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ANNEXES 1 to 3

**ANNEXES**

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**REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE  
COUNCIL AND THE COURT OF AUDITORS**

**Annual Management and Performance Report for the EU Budget - Financial Year 2022**



# Annual Management and Performance Report for the EU Budget

Volume II  
Annexes

#EUBUDGET

FINANCIAL YEAR

2022

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INTEGRATED FINANCIAL AND  
ACCOUNTABILITY REPORTING 2022

Budget

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# Annual Management and Performance Report for the EU Budget

Financial year 2022

**Volume II**

**Annexes**

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## Annex 1 – Performance achievements in 2022

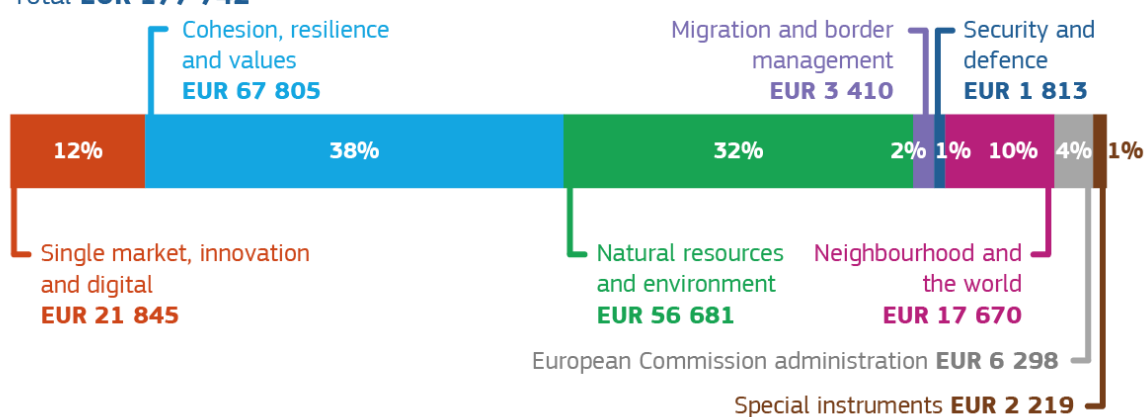
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**The EU budget is an essential tool to deliver on the EU's priorities.** Through its programmes, the budget supports the EU's internal and external policies. It creates EU added value by delivering results that would not be achievable through uncoordinated 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 <sup>(1)</sup>.

**2022 saw an acceleration of the roll-out of the budget, with an allocation of EUR 178 billion in commitment appropriations,** laying the foundations for 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 in 2022

Total **EUR 177 742**



Multiannual financial framework: 2022 EU budget commitment appropriations by budget heading (in million EUR).

Source: European Commission.

The 2022 budget was also at the heart of the EU support for Ukraine, in the face of Russia's war of aggression, responding quickly and flexibly to urgent needs.

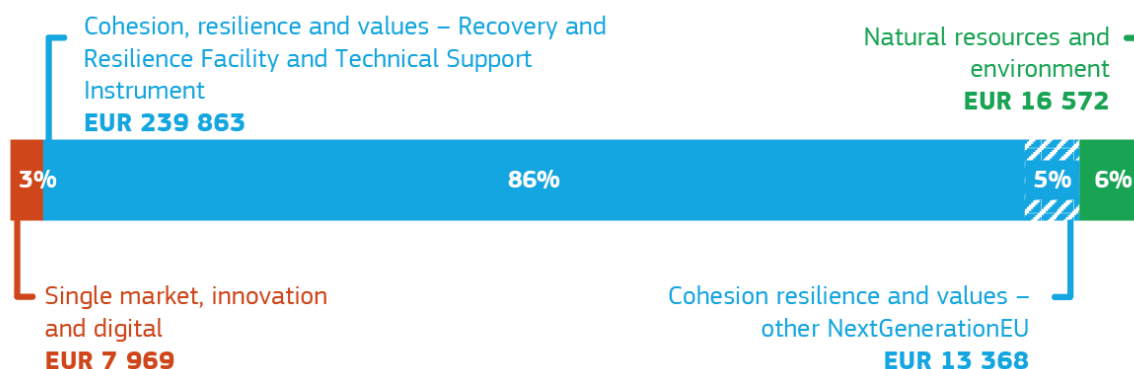


<sup>(1)</sup> [https://commission.europa.eu/system/files/2020-04/political-guidelines-next-commission\\_en\\_0.pdf](https://commission.europa.eu/system/files/2020-04/political-guidelines-next-commission_en_0.pdf)

