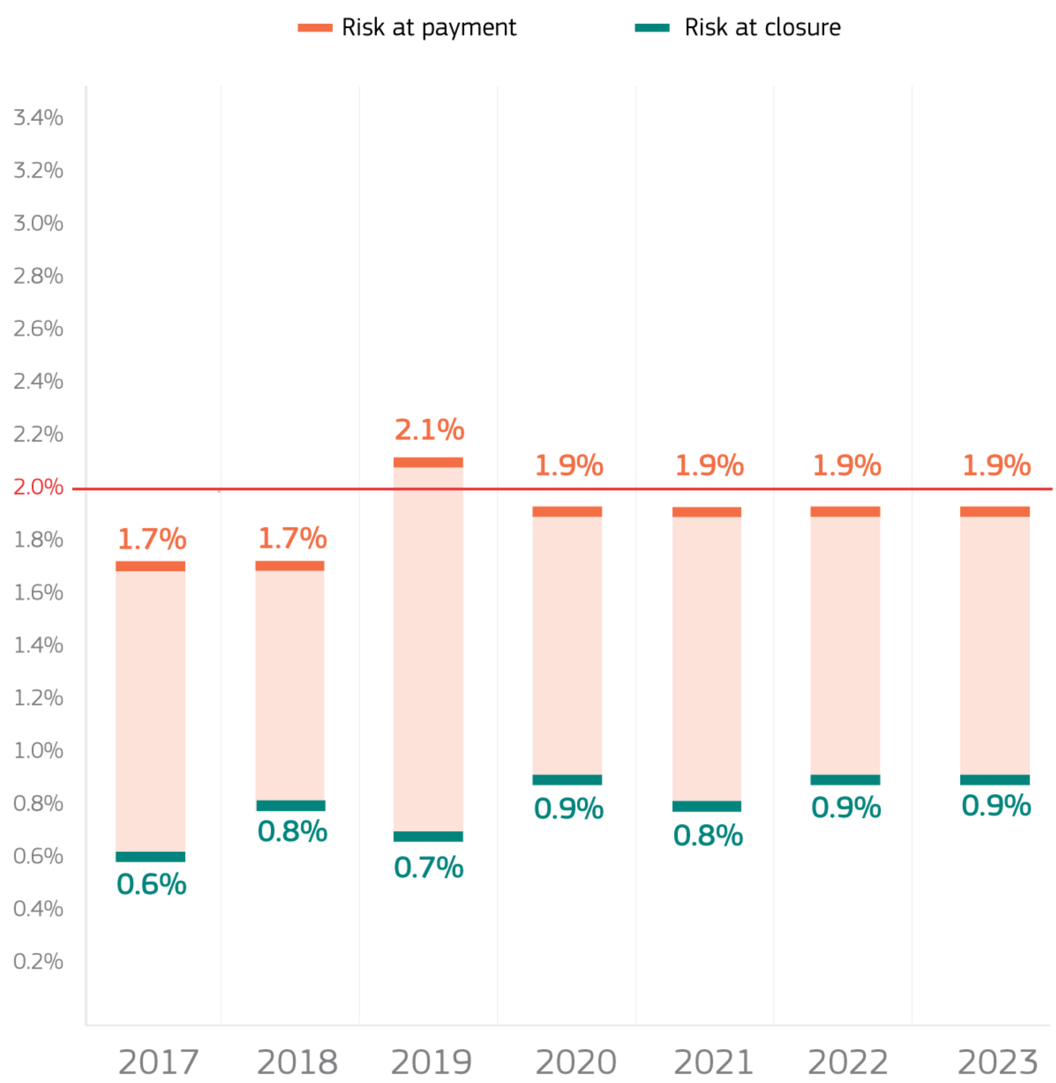
For 2023, the Commission's overall risk at payment and risk at closure remain in line with 2022, with both being below the materiality threshold of 2%.



Source: European Commission

Total preventive and corrective measures implemented by the Commission and the Member States: EUR 3.8 billion (2022 – EUR 4.9 billion).

Reservations: 14 (15 in 2022) with a total financial impact of EUR 1 290 million (EUR 877 million in 2022).



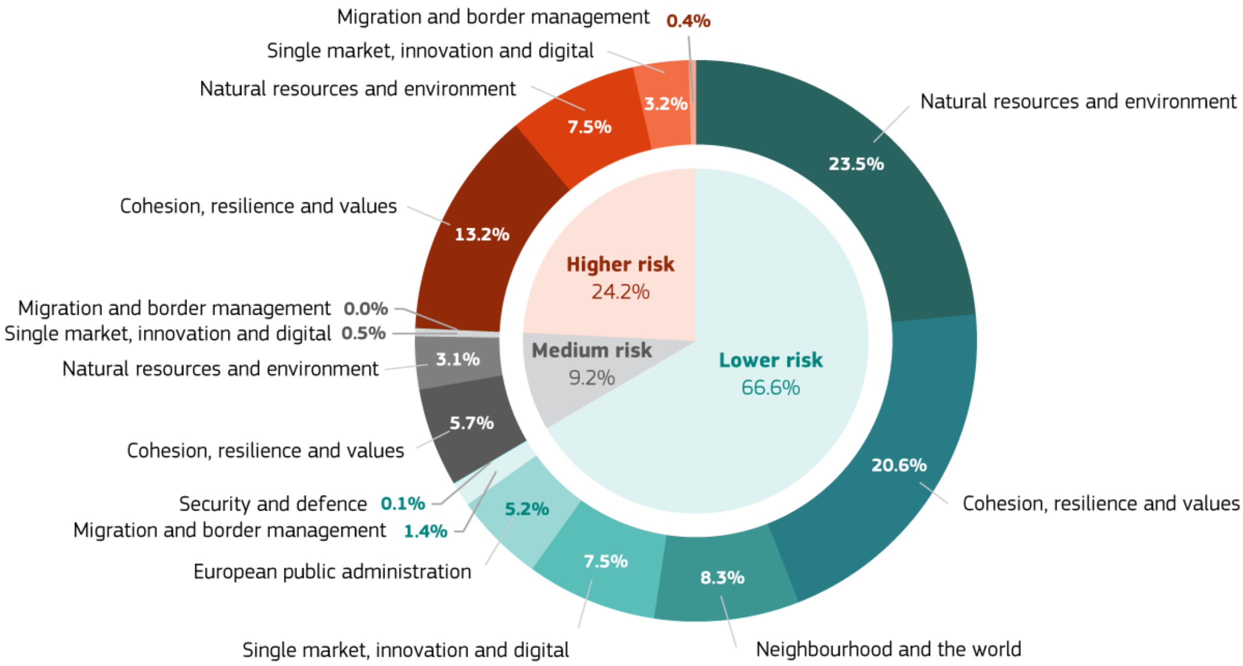
Source: European Commission, the 2017-2023 annual management and performance reports for the EU budget.

The *Annual Management and Performance Report for the EU Budget* is a summary of the annual activity reports of the 51 Commission departments. The spending covered in each of these reports is allocated in full to one of the seven multiannual financial framework headings. Similar to 2022, considering its size, the spending for 'security and defence' of DG Defence Industry and Space was divided between heading 1 and heading 5. The situation for each policy area is described below.

2.1.2. Control results per lower-, medium- and higher-risk programme segments

The Commission has reliable, evidence-based information showing the diversified situation of the funds it manages. It identifies which programmes or segments of expenditure are higher risk, allowing it to efficiently provide its support and address specific weaknesses even for policies that, taken globally, are lower risk, such as the common agricultural policy. Based on the risk at payment (i.e. before any future correction is implemented), the Commission divides the annual expenditure into lower risk at payment (below 2.0%), medium risk at payment (between 2.0% and 2.5%) and higher risk at payment (above 2.5%); see the chart that follows. For natural resources and cohesion, this analysis is also applied at the level of the individual paying agencies and programmes in the Member States, respectively.

The European Commission's categorisation of expenditure into lower-, medium- and higher-risk segments, as percentages of the total of relevant expenditure for 2023



Source: The European Commission's annual activity reports for 2023.

The Commission's expenditure is thus divided as follows.

- **Lower risk.** This segment amounted to EUR 113.6 billion in 2023 (66.6% of expenditure in 2023 compared to 63.1% of expenditure in 2022. This included the expenditure managed by paying agencies under the common agricultural policy (54 out of 66 in direct payments and 45 out of 72 in rural development); expenditure declared by 231 out of 493 programmes under cohesion policy funds (57); expenditure relating to the European Research Council grants in Horizon 2020, Connecting Europe Facility – Transport and Connecting Europe Facility – Energy; Erasmus+; the Marie Skłodowska-Curie actions; contributions to some agencies (the European Union Agency for the Space Programme, the European Space Agency, etc.); the Asylum Migration and Integration Fund; the Internal Security Fund; humanitarian aid; Horizon Europe financial instruments; expenditure in the neighbourhood and the world policy area; and administrative expenditure in general.
- **Medium risk.** This segment amounted to EUR 15.7 billion in 2023 (9.2% of expenditure compared to 12.0% in 2022). This included the expenditure managed by paying agencies under the common agricultural policy (five in direct payments and seven in rural development), expenditure declared by 156 out of 493 programmes under cohesion policy funds (58); grants in the new 'Connecting Europe Facility – transport' programme for the 2021-2027 period. This also included expenditure directly related to the Horizon Europe programme or indirectly, such as the European Institute of Innovation and Technology.

(57) 200 programmes out of 441 for the 2014-2020 programming period and 31 programmes out of 52 for the 2021-2027 programming period.
(58) 138 programmes out of 441 for the 2014-2020 programming period and 18 programmes out of 52 for the 2021-2027 programming period.

- **Higher risk.** This amounted to EUR 41.4 billion in 2023 (24.2% of expenditure, similar to 2022 (24.9%)). This included the expenditure of 7 out of 66 paying agencies in direct payments; 20 out of 72 in rural development under the common agricultural policy; expenditure declared by 106 out of 493 programmes under cohesion policy funds ([59]) with a higher risk at payment or with serious deficiencies ([60]); and some expenditure from the European Maritime and Fisheries Fund (4 out of 27 programmes).

The Commission's detailed analysis confirms that the level of error is closely related to the nature of the funding. Most programmes or segments of expenditure, corresponding to more than 50% of the year's relevant expenditure, have relatively lower risk at payment because they encompass more entitlement-based payments. On the other hand, some programmes or segments of expenditure with complex reimbursement-based rules appear to have relatively higher risk at payment (as is typically the case under the cohesion policy, with many applicable national, regional or programme rules in addition to EU rules). Nevertheless, the control systems in place allow the risks related to some of the more complex programmes to be mitigated and, as a result, the level of risk at payment to be reduced.

The Commission is closely monitoring the risks at payment and at closure for the different programmes and segments of expenditure and is taking further action to reduce them. For the medium- and higher-risk categories in particular, the Commission is continuously looking for ways to further decrease them by raising beneficiaries' and implementing partners' awareness of issues, adjusting the control strategies where necessary, applying the lessons learned to future programmes and simplifying rules wherever possible.

([59]) 103 programmes out of 441 for the 2014-2020 programming period and 3 programmes out of 52 for the 2021-2027 programming period.

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

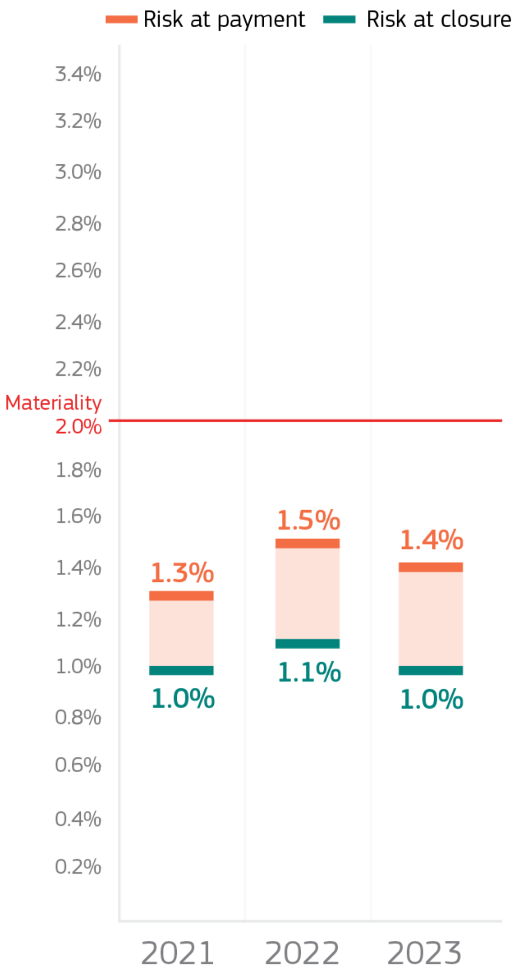
2.1.3. Control results by policy areas

Heading 1 – single market, innovation and digital

Total relevant expenditure: EUR 19.1 billion (2022 ‑ EUR 20.4 billion).
Risk at payment: 1.4% (2022 – 1.5%).
Risk at closure: 1.0% (2022 – 1.1%).
Total preventive and corrective measures: EUR 149.8 million (2022 – EUR 171 million):

- *Preventive measures: EUR 121.1 million (2022 – EUR 144 million);*
- *Corrective measures: EUR 28.6 million (2022 – EUR 27 million).*

Reservation: one reputational reservation without financial impact (2022 – two reservations without financial impact).