**The EU budget is boosted by NextGenerationEU to address the economic and social impact of the COVID-19 pandemic.** NextGenerationEU is a temporary recovery instrument, with a focus on the crucial first years of recovery. From 2021 to 2026, NextGenerationEU will provide EUR 807 billion <sup>(2)</sup> of funding across several programmes and priorities, which are described in this annex.

### NextGenerationEU in 2022

Total **EUR 277 772**



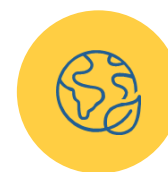
NextGenerationEU total budget by heading (in million EUR) in 2022.

Source: European Commission.

The performance analysis in this annex describes how EU programmes have contributed to the political priorities of President von der Leyen. This summary complements the programme-by-programme reporting in annex 4, which is presented as a [website](#) to enhance reader friendliness.

<sup>(2)</sup> EUR 807 billion in current prices, EUR 750 billion in 2018 prices.

# 1. A European Green Deal



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

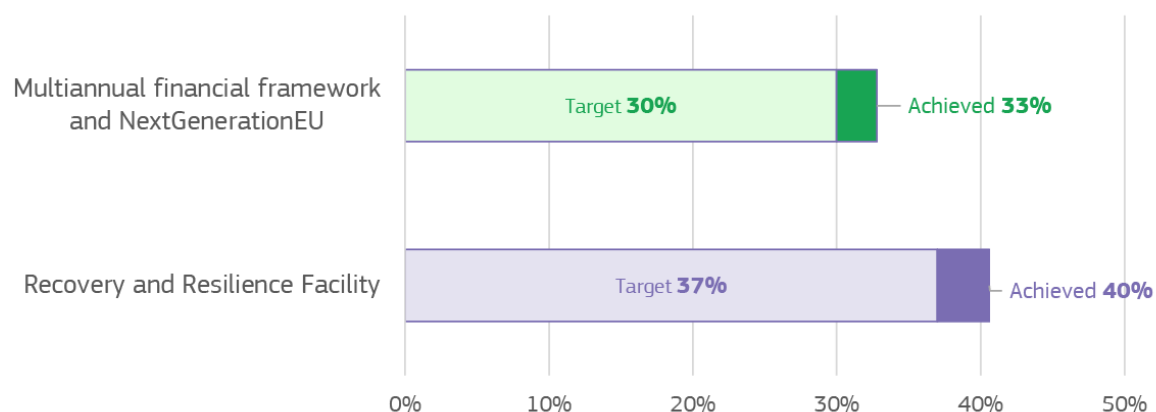
*Ursula von der Leyen*

President of the European Commission

**The green transition is at the core of EU policy and its recovery strategy.** Ensuring the protection of the climate and biodiversity is essential to guarantee our future. In order to achieve the 2050 climate neutrality and the 55% reduction in greenhouse gas emissions by 2030, there is a need to unleash innovative and low-carbon technologies, while deploying adaptation measures. Protecting and restoring our ecosystem with nature-based solutions will not only support the environment but also reinforce the fight against climate change. The EU budget plays a vital role in these areas.

**In 2022, EUR 119 billion (36% of the EU budget) contributed to climate mainstreaming objectives, and this is expected to reach 33% of the EU budget for the 2021-2027 period.**

## Climate spending 2021-2027



Contribution to climate mainstreaming objectives for the EU budget (including NextGenerationEU) and the Recovery and Resilience Facility.  
Source: European Commission.