In 2023, the risks at payment (1.4%) and at closure (1.0%) decreased in comparison to 2022. This is due to the decrease of the risk at payment for the Horizon 2020 programme, which corresponds to the main payments in 2023. This decrease of the risk at payment from 2.71% to 2.57% may be explained by the increased use of simplified forms of funding, including lump sums and unit costs, along with additional support for types of beneficiaries with higher-than-average error rates (such as small and medium-sized enterprises and newcomers) with focused communication campaigns and training.

As in previous years, and despite continuous efforts and improvements, the risk at payment for Horizon 2020 remained above 2%. This is mainly due to the inherent complexity of the rules, and it is in line with previous years' levels. However, the research departments did not qualify their declarations of assurance with any reservations in relation to the Horizon 2020 programme ([61]).

([61]) Proposal for a Council decision establishing the specific programme implementing Horizon 2020 – The framework programme for research and innovation (2014-2020), COM(2011) 811 final of 30 November 2011. The risk at payment minus corrections implemented remains within the agreed materiality threshold of 2% and 5% envisaged in the legislative financial statement accompanying the Commission's proposal, which states that 'The Commission considers therefore that, for research spending under Horizon 2020, a risk of error, on an annual basis, within a range between 2-5% is a realistic objective taking into account the costs of controls, the simplification measures proposed to reduce the complexity of rules and the related inherent risk associated to the reimbursement of costs of the

Regarding the other programmes, a small number of segments had a residual error rate above 2%. However, this had no impact on the assurance due to the minor financial impact ([62]). Given that for Horizon Europe, payments were still limited in 2023, and *ex post* controls had not started yet, a conservative estimate for the risk at payment, set at 2%, was used.

The two reputational reservations issued in 2022 by the European Innovation Council and SMEs Executive Agency and DG Research and Innovation regarding the insufficiently defined and implemented governance framework related to the European Innovation Council programme and other internal control weaknesses were lifted due to the implementation of the related action plans in 2023.

In 2023, one reputational reservation was issued by the European Research Executive Agency regarding the high level of known and suspected conflict of interest and underperformance in the multi-beneficiary grants part of the promotion of agricultural products programme. Corrective actions are being implemented, such as the adaptation of the programme's control strategy, specific audits and the suspension of problematic payments. In the future, the objective is to revise the legislation that falls under the competence of the Commission to reinforce the absence of conflicts of interest and improve the performance of the programmes.

research project. The ultimate aim for the residual level of error at the closure of the programmes after the financial impact of all audits, correction and recovery measures will have been taken into account is to achieve a level as close as possible to 2%.'

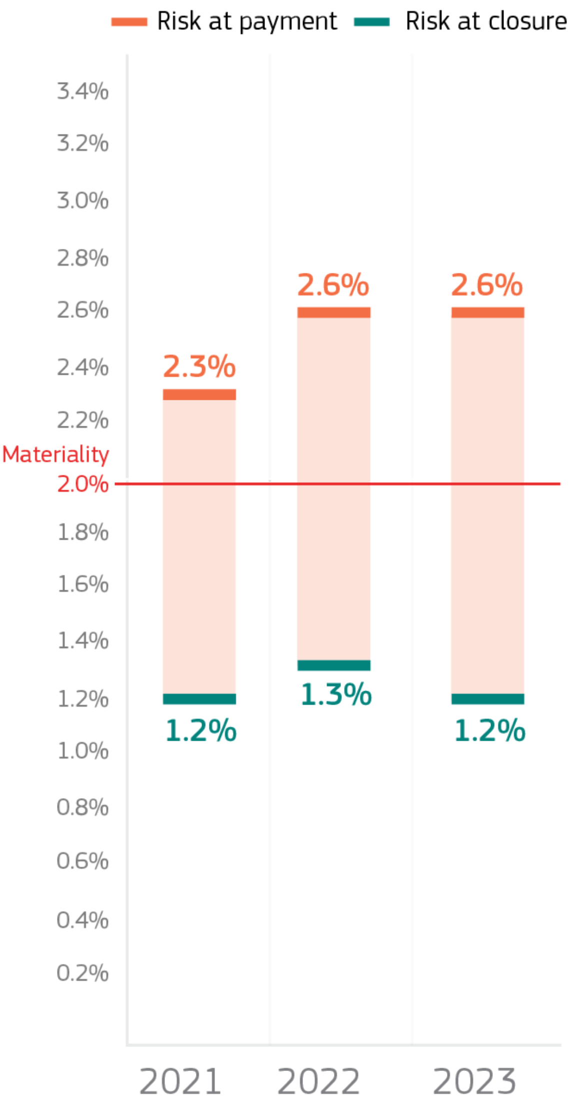
([62]) As of 2019, a *de minimis* threshold for financial reservations was introduced. Quantified annual activity report reservations relating to residual error rates above the 2% materiality threshold are deemed not to be substantial for segments representing less than 5% of a directorate-general's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

Heading 2 – cohesion, resilience and values

Total relevant expenditure: EUR 67.3 billion (2022 – EUR 67.5 billion).
Risk at payment: 2.6% (2022 – 2.6%).
Risk at closure: 1.2% (2022 – 1.3%).
Total preventive and corrective measures (Commission and Member States): EUR 2 370.9 million (2022 – EUR 3.1 billion):

- *Preventive measures: EUR 1 643.7 million (2022 – EUR 2.3 billion);*
- *Corrective measures: EUR 727.2 million (2022 – EUR 789 million).*

Reservations: three reservations with a financial impact of EUR 583 million (2022 – four reservations with a financial impact of EUR 310 million).



The risk at payment for this heading remained constant at 2.6% compared to the previous year, while the risk at closure slightly decreased from 1.3% to 1.2%. The risk at payment and risk at closure were mostly driven by the amounts paid for the cohesion policy funds ([63]) managed under shared management, which represented around 92% of the total relevant expenditure for this heading.

The European Regional Development Fund and the Cohesion Fund showed an increase in the risk at payment ([64]) from a range between 1.9% and 2.7% in 2022 to a range between 2.0% and 2.9% in 2023. This increase is mainly due to a significant increase in the confirmed error rates for two operational programmes with an important relative weight in the global error rate due to the high amounts (i.e. 4.4% of total certified expenditure), for which deficiencies in management verifications were observed. The European Social Fund, the youth employment initiative and the Fund for European Aid to the Most Deprived showed a decrease in the risk at payment, from a range between 1.9% and 2.8% in 2022 to a range between 1.7% and 2.6% in 2023.

For all the cohesion policy funds, despite continuous efforts to improve the functioning of the control systems, the risk at payment remained material in the

([63]) These include the European Regional Development Fund, the Cohesion Fund, the European Social Fund, the youth employment initiative and the Fund for European Aid to the Most Deprived.
([64]) This range contains a lower value, calculated as the weighted average of the error rates observed at the level of the operational programmes and an upper, maximal value, taking into account potential additional risks (e.g. based on previous years' audit results) estimated using flat rates for each individual programme, along with conservative

range of 1.9% to 2.8% ([65]), similar to the range observed in 2022 of 1.9% to 2.7%. The Commission assessed the effectiveness of the management and control systems and the legality and regularity of the expenditure in the accounts at the programme level, which allowed it to report a differentiated situation and individual risk rates, thus identifying the programmes functioning well and those still presenting deficiencies, together with the type of remedial actions needed and the further financial corrections necessary. The Commission applied additional financial corrections for the programmes where it confirmed individual error rates above 2% so that the risk at closure was ultimately below 2% for all the programmes. Estimated future corrections corresponded to a range of 0.6% to 1.5%, leading to an estimated risk at closure of 1.2%. It is expected that the risk at closure will continue to drop until the closure and the final assessment of the legality and regularity of the underlying expenditure of all programmes, once follow-ups to all audit results are completed.

In relation to the cohesion policy funds for the 2014-2020 programming period, Member States implemented preventive measures for an amount of EUR 1 632 million and corrective measures for an amount of EUR 598 million. The latter amount is attributed on the one hand to the Member States' own controls (EUR 566 million) and on the other to the Commission's controls, follow-ups to investigations of the European Anti-Fraud Office and audits of the European Court of Auditors (EUR 32 million). The corrective measures implemented are relatively consistent with the level of corrections implemented last year of EUR 656 million. In addition, for the 2007-2013 programming period, the Commission implemented corrective measures for an amount of EUR 126 million.

One specific feature of the 2021-2027 multiannual financial framework is the need for Member States to comply with a set of thematic and horizontal enabling conditions to allow for the effective implementation of the funds. At the end of 2023, around 86% of the applicable thematic enabling conditions were assessed as fulfilled for the adopted European Regional Development Fund, Cohesion Fund and European Social Fund Plus programmes. Due to the remaining unfulfilled enabling conditions, 17% of the allocation for the jobs and growth goal could not be reimbursed.

Overall, the Commission has reasonable assurance that the management and control systems function sufficiently well for 92.5% of the programmes ([66]). The main categories of irregularities identified by the Member States' audit authorities and the Commission are similar to those identified by the European Court of Auditors: ineligible expenditure, ineligible projects or beneficiaries, errors in public procurement procedures and missing supporting information or documentation. **However, for some programmes, errors continued to remain undetected at the Member State** level due to deficiencies in the functioning of some managing authorities or their intermediate bodies (carrying out the first level of controls) and in some audit authorities (the second level of controls). These programmes are reported in the reservations issued in the annual activity reports of the concerned Commission departments. The different types of audits carried out in 2023 by the Commission for the cohesion funds led to the identification of system and project findings, confirming a residual error rate above 2% for 55 programmes ([67]). These irregularities, either not detected or not sufficiently quantified by the Member States' authorities, demonstrate the need for further improvement in this area. The Commission will continue to work with the programme authorities in 2024 and share with them the types of errors not detected at their level to help improve their audit capabilities.

estimates when only desk reviews were carried out or when additional work is still required under ongoing contradictory procedures. Therefore, this upper value is considered a worst-case scenario that, in many instances, is not confirmed by further audit work.

([65]) For the first time, the Commission's risk at payment is outside the error-level range of between 4.2% and 9.2%, estimated by the European Court of Auditors in its *Annual reports on the implementation of the EU budget for the 2022 financial year* (p. 227). The higher level of error estimated by the Court can be explained by divergences in the interpretation of breaches of applicable rules that, in some cases, do not constitute irregularities in the sense of the common provisions regulation, for which the Commission has assessed it would not have legal ground to impose financial corrections, and by differences in the methods used to quantify some errors.

([66]) This concerns 408 out of 441 programmes for the 2014-2020 programming period

([67]) 55 out 441 programmes for the 2014-2020 programming period.

At the end of 2023, three reservations were issued in relation to cohesion policy funds.

- There were two reservations for the 2014-2020 period that included all the operational programmes that, during the year, presented significant weaknesses in their management and control systems or for which the error rate was above the materiality threshold or, less frequently, for which the audit work at the Member State level was deemed insufficient or unsatisfactory. The number of programmes under reservation for the 2014-2020 period (53) was lower than the number of programmes under reservation in 2022 (81). The financial impact increased from EUR 310 million to EUR 583 million. Reservations are only lifted once sufficient corrective measures have been taken. Usually, the reasons for the reservations are not structural, and it takes 1 to 2 years for a reservation to be lifted. For more details on reservations, see Volume III, Annex 5.
- There was one reservation for the 2021-2027 period, in relation to five programmes for which possible serious management and control system deficiencies were identified in the 2014-2020 predecessor programmes, leading to reservations as a matter of prudence.

Therefore, despite continuous efforts and improvements in the functioning of the control systems, the risk at payment for cohesion remained above the 2% materiality threshold. This is mainly due to the inherent complexity of the projects financed by these funds, the variety of actors concerned and the difficulty of tackling some complex rules at both national and EU levels, in particular those related to public procurement and State aid. Weaknesses remain mainly at the level of managing authorities or their intermediate bodies, despite the continuous efforts of programme authorities and the Commission's support to improve the situation.

The Commission continues to take action to support programme authorities in improving their management and control systems and to bring the risk at closure for cohesion below 2%. In 2023, the Commission, in close collaboration with the Member States, took various actions to further improve the effectiveness of the management and control systems and to boost the prevention, detection and correction of errors, including:

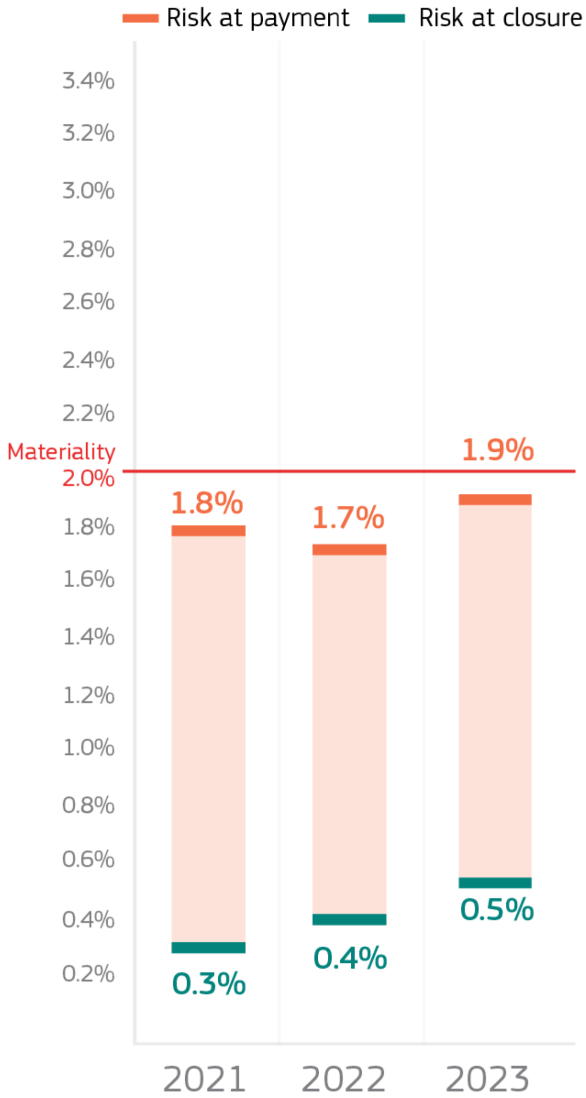
- **supporting** the managing and the audit authorities to improve their administrative capacities through guidance, targeted support, continuous training and professional development, transnational networks to simplify procedures and gold-plating avoidance;
- **promoting simplified cost options and financing not linked to costs**, which are less prone to errors and facilitate access to funding for smaller beneficiaries by providing assistance and support to programme authorities to prepare and assess these options for the 2021-2027 programmes and to understand the requirements related to control;
- **providing the data mining tool Arachne to Member States free of charge**, promoting its use among reluctant Member States and developing additional functionalities, thus enhancing the capacity to detect irregularities, fraud suspicions or possible conflicts of interest;
- continuous monitoring and analysis of the **root causes of errors** not detected by managing and/or audit authorities at the Member State level.

Heading 3 – natural resources and environment

Total amount of relevant expenditure: EUR 58.1 billion (2022 – EUR 57.7 billion).
Risk at payment: 1.9% (2022 – 1.7%).
Risk at closure: 0.5% (2022 – 0.4%).
Total preventive and corrective measures (Commission and Member States): EUR 1 157.6 million (2022 EUR 1.5 billion):

- *Preventive measures: EUR 490.3 million (2022 – EUR 561 million);*
- *Corrective measures: EUR 667.4 million (2022 – EUR 956 million).*

Reservations: five reservations with a financial impact of EUR 705 million (2022 – five reservations with a financial impact of EUR 556 million).



For natural resources and environment, the risk at payment remained below the materiality threshold of 2%, rounded to 1.9%. The estimated future corrections have also slightly decreased to 1.3% of 2023 expenditure (1.4% in 2022). This also corresponds to the control results for expenditure for agriculture, which represented the bulk of the expenditure in this policy area (98%), the rest being dedicated to maritime and fisheries ([68]), environment and climate expenditure.

For the common agricultural policy, while the risk at payment as a whole was below the materiality level for the fourth year, it slightly increased in 2023 after a continued downward trend was observed over the past several years. This increase corresponds to the increase of the error rates for direct payments under the policy, 1.48% in 2023 from 1.31% in 2022, 1.44% in 2021 and 1.57% in 2020, and rural development (from 2.68% in 2022 to 2.77% in 2023). This is mostly due to higher adjustments made by DG Agriculture and Rural Development based on their audits and the work of the Certification Bodies on the error rates reported by the Member States. For direct payments, the overall result with an error rate below materiality continued to confirm that the Integrated Administration and Control System, when implemented in accordance with applicable rules and guidelines, effectively limits the risk of irregular expenditure.

([68]) European Maritime and Fisheries Fund expenditure, although included under the natural resources heading, follows the same delivery mechanism as cohesion expenditure.

For market measures, the risk at payment decreased from 2.9% in 2022 to 2.3% in 2023. This is partially explained by Member States reporting lower error rates and Member States also finalising (or at least partially finalising) action plans to address deficiencies in the systems.

Expenditure relating to fisheries, the environment and climate initiatives continued to be inherently low risk. The risk at payment for the European Maritime and Fisheries Fund remained stable in 2023 (1.37% versus 1.38% in 2022), although one programme is under reservation for which corresponding financial corrections and safeguard measures are being implemented.

At the end of 2023, there were five recurrent reservations for segments of expenditure or programmes where control weaknesses and/or error rates above 2% had been identified:

- three reservations for agriculture on:
  - **European Agricultural Guarantee Fund market measures** (comprising three aid schemes in three Member States and one horizontal reservation ([69])),
  - **direct payments** (affecting 12 paying agencies in 11 Member States) and
  - **European Agricultural Fund for Rural Development measures** (affecting 21 paying agencies in 17 Member States and the United Kingdom that (temporarily) experienced control weaknesses and/or high error rates);
- one non-quantified reservation for management and control system weaknesses in one Member State in relation to the **European Maritime and Fisheries Fund**;
- one non-quantified reservation for the **EU emissions trading system registry**.

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

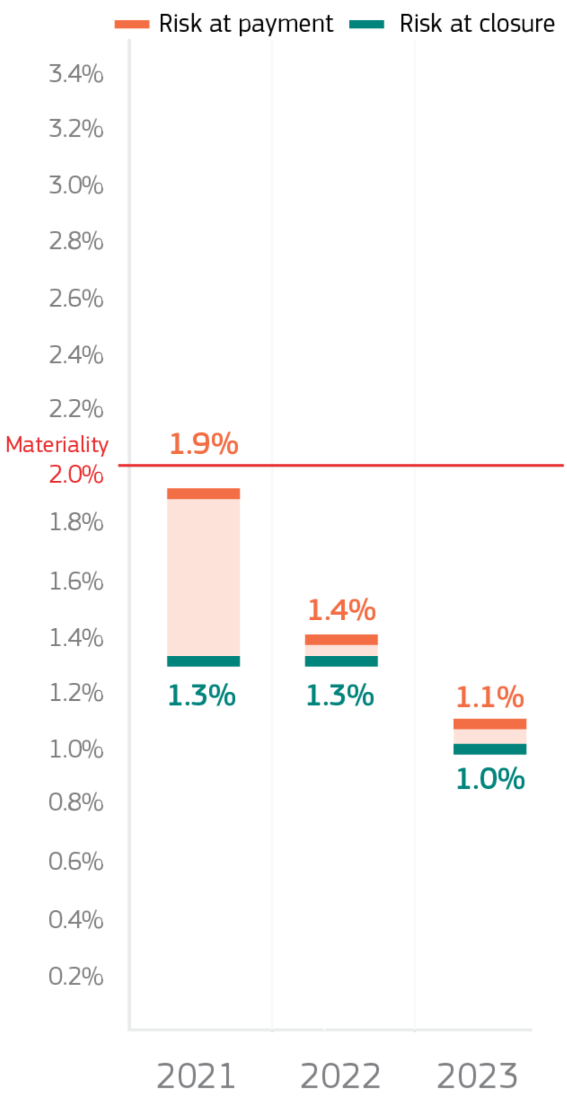
([69]) For two 2 aid schemes in one Member State.

Heading 4 – migration and border management

Total amount of relevant expenditure: EUR 3.0 billion (2022 – EUR 2.5 billion).
Risk at payment: 1.1% (2022 – 1.4%).
Risk at closure: 1.0% (2022 – 1.3%).
Total corrective and preventive measures: EUR 2.5 million (Commission and Member States) (2022 – EUR 8 million):

- *Preventive measures: EUR 1.3 million (2022 – EUR 5 million);*
- *Corrective measures: EUR 1.1 million (2022 – EUR 3 million).*

Reservations: two reservations with a financial impact of EUR 0.8 million (2022 – two reservations with a financial impact of EUR 9 million).



For migration and border management ([70]), the risk at payment (1.1%) and the risk at closure (1%) decreased compared to 2022, with both remaining below 2%. In 2023, the amount of preventive and corrective measures was lower at EUR 2.5 million (EUR 1.3 million preventive and EUR 1.1 million corrective). The decrease compared to 2022 is explained by the time gap between decision and implementation. The results of six conformity clearance procedures opened in 2023 for the 2014-2020 period will only lead to corrections in subsequent years. Similarly, in the case of preventive measures, some of the actions of the annual clearance decision ([71]) taken in December 2023 were only implemented in early 2024.

This policy area consisted mostly of low-risk segments of expenditure. Payments to decentralised agencies voted by the budgetary authority were considered an error-free type of expenditure and represented 40% of the relevant expenditure for 2023. The implementation of the Internal Security Fund, the Asylum, Migration and Integration Fund and the Border Management and Visa Policy Instrument, under the shared management mode, representing 36% of the relevant expenditure, are also low risk with an overall risk at payment of 1% and 0.3% respectively, for the programmes of the 2014-2020 and 2021-2027 periods.

([70]) Heading 4 also includes the Internal Security Fund of heading 5, since all the funds managed by the Home Affairs department of the Commission are audited and controlled on the basis of management mode and type of payments and the risks thus determined cannot be split between the budget headings.
([71]) Commission Decision C(2023) 3644 of 30 May 2023 and Commission Decision C(2023) 8905 of 11 December 2023.

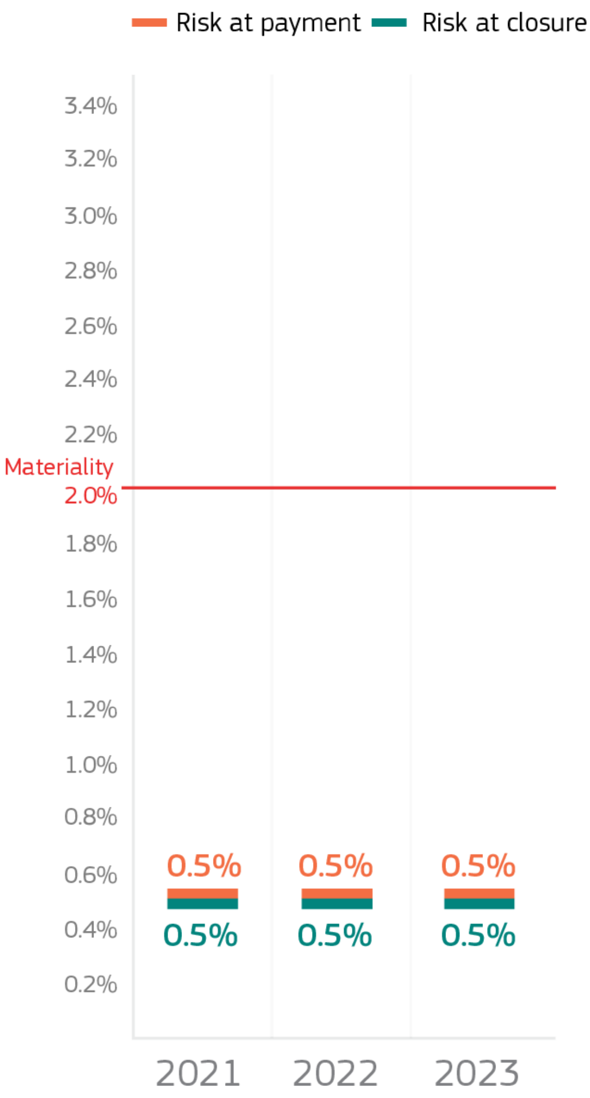
The only higher-risk expenditure segment, implemented directly by the Commission, represented 21% of the relevant expenditure for 2023. It corresponded to grants for EU actions and emergency assistance to support Member States in the fields of migration and border management. Although still above the materiality threshold, the risk at payment of this segment significantly decreased to 4% from 6.8% in 2022 as a result of targeted mitigating measures.

At the end of 2023, two reservations were identified:

- one reservation concerning the Border Management and Visa Policy Instrument (2021-2027 programming period), quantified for one Member State;
- one reservation concerning the Asylum, Migration and Integration Fund and the Internal Security Fund (2014-2020 programming period), quantified for Iceland and non-quantified for six Member States.

Heading 5 – security and defence

Total amount of relevant expenditure: EUR 136.7 million (2022 – EUR 30.1 million).
Risk at payment: 0.5% (2022 – 0.5%).
Risk at closure: 0.5% (2022 – 0.5%).
Total preventive measures: EUR 1.9 million (2022 – EUR 3 million).
Reservations: none (2022 – none).



Most of the budget linked to defence initiatives (i.e. the European Defence Fund and its precursor programmes, the act of support of ammunition production programme and the European defence industrial development programme) was managed directly by the Commission through procurements and grants, while a smaller portion was managed via regulatory agencies and entrusted entities with contributions to the European Defence Agency and the Organisation for Joint Armament Cooperation.

The risk at payment and the risk at closure were both at 0.5%, well below 2%. This is explained by the low inherent risk profile of the beneficiaries (mostly agencies), the funding modalities of the different programmes and the performance of the related control systems.