**The EU is committed to devoting a significant share of its budget to finance climate-relevant interventions.** For the 2021-2027 period, the Commission has committed to contributing 30% of its budget (including NextGenerationEU) to climate mainstreaming. This target is supported by most of the EU programmes, with important contributions from the cohesion policy, the common agricultural policy, and the Recovery and Resilience Facility. Research and innovation also play a pivotal role in developing the technologies needed to reach our objectives. For instance, Horizon Europe will support 100 European cities in their path towards climate neutrality through the EU new mission instrument. A methodology is in place to calculate the budgetary contribution of these efforts and monitor the achievement of this target.

The methodology also describes how the ‘do no significant harm’ principle is applied in the various spending programmes <sup>(3)</sup>.

Total **EUR 119 365**



Climate contribution in 2022 (in million EUR).

Note: Cohesion policy funds include the European Regional Development Fund, the Cohesion Fund, and the European Social Fund Plus.  
Source: European Commission.

**The green transition is one of the six main pillars of the Recovery and Resilience Facility.** The facility contributes to climate action and environmental sustainability. Member States have put forward reforms and investments in green technologies and capacities, including in sustainable mobility, energy efficiency, renewable energy, climate change adaptation, the circular economy and biodiversity. Each Member State must dedicate at least 37% of its recovery and resilience plan’s total allocation to measures contributing to climate objectives. Investments from the facility must respect the ‘do no significant harm’ principle, ensuring the compatibility of the facility with the EU’s environmental objectives.

**With all 27 national resilience and recovery plans now adopted, Member States are exceeding the planned climate expenditure ambition.** Approximately 40% (EUR 203 billion) <sup>(4)</sup> of the total plans’ allocation finance measures are supporting climate objectives. Progress under the green transition pillar of the facility is measured by four common indicators set out in the legal basis <sup>(5)</sup>:

- savings in annual primary energy consumption;
- additional operational capacity installed for renewable energy;
- alternative fuels infrastructure (refuelling/charging points);
- population benefiting from protection measures against floods, wildfires and other climate-related natural disasters.

Member States first reported on the common indicators in February 2022 and will continue to do so twice per year. The latest information on the national plans, including their contribution to the six pillars and the achievement of climate targets (as well as digital and social expenditure), is available in the [recovery and resilience scoreboard](#).

<sup>(3)</sup> [SWD\(2022\)225 ‘Climate Mainstreaming Architecture in the 2021-2027 Multiannual Financial Framework’](#).

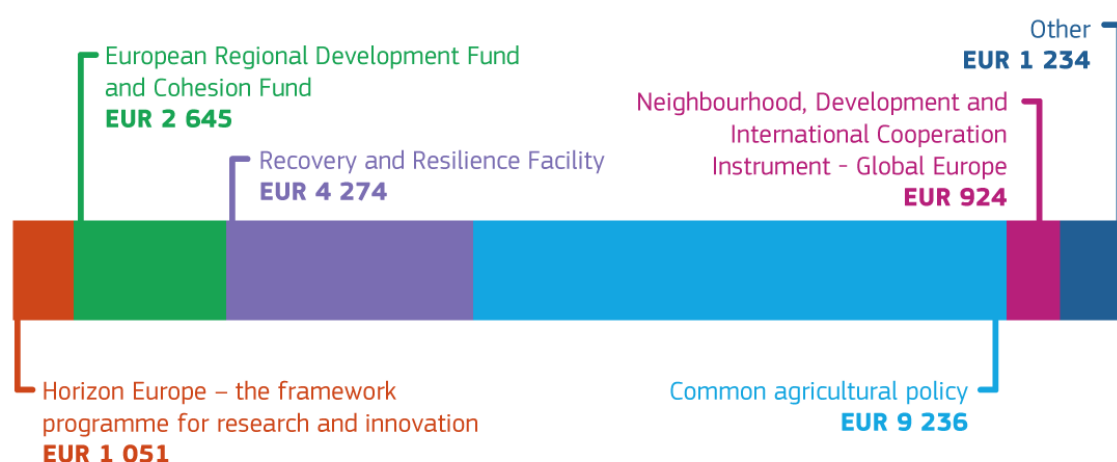
<sup>(4)</sup> ‘Figures are based using the methodology set out in Annex VI of the RRF Regulation.’

<sup>(5)</sup> Delegated Regulation (EU) 2021/2106.

## In 2022, EUR 19 billion (6% of the EU budget) contributed to the preservation of biodiversity

**The preservation of biodiversity ensures the long-term stability of ecosystems. It also enables the sustainable preservation of natural resources for future generations.** Tackling biodiversity loss and restoring ecosystems is key to ensuring a more resilient society and to combatting the emergence of diseases linked to ecosystem degradation and wildlife trade. They also require significant investments. In 2020, the Commission adopted the EU biodiversity strategy for 2030, with the target of unlocking EUR 20 billion per year towards biodiversity financing by the public and private sectors. Furthermore, in 2022 the Commission adopted the Nature Restoration Law <sup>(6)</sup>. This has also paved the way for the EU's contribution for the international biodiversity framework negotiations at the United Nations Biodiversity Conference of the Parties to the UN Convention on Biological Diversity. These negotiations resulted in the Kunming–Montreal framework, where all parties committed to increased financing for biodiversity.

Total **EUR 19 364**



Biodiversity contribution in 2022 (in million EUR). Source: European Commission.

- The **EU Copernicus programme, including the Sentinel earth observation satellites**, is a clear example of synergies between climate, biodiversity and digital objectives. Through its land monitoring services, Copernicus follows land degradation and monitors ecosystems or forest change. Copernicus helps to monitor biodiversity and pollination, improve air, soil or water quality, reduce greenhouse gas emissions and support climate change adaptation.
- The **European Maritime and Fisheries Fund** supports actions for the protection and restoration of marine and coastal biodiversity and ecosystems, including in inland waters. This includes spatial protection measures under the EU marine strategy framework directive, as well as the management, restoration and monitoring of Natura 2000 areas and the protection of species under habitats and birds directives. With the help of the programme, a stakeholder platform was established in Sweden, fostering dialogue to achieve sustainable fishing in biologically important areas.

<sup>(6)</sup> [COM\(2022\) 304 Proposal for a Regulation on Nature Restoration.](#)

## Towards a more resilient energy system

Russia's war of aggression against Ukraine puts heavy pressure on Europe's energy supply and wider economy. **REPowerEU puts forward actions to save energy, produce clean energy and diversify our energy supplies, aiming at achieving a more resilient energy system and a true energy union.**

REPowerEU allows Member States to add a REPowerEU chapter to their national recovery and resilience plans, in order to finance investments and reforms to diversify energy supplies and reduce dependence on Russian fossil fuels. In addition to tackling climate change, it will help reduce energy bills and dependence on fossil fuel imports, thus improving the EU's energy and resource security.

The EU managed to replace over 80% of Russian pipeline gas in the first 8 months of the war. It filled its gas storage facilities to record levels (over 95% in November). The EU cut gas consumption by 18% between August 2022 and March 2023 (compared to the previous 5 years) and increased the deployment of renewables by over 40%. This allowed the EU to impose stronger sanctions in response to the Russian war of aggression. The sanctions aim to limit Russia's ability to fund the war.



## A fair transition towards a climate-neutral economy

**The EU budget also addresses the societal and economic effects of the transition towards a climate-neutral economy need, in line with the European Green Deal and the European Pillar of Social Rights action plan.** The Just Transition Mechanism helps ensure that the transition towards a climate-neutral economy happens in a fair way, leaving no one behind. It progressed towards its objective to mobilise up to EUR 55 billion in investment over the 2021–2027 period in the most affected regions, to alleviate the socioeconomic impact of the transition. These regions were defined by the Member States in the Territorial Just Transition Plans that set out the transition challenges in each territory, as well as the development needs, governance mechanisms and climate objectives to be met by 2030. Approval of these plans opens the doors to the dedicated financing under the Just Transition Mechanism.