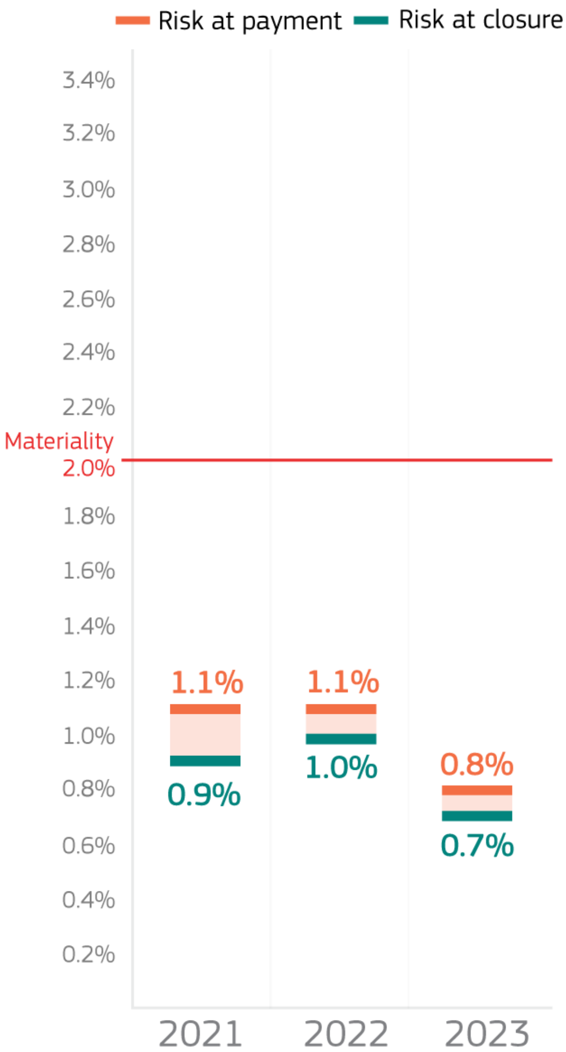
As regards the corrections carried out in 2023, the Commission had an effective mechanism in place for correcting errors through *ex ante* and *ex post* controls. *Ex ante* controls (before the payments take place) resulted in the implementation of preventive measures amounting to EUR 1.9 million not paid to the beneficiaries. This represented a decrease of EUR 1.1 million compared to the previous year, which is mostly explained by the long-term effect of continuous audits on cost reporting and internal control mechanisms over the years. No further errors were detected post-payment as a result of the *ex post* controls, and thus, no corrective measures had to be applied.

Heading 6 – neighbourhood and the world

Total amount of relevant expenditure: EUR 14.2 billion (2022 – EUR 13.6 billion).
Risk at payment: 0.8% (2022 – 1.1%).
Risk at closure: 0.7% (2022 – 1.0%).
Total corrective and preventive measures: EUR 150.5 million (2022 – EUR 141 million):

- *Preventive measures: EUR 138.1 million (2022 – EUR 125 million);*
- *Corrective measures: EUR 12.4 million (2022 – EUR 16 million).*

Reservations: one reservation without financial impact (2022 – one reservation).



In 2023, both the risk at payment (0.85%) and the risk at closure (0.73%) decreased compared to 2022 and were well below 2%. The risk profiles of the various departments dealing with the neighbourhood and the world heading indicate a low risk.

Notwithstanding the low level of error rate in most of the expenditure segments, the Commission continued to take measures to further improve its financial management, given the complex operational environment characterised by unpredictability, volatility and insecurity and where some programmes were governed by complex funding modalities. For grant agreements, the focus continued in 2023 with vigilance to address recurrent errors such as expenditure outside the implementation period and not budgeted for, along with insufficient documents or the inclusion of ineligible taxes. With regard to cooperation with international organisations, DG International Partnerships, together with other departments dealing with the neighbourhood and the world, invested in strengthened dialogue and verification processes to increase transparency. Mid-2023 also witnessed the launch of a review of the control strategy of DG International Partnerships with the objective of adapting the control strategy to better respond to risks and challenges in a rapidly changing international environment.

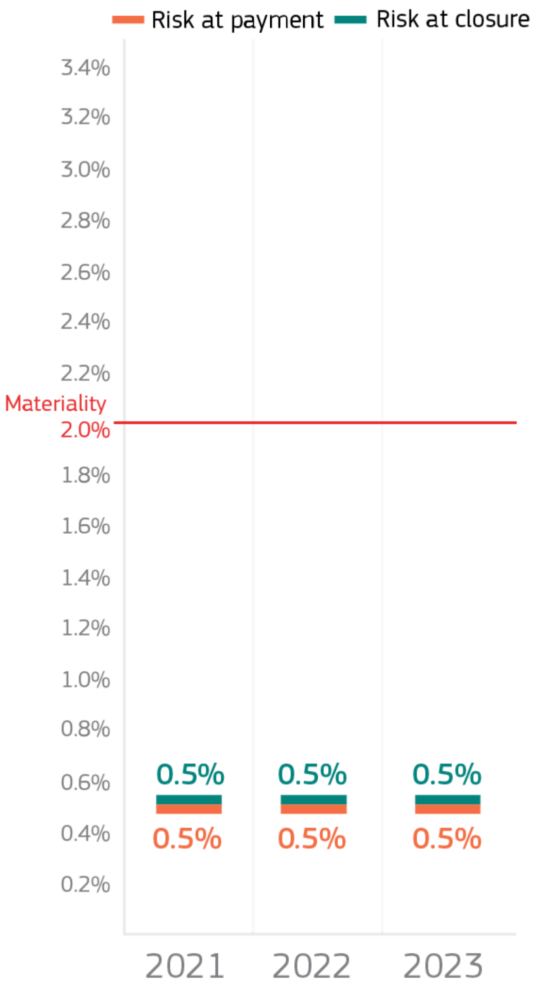
The reservation concerning projects in Libya, Syria and Ukraine was maintained in 2023. In these countries, the EU delegations cannot implement standard monitoring and control activities due to security and political constraints on the ground. Several mitigating measures were maintained in 2023, such as remote monitoring, contracts with independent experts to monitor projects in the field, a risk-based review of the contract portfolio and cross-checking information from different sources. This allowed the monitoring of local dynamics and reduced reaction time to sudden and unexpected changes. However, the countries remain active conflict zones, and the reservation is justified.

Heading 7 – European public administration

Total amount of relevant expenditure: EUR 8.9 billion (2022 – EUR 7.7 billion).
Risk at payment: 0.5% (2022 – 0.5%).
Risk at closure: 0.5% (2022 – 0.5%).
Total corrective and preventive measures: EUR 3.5 million (2022 – EUR 3.6 million):

- *Preventive measures: EUR 2.7 million (2022 – EUR 3 million);*
- *Corrective measures: EUR 0.8 million (2022 – 0.6 EUR million).*

Reservations: one reputational reservation (2022 – no reservations).



This heading groups together the services and departments managing the Commission's administrative expenditure under the direct management mode, such as the Office for the Administration and Payment of Individual Entitlements, which represents approximately 74% of the relevant expenditure of this heading. The risk at payment was prudently set at 0.5% for this low-risk type of expenditure. As most of the corresponding control systems involve predominantly *ex ante* controls, the estimated future corrections were often set at a conservative 0.0%. Thus, the risk at closure was equal to the risk at payment and remained very low at 0.5%. In 2023, the Commission's preventive measures amounted to EUR 3.54 million, in line with last year's EUR 3.6 million.

In this policy area, the European Personnel Selection Office issued a new reputational reservation for 2023 on the issues encountered in implementing new selection procedures and competitions. The European Personnel Selection Office is taking mitigating actions to address the situation.

2.1.4. Efficiency measures have been taken

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

Against a backdrop of unprecedented challenges, the Commission's digital transformation is moving forward by continuing the development of more efficient corporate information technology tools with a view to increasing the potential efficiency in its business processes and offering increasing data management and reporting capabilities.

SUMMA will be fully rolled out in the Commission in January 2025

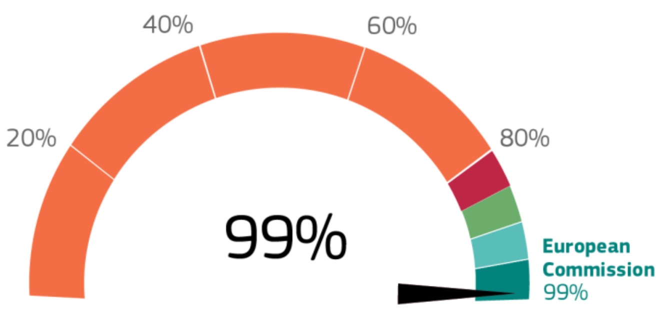
SUMMA is the Commission's next-generation corporate financial system. The system will modernise, harmonise and standardise the EU's financial business processes. By replacing the current central accounting, budgetary and treasury system, SUMMA will contribute to the rationalisation and modernisation of the EU administration and to a sound Commission corporate information technology landscape, in line with the EU's digital strategy, offering a significant increase in business efficiency, flexibility with integrated real-time analytics and decreasing cost of ownership and future maintenance costs.

Three pilot agencies have used SUMMA as their new financial system since January 2022, and in January 2023, it was released to the clean aviation joint undertaking, providing integration with eGrants. From the end of 2023, the SUMMA core solution for the Commission was rolled out to all the pilot agencies.

The use of SUMMA in the first three pilot agencies completed a full yearly cycle, including receipt of a clean opinion from the European Court of Auditors on their 2022 accounts.

As of January 2024, the European Commission also uses SUMMA for financial assets and debt management operations, including NextGenerationEU (lending, borrowing, financial assets, etc.).

Following an overall readiness assessment that highlighted the need for more time to complete the integration of several corporate and local systems with SUMMA, in July 2023, the SUMMA Supervisory Board decided to postpone SUMMA's go-live date in the Commission to January 2025. The rollout will cover all directorates-general and services of the Commission and the executive agencies. EU agencies and entities not included in the Commission release will be on-boarded into SUMMA in 2025 and 2026.



One of the indicator to measure the efficiency is the time-to-pay. In 2023, 99% of payments (in terms of amounts) were made within the legal payment deadline (see graph), despite the fact that the working environment was still strongly impacted by various crises and thanks to the abovementioned initiatives. This is of paramount importance, as many beneficiaries rely on these payments to carry out their activities and projects, which, in turn, contribute to the Commission's objectives.

Examples of economy and efficiency

One of the measures that may have the widest and longest-term effect is **the increased use of simplified cost options funding, such as lump sums**, in several policy areas. **In the area of research**, the use of lump sums is increasingly important in the implementation of the EU framework programme for research and innovation. After an initial investment in time for preparation, high-efficiency gains are expected for project monitoring. The year 2023 was the time to best fine-tune grant modalities and relevant technical implementation aspects and to ensure the quality of the different grant management processes and future projects. The first significant wave of lump sum funding was launched in more than 100 topics of the work programme in 2023, and major progress has been made in the preparations for lump sum funding of the European Research Council and European Innovation Council grants from 2024 onwards. Based on the assessment of current reporting requirements, this will be a guiding principle for the 10th framework programme and the future of the European research and innovation policy.

In the area of health, after having authorised the use of lump sums in veterinary programmes, lump sums were also authorised for phytosanitary programmes based on a decision of 22 February 2023. They were applied for the first time to the 2023 grants. The lump sums are expected to reduce administrative burden and speed up the payment process, allowing financial support for Member States against results rather than based on eligibility and reducing the error rate.

Another initiative and good practice was **the Joint Audit Directorate for Cohesion**, created in 2021 by merging the audit capabilities of DG Regional and Urban Policy and DG Employment, Social Affairs and Inclusion. It was the first-ever joint directorate with shared resources under the oversight of two Directors-General, resulting in synergies between audit teams and increased efficiencies in audit processes, training, support and tools. As a single audit interlocutor for internal and external stakeholders, the directorate contributes to the assurance of both Commission departments. It is also responsible for auditing increasing funds under the cohesion policy, including new instruments and funding (the coronavirus response investment initiative+, the recovery assistance for cohesion and the territories of Europe initiative, Safe Food Advocacy Europe, the cohesion's action for refugees in Europe), other instruments (the European Union Solidarity Fund, the European Globalisation Adjustment Fund for Displaced Workers, the Brexit Adjustment Reserve) and those under indirect and direct management.

2.1.5. The costs of controls are proportionate to the associated risks

In 2023, following the combined assessment of their effectiveness, efficiency and economy, all Commission departments reached a positive conclusion on the cost-effectiveness of their controls. The resources allocated to controls are aligned with the risks relating to the nature of the programmes and/or the context in which they are implemented. The cost of controls remains generally stable over time. The variety of spending programmes and their different features do not allow for a meaningful comparison of their control costs. However, some common cost drivers can be identified, as shown in the following text box.

Examples of common cost drivers

The intrinsic complexity of the programmes managed. Grants based on the reimbursement of real costs imply labour-intensive controls as opposed to financing based on lump sums, simplified cost options or financing not linked to costs, such as performance-based instruments.

The complexity of the environment in which programmes are implemented. The cost of controls is likely to be higher in the case of a multi-site organisational structure or when partners and/or beneficiaries are located outside the EU's jurisdiction.

The volumes and amounts to be processed. A high number of low-value payments will generate higher control costs than recurrent mass payments, while the regulatory framework requires certain incompressible controls. This results in diseconomies of scale.

The type of budget implementation mode. Under indirect and shared management mode, the cost of controls is shared between the Commission and its implementing partners, while for direct management mode, the burden is entirely borne by the Commission.

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

3. Management assurance

As part of the governance system explained above, overall management assurance is ensured through the assurance given by the Directors-General, the Internal Audit Service and the Audit Progress Committee. It is completed with the opinion of the European Court of Auditors and points on the 2022 discharge given by the budgetary authority and the follow-up of the discharge and external audit recommendations.