A new rare-earth magnet factory in Ida-Virumaa (Estonia) was the first project to secure financing from the Just Transition Fund. Other coal- and carbon-fuel-intensive regions are also implementing their first investments under the fund.

## 2. A Europe fit for the digital age



*We should harness this transformative power of the twin digital and climate transition to strengthen our own industrial base and innovation potential.*

*Ursula von der Leyen*

President of the European Commission

**The roll-out of digital technologies offers significant growth opportunities for the EU.** The Commission wants to equip citizens, businesses and administrations with a new generation of digital technologies, empowering them via appropriate upskilling and reskilling. A fair digital transformation has the potential to increase the innovation and productivity of the EU economy, offering new opportunities for people and businesses. The digital transition will also contribute to the Green Deal objectives, with synergies for instance in the circular economy.

**The Digital Compass proposed by the Commission sets out the EU's digital targets for 2030.** To achieve these ambitions, the EU will step up investments in key digital technologies, including cybersecurity, artificial intelligence, data spaces and semiconductors, and in the relevant skills.

### Over 2021 and 2022, EUR 132 billion (17% of the EU budget for the two years) contributed to the digital transition

This year, the Commission conducted a first stock-taking <sup>(7)</sup> exercise of the contribution of EU programmes to the digital transition, encompassing both 2021 and 2022. Although the individual contributions were calculated based on programme-specific methodologies, which may not always be fully comparable, the preliminary findings indicate that the EU budget, including NextGenerationEU, channels significant contributions to all the key dimensions of the digital transition.

This stock-taking exercise is a stepping stone towards a dedicated, uniform tracking methodology for digital expenditure, to be applied across all programmes. The aim of such a methodology will be to provide a solid measure of the aggregate <sup>(8)</sup> budgetary contribution, including a projection for the full 2021-2027 multiannual financial framework.

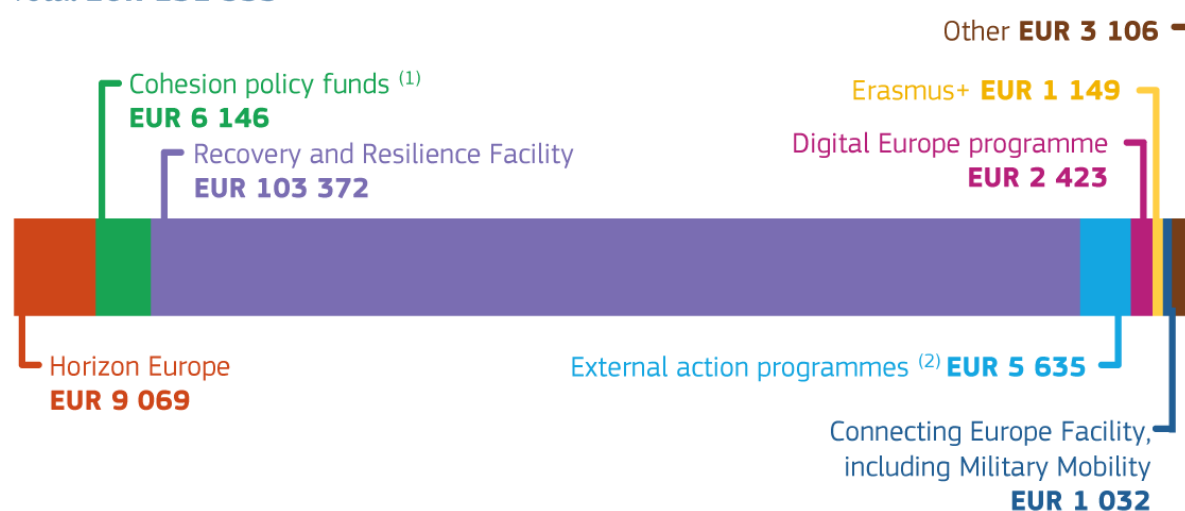
<sup>(7)</sup> Almost all programmes that are part of the EU budget contribute to the digital transition. However, constraints on data availability only allowed digital-relevant expenditure for the 2021-2022 period to be tracked for 27 spending programmes (out of 48). Annex 4 to this report explains in more detail the approach followed for this stock-taking and explains that currently the methodology is not yet harmonised across all programmes.

<sup>(8)</sup> For methodological reasons, the contribution of the external action programmes and the common agricultural policy could not be measured with the required accuracy in this first stock-taking exercise. They are therefore excluded from subsequent numbers.

The Digital Europe programme was launched in 2021. It focuses on bringing digital technology to businesses, citizens and public administrations. It supports projects in five key capacity areas: supercomputing, artificial intelligence, cybersecurity, advanced digital skills and the wide use of digital technologies across the economy and society, including through digital innovation hubs.

In 2021-2022, 2 800 digital solutions were already made available to governments on the 'Joinup' platform, which receives 500 000 visits per year. In addition, in 2022 over 2 000 misleading price announcements were detected with the help of eLab, also funded by the digital Europe programme.

Total **EUR 131 933**



Digital contribution in 2021 and 2022 (in million EUR).

<sup>(1)</sup> European Regional Development Fund and Cohesion Fund, and European Social Fund Plus (including the Fund for the Most Deprived and Employment and Social innovation).

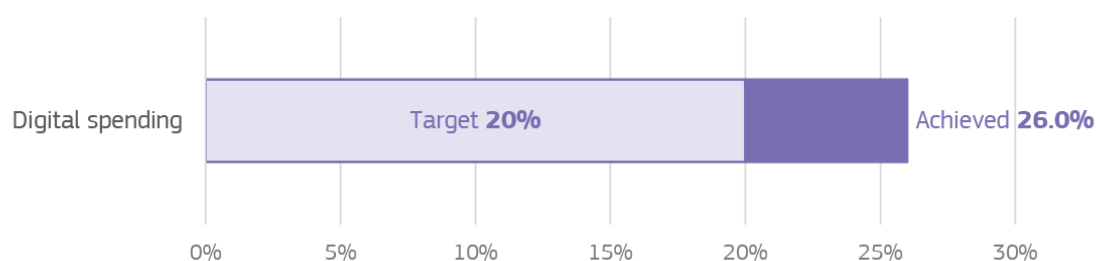
<sup>(2)</sup> Neighbourhood, Development and International Cooperation Instrument – Global Europe, Instrument for Pre-accession Assistance and Overseas Countries and Territories (including Greenland).

Note: 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 level of individual year. 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.

Source: European Commission.

**Digital transformation is one of the six main pillars of the Recovery and Resilience Facility.** It supports reforms and investments in digital technologies, infrastructures and processes, which are essential for increasing the EU's resilience and innovative potential. Each Member State must dedicate at least 20% of the total allocation of its plan to measures contributing to the digital transition or to addressing the challenges resulting from it. In practice, with all 27 national resilience and recovery plans now adopted, the Member States are exceeding the planned digital expenditure ambition. Almost **26% (EUR 130 billion)** <sup>(9)</sup> of the total plans' allocation is set to finance measures supporting digital objectives.

<sup>(9)</sup> Figures are based using the methodology set out in Annex VII of the recovery and resilience facility regulation.



Recovery and Resilience Facility's contribution to the digital transition. Calculations are based on the methodologies set out in Annexes VI and VII of the recovery and resilience facility regulation.

Source: European Commission.

### The contribution by the Recovery and Resilience Facility to digital transition supports various dimensions such as:

- connectivity, with support for the roll-out of very high-capacity networks (13% of the digital support);
- the digitalisation of public services and government processes, including health and justice systems (37%);
- the digitalisation of businesses, in particular small and medium-sized enterprises (19%);
- the development of basic and advanced digital skills (18%);
- digital-related research (3%) and the development and deployment of advanced technologies (11%).