3.1. Assessments, assurance and reservations declared by authorising officers

In their 2023 declarations of assurance ([72]), all 51 authorising officers by delegation ([73]) declared they had reasonable assurance that: (1) the information contained in their reports presents a 'true and fair view' (i.e. reliable, complete and correct) of the state of affairs in their departments; (2) the resources assigned to their activities were used for their intended purpose and in accordance with the principle of sound financial management; and (3) the control procedures put in place give the necessary guarantees concerning the legality and regularity of the underlying transactions, taking into account the multiannual character of some programmes and the nature of the payments concerned.

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

For 2023, 10 authorising officers issued a qualified declaration of assurance, resulting in a total of 14 reservations, as follows. Likewise, in 2022, 10 authorising officers reported 15 reservations.

- A total of **10 reservations have been maintained** from previous years. These reservations have been maintained mainly because the root causes of the material level of error can be partially mitigated but not fully eradicated under the current programmes' legal frameworks. Most of the recurrent reservations concern programmes under shared management with weaknesses identified at the level of a Member State, paying agency or programme, which rarely persist for more than 1 year thanks to the remedial action plans in place.
- **Four reservations are new**, but only one is quantified, albeit with a limited financial impact of EUR 0.6 million. One, in particular, has been issued on a reputational basis and has rather administrative content, as it refers to the problems encountered with the launch of a new online testing for the recruitment of EU staff. Also, most of them (three out of four) concern the new programming period 2021-2027, and only one relates to the 2014-2020 programme for the promotion of agricultural products, regarding issues of conflict of interest and underperformance in the multi-beneficiary grant part.
- **Five reservations issued in 2022 were lifted in 2023.** In three cases, the underlying issues have been addressed, while in two cases, which were related to the 2007-2013 programming period, the implementation of the programme's multiannual corrective capacity has come to a closure with a residual error rate close to 0%.

([72]) Annual activity reports.
([73]) The term 'authorising officer by delegation' covers Directors-General of Commission departments and heads of executive agencies, offices, services and task forces.

- **In 11 cases,** a reservation was not issued by virtue of the de minimis rule, whereby cases with a residual error rate above the 2% materiality threshold for segments that represent less than 5% of the department's total payments and have a financial impact of less than EUR 5 million are deemed not substantial for issuing a reservation. The total financial impact of these cases in 2023 was very limited at EUR 6.4 million ([74]), similar to 2022.

The total financial impact of all reservations was EUR 1 291 million for 2023, representing 0.8% of the relevant expenditure, which increased compared to 2022's EUR 877 million. This increase is linked to the higher financial impact estimated for the policy areas of cohesion, resilience and values and natural resources and environment due to a slight increase in error rates.

Annex 5 in Volume III provides a complete list of the reservations for 2023, along with further explanations and details.

3.2. Work of the Internal Audit Service and overall opinion

The Commission's Directorates-General and services also base their assurance on the work done by the Internal Audit Service.

As required by its mission charter, the Internal Audit Service issued an annual overall opinion on the Commission's financial management, based on the audit work it carried out in the area of financial management in the Commission covering the previous three years (2021-2023). The overall opinion also takes into account information from other sources, namely the reports from the European Court of Auditors.

Based on this audit information, the Internal Auditor considers that in 2023 the Commission put into place governance, risk management and internal control procedures which, taken as a whole, are adequate to give reasonable assurance over the achievement of its financial objectives, with the exception of those areas of financial management over which authorising officers by delegation have expressed reservations in their declaration of assurance as listed in the annex.

Without further qualifying her overall opinion on the 2023 year, the Internal Auditor issues an emphasis of matter by drawing the attention of the Commission to the need to build on the lessons from managing its financial resources in a challenging context. This is further detailed in the Annex 6 to this report.

The Internal Audit Service audits the management and control systems within the Commission and the executive agencies, providing independent and objective assurance on their adequacy and effectiveness. The resulting recommendations concern aspects related to performance management, EU policy implementation, legality and regularity in relation to internal control systems, preparedness for and early implementation of the EU budget, cooperation with third parties implementing policies and programmes and information technology. For all accepted recommendations, the auditees drafted action plans that were submitted to the Internal Audit Service, which subsequentially assessed them as being satisfactory or requested a revised action plan. Finally, the Internal Audit Service pursued its strict follow-up policy and assessed the actual implementation of its recommendations by the Commission's departments on a regular basis. The audit work confirmed that almost all of the recommendations issued between 2019 and 2023 and followed up by the Internal Audit Service were adequately and effectively implemented by the auditees. This result indicates that the Commission services are diligent in implementing the recommendations and mitigating the risks identified by the Internal Audit Service.

([74]) It should be noted that the *de minimis* rule for reservations is not applied to cohesion policy funds since reservations are made for individual (parts of) programmes and then aggregated by programming period.

Annex 6 includes more information on the assurance provided by the Internal Audit Service. In addition, a report on the internal auditor's work is forwarded by the Commission to the discharge authority, in accordance with Article 118(8) of the financial regulation, as part of the integrated financial and accountability reporting package.

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

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

During this reporting year, which continued to be affected by the succession of unprecedented challenges impacting the EU since 2020 ([75]), **the committee maintained its important role in enhancing governance, organisational performance and accountability across the entire organisation**. It held four rounds of meetings, focusing on the key objectives set out in the 2023 and 2024 work programmes. The committee also welcomed the convergence between the critical risks identified by management and the high risks identified by the Internal Audit Service, as translated by the audit topics included in the audit plan, which continues to illustrate the robustness of the institution's approach to risk management.

The committee discussed very important audit findings raised by the Internal Audit Service with relevant auditees and urged the completion of mitigating actions as soon as possible. The committee held discussions on important topics such as the Commission's risk at payment and the controls of the Recovery and Resilience Facility, given their importance in ensuring and demonstrating the Commission's capacity to protect the EU budget. It also held discussions on topics related to IT security, especially those relevant to the current cybersecurity environment.

The committee was satisfied with the independence and quality of the internal audit work and welcomed the internal auditor's reassurances that the planning provides sufficient coverage for delivering the overall opinion on the Commission's financial management. The effective implementation rate of the internal auditor's recommendations remained very high (i.e. covering 97% of recommendations issued and followed up during 2019-2023), and only three very important audit recommendations were overdue by more than 6 months as of January 2024.

The committee continued its exchanges with the European Court of Auditors and held a discussion with the external auditor on its annual work programme for 2024. The committee also continued to monitor the progress in implementing the Court of Auditor's recommendations, and was satisfied when, for the 16th time in a row, the European Court of Auditors gave a clean opinion on the reliability of the EU consolidated accounts.

Annex 7 of this annual management and performance report includes more information on the work and conclusions of the committee.

([75]) The consequences of the COVID-19 pandemic and Russia's invasion of Ukraine with the ensuing energy price and cost of living crises.

3.4. The opinions of the European Court of Auditors on the 2022 accounts and on the legality and regularity of transactions

The European Court of Auditors' *Annual report on the implementation of the EU budget for the 2022 financial year*, published in October 2023, gave a clean opinion on the EU accounts for the 16th year in a row. Revenue also continued to be free from material error.

As regards legality and regularity of expenditure, under the multiannual financial framework, the European Court of Auditors maintained an adverse opinion. The overall estimated level of error for the EU budget (4.2%) increased compared to 2020 (3.0%).

This adverse opinion is mainly explained by both the reported level of error and the fact that material errors remain in what the European Court of Auditors considers to be high-risk expenditure, of which the share in the EU budget has also slightly increased. High-risk expenditure, which is often subject to complex rules and is mainly based on reimbursement of costs, covers, in particular, cohesion, research, rural development, market measures under the European Agricultural Guarantee Fund and some parts of external initiatives. The European Court of Auditors concludes that high-risk expenditure represented 66% of the audited population for 2022 (against 63% in 2021), an increase which is consistent with the increase in cohesion payments at this stage of the 2014-2020 multiannual financial framework cycle.

On the other hand, the European Court of Auditors confirmed again that the risk of error is lower for expenditure subject to simpler rules, mainly the entitlement-based payments (as opposed to reimbursement-based payments). This concerns, for instance, direct payment to farmers but also administrative expenditure (mostly salaries and pensions of EU civil servants). Both continue to be free from material error.

The European Court of Auditors also issued an audit opinion on the Recovery and Resilience Facility for the second time. It concluded that the financial impact of its findings was close to the 2% materiality threshold and, based on these quantitative and other qualitative findings, issued a qualified opinion.

The Commission followed up on the Court of Auditor's recommendations, stemming from both the annual and special reports. It reported on the measures taken in the annual activity reports. Moreover, it reported on a regular basis on the implementation of the Court of Auditor's recommendations to the Commission's Audit Progress Committee, which performed certain monitoring activities in this respect under its updated mandate ([76]).

The European Court of Auditors also monitors the Commission's implementation of its recommendations and provides feedback, helping the Commission to enhance its follow-up activities. In its 2022 annual report, the European Court of Auditors reviewed the extent to which the Commission had pursued the implementation of 175 audit recommendations addressed to it in 28 special reports published in 2019. The European Court of Auditors noted that the Commission had implemented 73% of the recommendations either fully (58%) or in most respects (15%) and another 13% in some respects. In 4% of the cases, the European Court of Auditors was unable to conclude. Of the 17 recommendations (10%) that the European Court of Auditors considered not to have been implemented, the Commission had initially not accepted eight and only partially accepted five. These results are in line with those of previous years.

([76]) Annex to the Communication to the Commission from Commissioner Reynders in agreement with the President – Update of the charter of the Audit Progress Committee of the European Commission, COM(2020) 1165 final of 27 February 2020.

3.5. Discharge of the budget for 2022

The European Parliament granted the discharge to the Commission for the 2022 financial year on 12 April 2024, after having examined the reports of the European Court of Auditors, the Commission's integrated financial and accountability reporting package and the Council's discharge recommendation. The European Parliament's Committee on Budgetary Control also invited selected Commissioners and Directors-General for exchanges of views during the discharge procedure.

During the procedure, the key stakeholders – the European Parliament, the Council of the European Union and the European Court of Auditors – focused on how to ensure transparency in the use of the EU budget, how to improve its results and how to further reduce the level of error. The Recovery and Resilience Facility, which became operational in 2021, was again one of the key elements of the discharge discussions this year due to its financial firepower and the specific nature of its delivery mode, which is performance-based rather than based on costs incurred.

The discussions on discharge also touched upon issues such as the rule of law and fundamental rights, the importance of the EU budget in achieving the EU's priorities and responding to crises, the smoother implementation and absorption of EU funds, including the simplification of rules and procedures, the repayment of the debt under NextGenerationEU, the anti-fraud architecture and the cooperation between the European Public Prosecutor's Office and the European Anti-Fraud Office, the financing of non-governmental organisations, the review of the funding to Palestine [77], the funding to the United Nations Relief and Works Agency for Palestine Refugees, the mainstreaming of the EU's horizontal priorities throughout the EU budget, the use of information technology tools for the management, control and audit of the funds, the methodologies to estimate the level of error and the level of risk, and cases where the European Court of Auditors and the Commission reached different conclusions on the eligibility of expenditure.

As usual, the Commission is taking appropriate action to address these issues and report on the follow-up in a dedicated report.

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

Annex 3 – The Recovery and Resilience Facility

1. The Recovery and Resilience Facility – an innovative and successful crisis-response tool

The Recovery and Resilience Facility ([78]) is at the heart of the NextGenerationEU recovery plan for the European Union and was established in the midst of the COVID-19 pandemic to help EU Member States recover faster and become more resilient. It provides a powerful tool at the EU level to support an accelerated and ambitious green and digital transition. In 2022, it was expanded to accommodate the REPowerEU plan, the European Commission's response to the economic hardship, high inflation and energy crisis triggered by Russia's unprovoked invasion of Ukraine. The discussions on the revision of the national plans, mostly to integrate the REPowerEU plan but also to take into account further modifications to the initially approved plans, took place in 2023 while the progress of the implementation of the facility continued on the ground.

1.1. Future-proofing through revised plans

The key event in 2023 was the revision of the 27 recovery and resilience plans and their assessment by the Commission. Increased energy prices, high inflation and supply chain disruptions caused by Russia's unprovoked war of aggression against Ukraine, and, in some cases, natural disasters, made it challenging for Member States to implement certain reforms and investments in their resilience and recovery plans. The Commission supported Member States in their efforts to mitigate these external constraints and to revise the relevant measures in their plans using the flexibility embedded in the Recovery and Resilience Facility regulation. This was also the occasion to update the plans to take account of the revised financial allocation to Member States published in June 2022 and to add designated REPowerEU chapters, following the adoption of the corresponding amending regulation in February 2023 ([79]). A total of 31 plan revisions ([80]) were adopted, 23 of which included REPowerEU chapters ([81]).

Through the revisions, an additional amount of EUR 147.2 billion was allocated under the Recovery and Resilience Facility, divided into EUR 21.6 billion in grants and EUR 125.5 billion in loans. The total amount allocated to Member States thus increased from EUR 500.8 billion at the end of 2022 to EUR 648 billion at the end of 2023. From this total increase, EUR 60 billion was related to REPowerEU for reforms and investments that contribute to saving energy, substituting fossil fuels and addressing immediate needs for security of supply while reducing dependency on Russia's fossil fuels.

([78]) Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility, OJ L 57, 18.2.2021, p. 1, ELI: http://data.europa.eu/eli/reg/2021/241/oj (Recovery and Resilience Facility regulation).