Under the **Recovery and Resilience Facility** <sup>(10)</sup>, payments disbursed in 2022 contributed to the implementation of 93 milestones and targets in the field of the digital transition were reached in 2022. Prominent examples include the adoption of a new 2021-2025 plan on digitalisation of small and medium-sized enterprises and a digital competences plan by Spain, the development of broadband infrastructure in Latvia and the purchase of 600 000 laptops for teachers and pupils in Portugal.

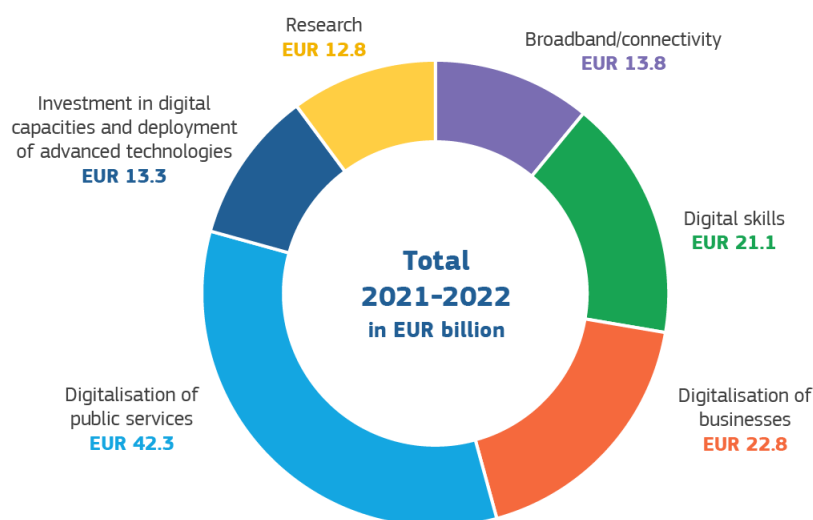
Some important reforms already progressed during the first 2 years of implementation of the facility, such as reforms to digitalise public administration (Slovakia) and ensure cybersecurity (Romania).

Thanks to the Recovery and Resilience Facility, over 9.2 million households gained access to very high-capacity internet networks by the end of 2022, including '5G' networks and gigabit speed. Overall, 123 million users were using improved public digital services by the end of 2022, thanks to the Recovery and Resilience Facility <sup>(11)</sup>.

The stock-taking exercise allowed us to produce the first estimated contributions of the EU budget, including NextGenerationEU, to the digital transition by key digital dimensions, as summarised in the graph below:

<sup>(10)</sup> The latest information on the national plans and their contribution to the six pillars, achievement of digital targets (as well as climate and social expenditure) is available in [https://ec.europa.eu/economy\\_finance/recovery-and-resilience-scoreboard/](https://ec.europa.eu/economy_finance/recovery-and-resilience-scoreboard/).

<sup>(11)</sup> The same person can use the service multiple times, in which case they would be counted multiple times.



Estimated digital contribution in 2021 and 2022 (in billion EUR) by key digital dimensions, excluding external action programmes and the common agricultural policy.

Source: European Commission, based on the first stock-taking exercise in 2023.

## Supporting the development and deployment of digital technologies and investing in digital skills

In 2022, the Digital Europe programme supported the development and deployment of key digital technologies such as artificial intelligence, blockchain and cybersecurity in order to accelerate the digital transformation of businesses and industries. In particular, the programme supported the deployment of common data spaces built on innovative, secure and energy efficient cloud-to-edge capabilities. It promoted the testing and adoption of trustworthy artificial intelligence technologies with world-class testing and experimentation facilities. Additionally, the programme invested in the area of cybersecurity, including in the deployment of a secure quantum communication infrastructure.

The Digital Europe programme is also contributing to the **'Destination Earth' initiative**, aimed at developing a highly accurate digital model of our planet. This model will monitor, simulate and predict the interaction between natural phenomena and human activities. 2022 saw the deployment of the open core platform (giving access to decision-making tools) and the first digital replicas of the Earth's systems.