([79]) Regulation (EU) 2023/435 of the European Parliament and of the Council of 27 February 2023 amending Regulation (EU) 2021/241 as regards REPowerEU chapters in recovery and resilience plans and amending Regulations (EU) No 1303/2013, (EU) 2021/1060 and (EU) 2021/1755, and Directive 2003/87/EC, OJ L 63, 28.2.2023, p. 1, ELI: http://data.europa.eu/eli/reg/2023/435/oj (RePowerEU regulation).

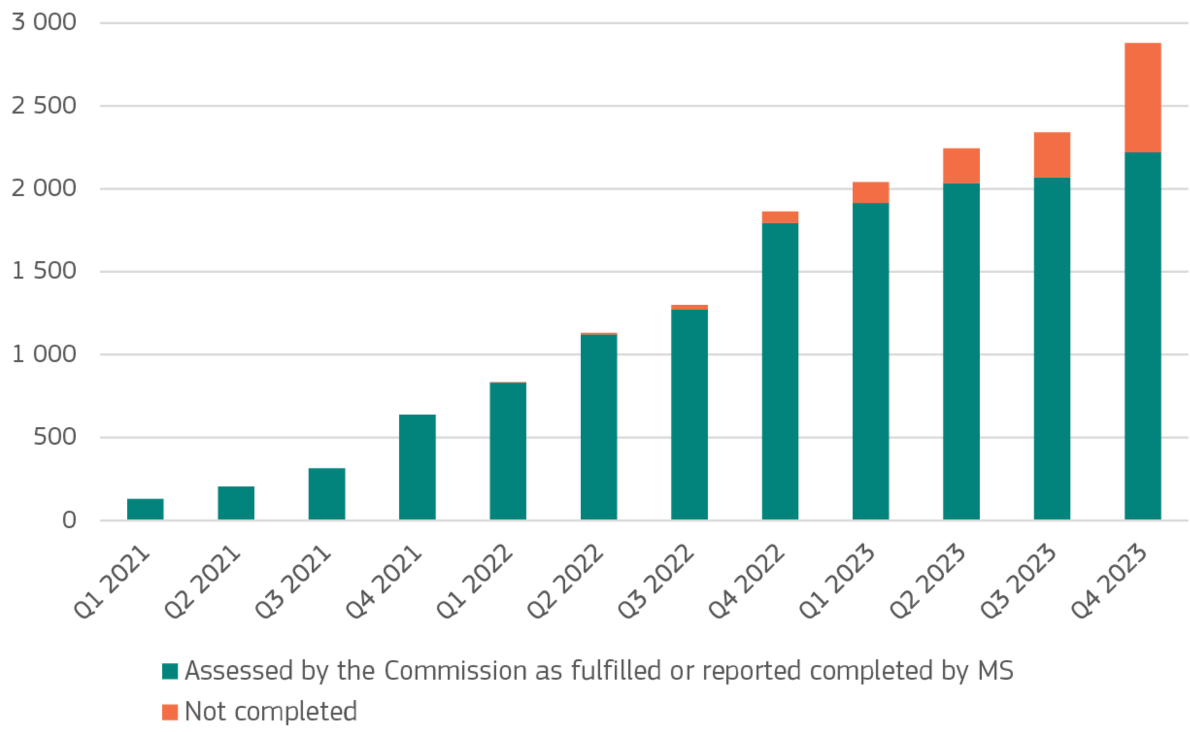
([80]) Germany, Ireland, Italy and Finland submitted two updates to their plans.

([81]) The revised plans for Bulgaria, Germany, Ireland and Luxembourg did not include REPowerEU chapters.

1.2. Implementation is on track

The revision of the plans had an impact on the pace of implementation of the existing plans. Still, implementation on the ground continued to progress throughout 2023, with the number of payment requests submitted by the end of 2023 doubling from 27 to 54 and with the achievement of most milestones and targets in line with initial expectations. Almost 80% of the milestones and targets planned to be achieved by the end of 2023 were reported as completed by the Member States, out of which 40% (i.e. 1153 of the 2880 milestones and targets planned for completion by the end of the fourth quarter of 2023) were assessed as fulfilled by the Commission.

Progress on the implementation of the milestones and targets, in absolute values



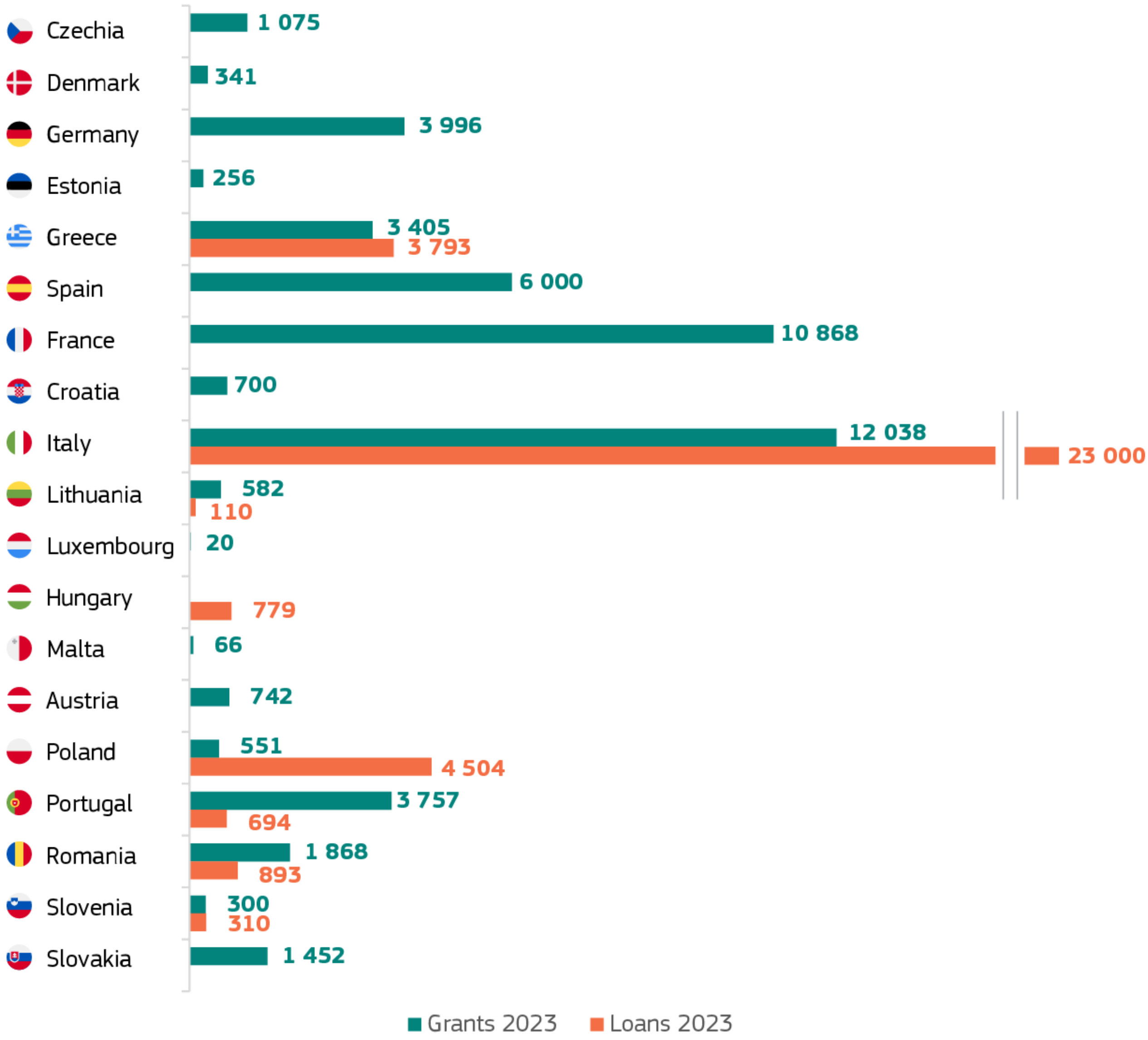
Source: European Commission

In 2023, the Commission disbursed a total of EUR 75 billion ([82]) **(out of which EUR 28.7 billion was in loans)** and additional pre-financing payments of EUR 7.1 billion. This brought the total disbursements by the end of 2023 to EUR 220.8 billion, divided into EUR 141.6 billion in grants (40% of the total EUR 357 billion ([83]) for grants under the Recovery and Resilience Facility envelope) and EUR 79.2 billion in loans (27% of the total EUR 291 billion for loans under the Recovery and Resilience Facility envelope).

([82]) The total amount disbursed in 2023 corresponds to 23 payments requests from 17 Member States, along with the payment of pre-financing to two Member States. In total, when including pre-financing, payments were made to 19 Member States.

([83]) EUR 338 billion in original Recovery and Resilience Facility grants, EUR 17.3 billion in emissions trading system grants and EUR 1.6 billion in Brexit adjustment reserve grants.

Disbursements made in 2023 per Member State for grants and loans, including pre-financing



Source: European Commission

1.3. Achieving performance results

Member States use the funds provided by the Recovery and Resilience Facility to implement ambitious reforms and investments that will make their economies and societies more sustainable, resilient and prepared for the green and digital transitions.

The results obtained by the end of 2023 indicate that the facility is making a key difference in the lives of EU citizens. The common indicators that follow show the progress of implementation of the recovery and resilience plans towards common objectives and the overall performance of the facility.

Common indicator	Results by the end of 2023
Savings in annual primary energy consumption	**28 282 262 MWh / year**
Additional operational capacity installed for renewable energy	**54 204 MW**
Alternative fuels infrastructure (refuelling/recharging points)	**531 995**
Population benefiting from protection measures against floods, wildfires and other climate-related natural disasters	**9.0 million**
Additional dwellings with internet access provided via very-high-capacity networks	**5.6 million**
Enterprises supported for developing or adopting digital products, services and application processes	**587 398**
Users of new and upgraded public digital services, products and processes	**308.7 million**
Researchers working in supported research facilities	**17 551**
Enterprises supported (small (including micro), medium and large)	**2.0 million**
Number of participants in education or training	**8.7 million**
Number of people in employment or engaged in job searching activities	**1.3 million**
Capacity of new or modernised health care facilities	**45.8 million**
Classroom capacity of new or modernised childcare and education facilities	**246 037**
Number of young people aged 15-29 receiving support	**5.8 million**

Furthermore, the Recovery and Resilience Facility helped to deliver some key reforms during the first 2 years of implementation, including reforms:

- **digitalising public administration** (Slovakia) and ensuring cybersecurity (Romania);
- making **civil and criminal justice systems** more efficient by reducing the length of proceedings and by improving the organisation of courts (Italy, Spain);
- improving the **quality of the legislative process** (Bulgaria);
- tackling **corruption and ensuring the protection of whistle-blowers** (Cyprus);
- surrounding the **labour market** and modernising active labour market policies (Spain);
- enhancing **employment and social protection** (Croatia);
- fostering **scientific excellence** and improving the performance of universities and public research organisations (Slovakia) and enhancing the predictability and stability of public research funding (Portugal);
- simplifying licensing to boost investment in **offshore renewables** or to create the conditions for introducing **renewable hydrogen** (Greece, Portugal, Spain);
- supporting the roll-out of **renewable energy and sustainable transport** (Croatia, Romania);
- improving **affordable housing** (Latvia).

In addition, the Recovery and Resilience Facility has contributed to unlocking the full potential of structural reforms by complementing them with key investments. Some of the major investments with key steps already completed include:

- funding for the diversification and shortening of the **supply chain of agricultural and food products** and building the resilience of entities in the supply chain (Poland, for a total estimated cost of EUR 1.3 billion);
- investments to support the **decarbonisation and energy** efficiency of industry (Croatia, for a total estimated cost of EUR 61 million; France, EUR 1.4 billion);
- the purchase of **600 000 new laptops to lend to teachers and pupils** and the selection of digital innovation hubs to support companies in their digitisation efforts (Portugal, EUR 600 million);
- funds to increase the **competitiveness of firms operating in the tourism sector**, including 4 000 small and medium-sized enterprises (Italy, EUR 1.9 billion);
- investments to **support vulnerable people** (Italy, EUR 1 billion);
- the **digitisation of public administration** towards digital, simple, inclusive and secure public services for citizens and businesses (Portugal, EUR 170 million);
- broadband infrastructure development (Latvia, EUR 4 million).

An overview of how the implementation of the Recovery and Resilience Facility and the national recovery and resilience plans are progressing is provided through the recovery and resilience scoreboard.

Each recovery and resilience plan is required to contribute at least 37% and 20%, respectively, to climate and digital objectives. This is reflected in the significant budgetary contribution to both the green and digital transitions of the facility.

- **Climate contribution**: EUR 275.7 billion from 2021 to 2023 (43% of the total budget envelope).
- **Digital contribution**: EUR 157.6 billion from 2021 to 2023 (24% of the total budget envelope).

2. Control results confirm the satisfactory fulfilment of all milestones and targets for payments made in 2023

2.1. A dedicated control environment to ensure the protection of EU funds

The Recovery and Resilience Facility regulation sets out the respective roles and responsibilities of Member States and of the Commission for protecting the EU budget. The facility is a fully performance-based instrument, and, unlike other EU funding programmes, the Commission does not reimburse Member States based on actual costs incurred for the reforms and investments included in their recovery and resilience plans. Instead, the Commission pays pre-defined instalments solely when agreed milestones and targets are satisfactorily fulfilled. The funds of the Recovery and Resilience Facility, once disbursed, enter each national budget with no direct link to the expenditure incurred to finance the reforms and investments. As per the regulation, Member States are responsible for ensuring that the facility is implemented in compliance with EU and national rules and with the principles of sound financial management. The Commission should be able to receive sufficient assurance from them in that regard.

Member States must put in place suitable monitoring and control systems to protect the financial interests of the EU and to ensure that the use of funds complies with EU and national law. These systems are described in detail in the recovery and resilience plans and were assessed by the Commission before each plan was adopted. During the lifetime of the facility, Member States must ensure the effectiveness of these control systems. Notably, they must undertake systematic work to ensure that the systems prevent, detect and correct irregularities. If a Member State detects any specific irregularities, it must take action to correct them and inform the Commission of them. If a Member State does not undertake the necessary corrections in cases of fraud, corruption or double funding, the Commission will recover the funds from the Member State. Moreover, if a Member State seriously breaches its obligations, the Commission can apply a flat-rate correction of that Member State's facility funds.

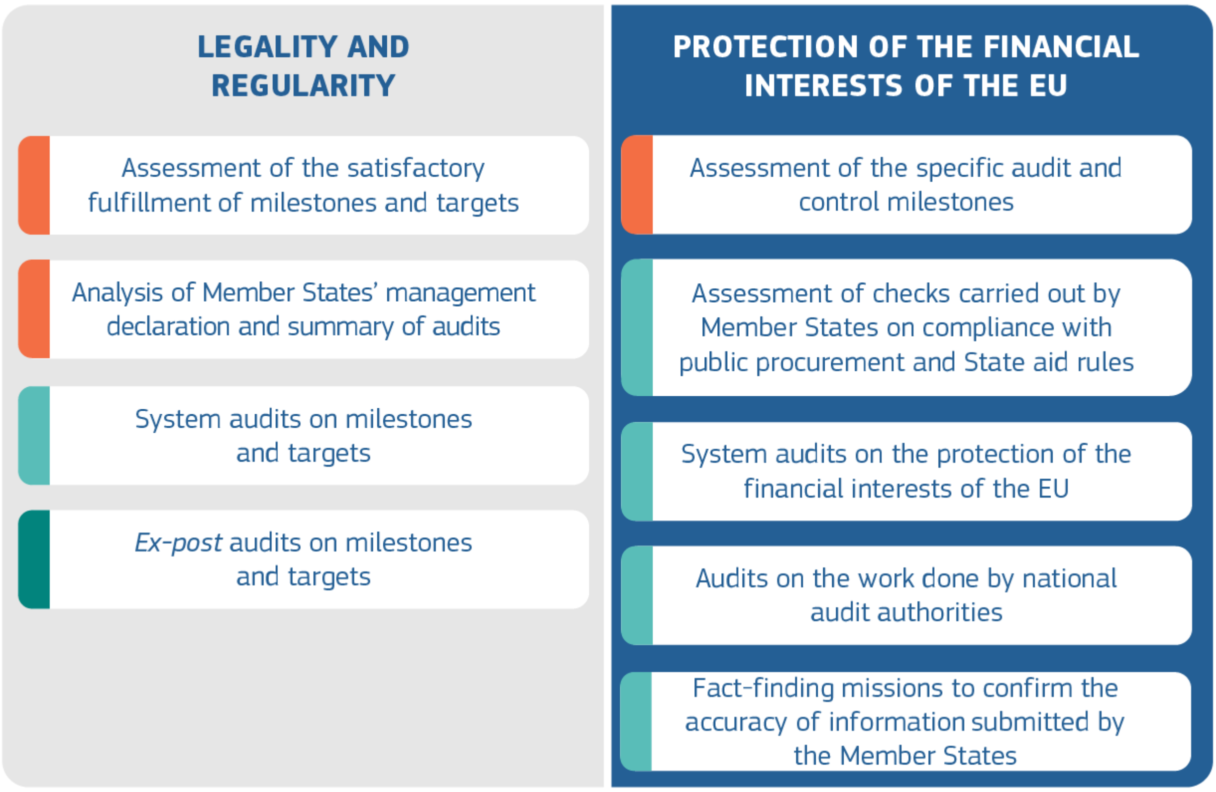
The Commission has designed its control strategy to fully comply with its responsibilities stemming from the Recovery and Resilience Facility regulation.

- **The Commission must ensure the legality and regularity of payments to the Member States, which are solely linked to the satisfactory fulfilment of the milestones and targets.** For this purpose, the Commission carries out ***ex ante* assessments of all the payment requests** received from the Member States, on-the-spot ***ex post* audits** for a selection of payment requests, milestones and targets, **system audits on milestones and targets** and the **analysis of the Member States' management declarations and summaries of audits**.
- **The Commission has the right to reduce and recover any amount, or ask for early repayment of the loan**, in cases of fraud, corruption and conflicts of interest affecting the financial interests of the EU that have not been corrected and recovered by the Member State, or for a serious breach of an obligation resulting from the financial and/or loan agreement signed with the Member State. For this purpose, the Commission makes an **assessment of the control systems described in the plans** (and subsequent revisions) submitted to the Commission before their adoption. In addition, the Commission carries out **system audits on the protection of the**

financial interests of the EU in the Member States over the entire duration of the facility and **audits on the work done by the national authorities**. It also assesses the checks carried out by the Member States on compliance with public procurement rules and State aid rules.

- The figure below presents an overview of the Commission's control strategy regarding the facility.

Overview of the Recovery and Resilience Facility control environment at the Commission level



Takes place before the Commission makes the payment to the Member State
Can take place anytime during the implementation of the plan
Takes place after the Commission makes the payment to the Member State

Source: European Commission

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

The Commission's qualitative assessment is based on a combination of results from: (1) the assessment of the payment request; (2) the Member States' management declarations and summaries of audits that must accompany each payment request; (3) the Commission's audits on the achievement of milestones and targets and other checks carried out by the Commission at the Member State level in the context of other funding programmes such as cohesion policy funds; and (4) the European Court of Auditors' findings, if deemed acceptable. As a result, the Commission determines a level of risk to the legality and regularity of each payment, which can be low, medium or high.

Following the recommendations from the Internal Audit Service, the European Court of Auditors and the European Parliament, the Commission revised its audit and control strategies in 2023 with a view to making qualitative enhancements, namely by:

- **reinforcing controls on** how Member States' internal control systems ensure **compliance with EU and national rules** through the roll-out of checks on public procurement and State aid in all types of Commission audits;
- **strengthening cooperation among Commission departments** as regards the sharing of audit results;
- **improving controls of the potential risks of reversal** for audited milestones and targets;
- **revising the methodology for the selection of additional audit work** regarding the protection of the financial interests of the EU to ensure that risks are adequately monitored and addressed throughout the lifetime of the Recovery and Resilience Facility;
- **fine-tuning the control objectives** for better coverage of the risks related to the Recovery and Resilience Facility implementation, including better descriptions of the monitoring arrangements to check the effectiveness, efficiency and economy of the controls carried out by the Member States.

In 2023, the Commission continued to bring improvements and clarifications to the way the design of the facility is interpreted through the following.

- A **framework** ([84]) **for assessing the satisfactory fulfilment of the milestones and targets** upon conducting the assessment, published in February 2023. It is based on the experience that the Commission has gained so far in the assessment of milestones and targets under the Recovery and Resilience Facility regulation.
- A **methodology** ([85]) **to determine the amount to be suspended if a milestone or target is not satisfactorily fulfilled**, in full respect of the principles of equal treatment and proportionality. It provides a clear and consistent approach to determining the relevant amounts while retaining a margin of discretion, reflecting the fact that not all measures contribute equally to the realisation of the objectives of a national recovery and resilience plan.
- A **framework for the application of the provision related to the reversal of milestones and targets** under the facility ([86]), which provides legal clarity and transparency on the process to be followed in case of a reversal, ensuring the continued implementation of the Recovery and Resilience Facility.

([84]) Communication from the Commission to the European Parliament and the Council – Recovery and Resilience Facility: Two years on – A unique instrument at the heart of the EU's green and digital transformation, Annex I, COM(2023) 99 final of 21 February 2023.

([85]) Communication from the Commission to the European Parliament and the Council – Recovery and Resilience Facility: Two years on – A unique instrument at the heart of the EU's green and digital transformation, Annex II, COM(2023) 99 final of 21 February 2023.

([86]) Report from the Commission to the European Parliament and the Council on the implementation of the Recovery and Resiliency Facility: Moving forward, Annex II, COM(2023) 545 final of 19 September 2023.

- **Further strengthening transparency** thanks to the REPowerEU regulation, which introduces a requirement for the Member States **to publish information on the 100 final recipients** receiving the highest amounts of Recovery and Resilience Facility funding (87). An **updated "Guidance on recovery and resilience plans"** (88) following the ECOFIN Council Conclusions of April 2024 on the Facility's mid-term evaluation, inviting the Commission and Member States to identify ways to streamline and improve the implementation of RRPs, whilst ensuring the adequate protection of the EU's financial interests. This guidance introduces several simplification elements for the implementation of the recovery and resilience plans and explains the process for modifying the plans, including the allocation of resources from the facility towards STEP (89) objectives. It also brings more clarity regarding the conditions under which a pro-rata combination of support from the facility and other EU funds is possible, while avoiding double funding.

2.2. Control results are predominantly positive

2.2.1. Full approval of the revised plans following their assessment

In the context of the revision of recovery and resilience plans, the audit and control system of the respective Member States were reassessed in 2023, taking into account all the new and additional information obtained since the original assessment took place through the different audits carried out by the Commission. In light of this information, the Commission considered whether the arrangements for the audit and control system put forward by the Member State in the modified recovery and resilience plan were (still) adequate and proposed to add new milestones and targets in this respect (see also section 2.2.4.). All 31 plan revisions submitted in 2023 were adopted.

2.2.2. *Ex ante* controls at the payment stage

Positive assessment before payment of the satisfactory fulfilment of milestones and targets

In 2023, the Commission assessed and paid 23 payment requests submitted by 17 different Member States, corresponding to 748 milestones and targets (598 milestones, 150 targets). Based on these assessments, seven milestones and targets, out of 748 in total, were assessed as not satisfactorily fulfilled. For three of these (90), partial payments were decided by the Council in 2023, and a total of EUR 890 million was not paid to the Member States.

In the context of the assessment of milestones and targets, questions have been raised regarding the application of eligibility provisions to some measures. In this respect, the Commission has systematically introduced checks regarding eligibility when approving the plans and, where doubts arise regarding individual

(87) The Commission has asked Member States to swiftly make this data available and is consolidating it on the recovery and resilience scoreboard, the online portal that tracks progress in the implementation of the Recovery and Resilience Facility as a whole and of each national recovery and resilience plan.
(88) C(2024)3809
(89) Regulation (EU) 2024/795 of the European Parliament and of the Council of 29 February 2024 establishing the Strategic Technologies for Europe Platform (STEP)
(90) The first payment to Lithuania: two milestones; the second payment to Romania: two milestones; the third payment to Portugal: one target and two milestones.

pieces of evidence submitted by Member States, when assessing payment requests. In order to further clarify the application of the current provisions ([91]), the Commission will issue further guidance on this matter.

Positive assessment of the specific milestones on audit and control for all Member States

In total, 14 of the 23 Member States for which the first payment took place since the beginning of the implementation ([92]) **were concerned with audit and control milestones**, not counting the new wave of milestones and targets added in the revised plans. Examples of such milestones are:

- putting in place and implementing a repository system for monitoring the implementation of the Recovery and Resilience Facility before the first payment was done;
- entry into force of laws or decrees setting out legal mandates or defining audit and control procedures;
- creating and implementing an action plan regarding the prevention of conflict of interest in the context of the Recovery and Resilience Facility and adopting an audit strategy ensuring independent and effective auditing of the Recovery and Resilience Facility implementation.

The Commission assessed the achievement of all these milestones positively, based on desk reviews and in-depth assessments of the evidence provided by each Member State. In addition, commitments were made by seven Member States to ensuring the continuous respect of the audit and control milestones.

Analysis of management and audit summaries confirms the Commission's initial assessment

The Commission reviewed the management declarations and audit summaries accompanying all payment requests for the 23 payments made in 2023. For all except three payment requests received and assessed, the analysis of management declarations and audit opinions supported the Commission's assessment of the satisfactory achievement of milestones and targets.

2.2.3. *Ex post* audits on milestones and targets confirm the satisfactory fulfilment of milestones and targets

In 2023, the Commission carried out 10 audits ([93]) on milestones and targets (some of them were also combined with systems audits). These audits are carried out on a risk basis, usually covering 100% of high-risk milestones and targets, along with some medium-risk milestones and targets. The payment requests not audited contained mainly low-risk milestones. By 15 May 2024, the Commission had audited **50 of the 63 high-risk milestones and targets** included in payment requests paid out in 2023 and **32 out of 147 medium-risk ones**.

Based on its audit work, the Commission found **no evidence that the audited milestones and targets were not satisfactorily fulfilled**. Any other discrepancies identified between the data declared and the

([91]) Commission guidance to Member States of 22 January 2021 (SWD(2021) 12 final) regarding how the Commission would assess measures for compliance with the obligation stemming from the Recovery and Resilience regulation.

([92]) Bulgaria, Czechia, Estonia, Greece, Spain, France, Croatia, Italy, Cyprus, Lithuania, Luxembourg, Romania, Slovenia and Slovakia.

([93]) Audits regarding the first payment requests submitted by Czechia, Denmark, Germany, Luxembourg and Austria, the second payment requests submitted by Greece, Croatia, Italy ([93]), Romania and Slovakia and the third payment requests submitted by Spain, Croatia, Portugal and Italy and fourth payment requests submitted by Italy and Portugal.

data audited remained within the margin of 5% ([94]) considered by the Commission for its assessment. In case the Commission considers *ex post* that a milestone or a target was not reached, it will initiate financial corrections to recover the undue part of the payment made. This has not happened for the payments done in 2023.

2.2.4. System audits on the protection of the financial interests of the EU confirm adequacy of systems in place

By the end of 2023, all the Member States have undergone a system audit at least once since the start of the Recovery and Resilience Facility. In 2023, the Commission's **system audits** on the protection of the financial interests of the EU covered 13 coordinating bodies and 62 implementing bodies in 13 Member States ([95]), such as ministries or agencies, selected on a risk basis. In the context of these system audits and other audit work, the Commission carried out targeted checks on compliance with State aid and public procurement procedures, covering both the procedures in place to prevent fraud, corruption and conflicts of interest in public procurement procedures and the actual implementation of these procedures.

The Commission identified a varied situation regarding the implementation of internal control systems across the audited bodies. Good practices were identified, such as risk assessments on sensitive staff, procedures for the detection of possible fraud and corruption, the use of data mining tools such as ARACHNE, procedures for the preventive detection of possible conflicts of interest, procedures for the verification of possible double funding before the grant award decision and high-quality programmes to train staff on matters of ethics and integrity.

However, the main issues encountered, for which the Commission is issuing recommendations and agreed deadlines for their implementation, still concern the lack of sufficient coordination/supervision by the coordinating bodies, issues with data collection, aggregation, reporting and access, incomplete anti-fraud strategies for the protection of financial interests of the Union, missing elements in the fraud risk assessments, in the need for improvement of *ex ante* controls carried out to prevent conflicts of interest, the need to improve procedures to verify the absence of double funding, issues with the fulfilment of publicity obligations not well fulfilled, low participation in training organised to raise fraud awareness and deficiencies in the reporting of irregularities to the European Anti-Fraud Office.

Where the deficiencies identified could be remedied by an audit and control milestone, the Commission proposed introducing such milestones into the revised recovery and resilience plans as part of the proposal for a Council implementing decision. These milestones must be fulfilled before the next payment can be made. As a result, 10 new audit and control milestones were included in seven revised plans ([96]) approved by the Council in 2023.

The Commission can give reasonable assurance regarding the protection of the EU's financial interests from fraud, corruption and conflicts of interest ([97]) based on the outcomes of the system audit work carried out in 2023 and considering the results of the analysis of the management declarations and audit summaries mentioned above, with the exception of one Member State, as described in section 2.2.8 but which is deemed not material and thus no reservation is issued.

([94]) A minimal deviation from amounts specified in a milestone/target is defined as around 5% or less.

([95]) Belgium, Germany, France, Croatia, Italy, Luxembourg, Hungary, Netherlands, Austria, Portugal, Romania, Slovakia and Sweden.

([96]) Belgium, Denmark, Ireland, Cyprus, Austria, Portugal and Finland.

([97]) In accordance with Article 22(5) of the Recovery and Resilience Facility regulation, the Commission may reduce proportionately the non-repayable support under the Recovery and Resilience Facility and, where applicable, recover any amount due to the EU budget in cases of fraud, corruption and conflicts of interest affecting the financial interests of the EU that have not been corrected by the Member State, or a serious breach of an obligation resulting from this agreement.

2.2.5. Other audits and controls

Audits of the national audit authorities

In 2023, the Commission reviewed the audit work carried out by national audit authorities ([98]) to establish the level of assurance that could be drawn from their audit, with mixed results overall. In many instances, findings regarding the work of the audit authorities led to minor but rather desirable improvements, while some of the findings also resulted in critical or very important recommendations. Examples of recommendations included requiring the audit bodies to include deadlines for the implementation of their recommendations, defining follow-up procedures better, improving audit manuals, checklists or documentation, improving verifications on public procurement procedures or State aid rules and addressing staffing issues or issues with the assignment of audit staff.

All the Member States assessed complied with their obligation regarding public procurement and State aid rules

To support its declaration of assurance, the Commission also assesses whether Member States comply with their obligation to regularly check EU and national rules, notably on State aid and public procurement. In accordance with the Recovery and Resilience Facility regulation, Member States shall 'regularly check that the financing provided has been properly used in accordance with all applicable rules and that any measure for the implementation of reforms and investment projects under the recovery and resilience plan has been properly implemented in accordance with all applicable rules regarding the prevention, detection, and correction of fraud, corruption, and conflicts of interests'.

In 2023, this assessment concerned all 17 Member States that received a payment during the reporting period. In doing so, the Commission primarily used the results of its specific audits on the Recovery and Resilience Facility (see above) complemented with audit work related to other instruments (e.g. the cohesion policy). Based on the evidence collected and assessed, and to the best of its knowledge, the Commission considered that all the Member States complied with their obligation to regularly check that the financing provided in the context of the 2023 transactions was properly used and implemented in accordance with all applicable rules, notably for public procurement and State aid.

2.2.6. Annual audit and management opinions

Based on the audit work described above, the Commission issued 17 annual audit opinions ([99]) for the 17 Member States that received payments, following the submission of a payment request, in 2023. These audit opinions were then used in addition to any other available information to issue a management opinion ([100]) for each of the payments made in 2023.

Both audit opinions and management opinions are used to support the conclusion on the overall declaration of assurance. The audit opinions provide an opinion on the level of risk in relation to the legality and regularity

([98]) Three dedicated compliance audits were conducted for Denmark, Slovenia and Slovakia. Additionally, parts of compliance audits were integrated into other audits of Spain, France, Luxembourg, Austria, Romania and Slovakia.

([99]) The audit opinion is a formal assessment by the Commission's responsible audit units on the Commission's internal control systems for the Recovery and Resilience Facility and is supported by detailed assessments per Member State containing a summary of the information accumulated from the Commission's own audits, the audits of other bodies, national audit bodies, the European Court of Auditors and the results of enquiries by the European Anti-Fraud Office.

([100]) The audit opinions are used by the Commission's operational units together with other sources of information at their disposal (such as annual implementation meetings and reports) as a basis for the management opinion, which they are required to provide to the authorising officer by delegation in charge of the Recovery and Resilience Facility.

of the payment, compliance with Article 22(2)a ([101]) and Article 22(5) ([102]) of the Recovery and Resilience Facility regulation. The management opinions give a level of risk opinion on the legality and regularity of the payments. Detailed information on the level of risk of each payment request is presented in the table of section 2.2.8.

2.2.7. Ongoing work of the European Court of Auditors in the context of the statement of assurance 2023

Commission's assessment of the Court's findings to conclude on the level of risk for the payments made in 2023 is currently ongoing. By 15 May 2024, the Commission had received 26 clearing letters from the European Court of Auditors. Since the European Court of Auditor's findings may be used to determine the level of risk of the payments, the Commission is assessing them to conclude the level of risk for each payment done in 2023.

With respect to twelve clearing letters, the Commission, after careful analysis, maintained its position (based on its ex ante and ex post controls) that the milestones and targets included in the corresponding payment requests have been satisfactorily achieved, which implies a low level of risk. For the other clearing letters, the assessment is still on-going at the time of the publication of the current report.

2.2.8. Qualitative assessment of payments on legality and regularity and on the protection of the financial interest of the Union generally indicates low risk

The Commission's qualitative assessment is based on a combination of results from: (1) the Member States' management declarations and summaries of audits that have to accompany each payment request; (2) the Commission's audits; (3) the assessment of the payment requests; (4) other checks carried out by the Commission at the Member State level in the context of other funding programmes such as cohesion policy funds; and (5) the European Court of Auditors' findings, if deemed acceptable. As a result, the Commission determines a level of risk to the legality and regularity of each payment, which can be low, medium or high. The Commission's conclusions per payment request received are summarised in the following table.

([101]) In accordance with Article 22(2)(a) of the Recovery and Resilience Facility regulation, the Member State shall conduct an effective implementation of proportionate anti-fraud and anti-corruption measures, along with any necessary measure to effectively avoid conflicts of interest.

([102]) In accordance with Article 22(5) of the Recovery and Resilience Facility regulation, the Commission may reduce proportionately the non-repayable support under the Recovery and Resilience Facility and, where applicable, recover any amount due to the EU budget in cases of fraud, corruption and conflicts of interest affecting the financial interests of the EU that have not been corrected by the Member State, or a serious breach of an obligation resulting from this agreement

Qualitative assessment of the 23 payments made in 2023

		Level of risk				
		Legality and regularity			Compliance with	
					Applicable rules (a)	Obligation to correct (b)
Member State	**Payment request**	**Audit opinion**	**Manage-ment opinion**	**Overall**	**Audit opinion**	**Audit opinion**
Austria	First	Low	Low	Low	Low	Low
Croatia	Third	Low	Low	Low	Low	Low
Czechia	First	Medium	Medium	Medium	Medium	Medium
Denmark	First	Low	Low	Low	Medium	Medium
Estonia	First	Low	Low	Low	Low	Low
France	Second	Low	Low	Low	Low	Low
Germany	First	Low	Low	Low	Low	Low
Greece	Second	Low	Low	Low	Low	Low
Greece	Third	Low	Low	Low	Low	Low
Italy	Third	Low	Low	Low	Medium	Medium
Italy	Fourth	Low	Low	Low	Medium	Medium
Lithuania	First	Low	Low	Low	Low	Low
Luxembourg	First	Low	Low	Low	Medium	Medium
Malta	First	Low	Low	Low	Medium	Low
Portugal	Second	Low	Low	Low	Low	Low
Portugal	Third	Low	Low	Low	Low	Low
Portugal	Fourth	Low	Low	Low	Low	Low
Romania	Second	Low	Low	Low	Low	Low
Slovakia	Second	Low	Low	Low	Medium	High
Slovakia	Third	Low	Low	Low	Medium	High
Slovenia	First	Low	Low	Low	Low	Low
Slovenia	Second	Low	Low	Low	Low	Low
Spain	Third	Low	Low	Low	Medium	Low

Source: European Commission

Notes to the table:

Article 22(2)a of the Recovery and Resilience Facility regulation

Article 22(5) of the Recovery and Resilience Facility regulation

Overall, the Commission concludes that:

- Regarding legality and regularity: the level of risk is mostly low for the payment made with one payment being assessed with a medium level of risk([103]). Based on the audits and controls carried out, and other sources of information if deemed acceptable, none of the milestones and targets included in the payments made were assessed as not satisfactorily fulfilled.
- Regarding compliance with all applicable rules, namely public procurement and state aid ([104]) and the compliance with the obligation to make corrections in cases of fraud, corruption and conflict of interest or a serious breach of obligations resulting from the financing and loan agreements ([105]): level of risk is mostly low or medium except one case for which the level of risk, with respect to compliance with the obligation to make corrections is assessed as high. However, given the amounts at stake, i.e. EUR 1,2 million not recovered at the level of the final recipient in a case of conflict of interest detected by the Member State, this is not considered material and no reservation is issued. In general, Member States are taking the required actions to address the weaknesses identified during systems audits. None of the weaknesses identified put into question the level of protection of the EU's financial interests.

2.3. The authorising officer by delegation for the facility confirmed they had reasonable assurance

In their conclusions on the assurance for the Recovery and Resilience Facility, the officer ([106]) confirmed they had reasonable assurance on:

- the legality and regularity of the payments made in 2023 for the Recovery and Resilience Facility, based on the positive assessment of the evidence of the satisfactory fulfilment of the milestones and targets provided in the payment requests, on *ex post* audit work on the milestones and targets and also considering the outcomes of the audit work carried by the European Court of Auditors in the context of its statement of assurance 2023 (for clearing letters received and assessed by the cut-off date);
- public procurement and State aid, the respect of the obligation of Member States laid down in Article 22(2)(a) of the Recovery and Resilience Facility regulation to regularly check that the financing provided in the context of the underlying transactions has been properly used in accordance with all applicable rules, and that any measure for the implementation of reforms and investment projects under the recovery and resilience plan has been properly implemented in accordance with all applicable rules, in particular regarding the prevention, detection and correction of fraud, corruption and conflicts of interest; and
- the implementation of Article 22(5) of the Recovery and Resilience Facility regulation on the proportionate reduction of the support under the facility and recovery of any amount due to the EU budget or the request for early repayment of the loan, in cases of fraud, corruption and conflicts of interest affecting the financial interests of the EU that have not been corrected by the Member State, or a serious breach of an obligation resulting from the agreements referred to in Articles 15(2) and 23(1) of the Recovery and Resilience Facility regulation, with the exception of one Member State, as described in section 2.2.8 but which is deemed not material and thus no reservation is issued.

([103]) The ex-post audit conducted by the Commission identified a potential legality and regularity issue concerning one target and the contradictory procedure is still ongoing.
([104]) Article 22(2)(a) of the Recovery and Resilience Facility regulation.
([105]) Article 22(5) of the Recovery and Resilience Facility regulation.
([106]) The Director-General for Economic and Financial Affairs has been designated as the authorising officer by delegation for the Recovery and Resilience Facility.

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