In 2021 and 2022, first estimates indicate that the EU contributed **EUR 13.3 billion to investment in digital capacities and the deployment of advanced technologies, and EUR 12.8 billion in research, including EUR 9 billion from Horizon Europe**. The main contributing programmes are the Recovery and Resilience Facility, Horizon Europe, the Space programme, the European Regional Development Fund and Cohesion Fund and the Just Transition Mechanism.

Throughout 2022, **Erasmus+** continued to implement 'Self-reflection on effective learning by fostering the use of innovative educational technologies' (known as 'SELFIE'), a free tool designed to help schools embed digital technologies into teaching, learning and assessment. The tool has by now been used by 4.6 million users in 33 829 schools in 84 countries. The European digital education hub was launched on 23 June 2022.

The contribution from the EU budget to space policy in 2022 demonstrates the EU's commitment to maintaining its position as a global leader in space technology and exploration. **The EU Space programme** developed technological applications benefiting our daily lives. Galileo, the EU's global satellite navigation system, and Copernicus, the EU's Earth observation system, have been consistently delivering reliable and high-quality performance of the services provided.

**In 2022, thanks to the EU Space programme:**

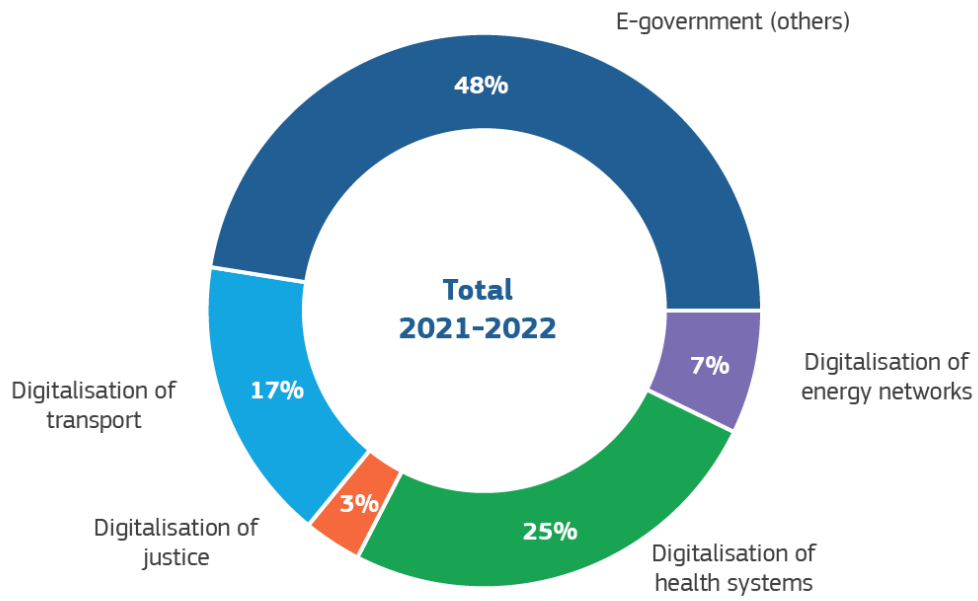
- 3.8 billion Galileo-enabled devices (such as smartphones) were in use, with this number continuing to grow;
- the positioning accuracy performance of Galileo was three times better than other global navigation satellite systems, with excellent availability;
- 28 Galileo and 7 Copernicus satellites were in orbit;
- 7.9 petabytes of Copernicus satellite observation data were published;
- 160 000 registered users of the Copernicus Climate Change Service had access to about 76 terabytes of quality-controlled climate data per day. The Sentinel Data Access System supported over 490 000 registered users.

The European Union Agency for the Space Programme launched a platform to put space at the service of the Ukrainian people. This platform aims to match innovators, start-ups and companies with non-profit organisations and other helpers on the ground. It gathers applications that leverage freely accessible data from Galileo and Copernicus, in order to enhance humanitarian support for the Ukrainian people. Galileo provides positioning and navigation services and Copernicus supplies Earth observation data and information. The applications published on this platform cover a wide range of uses, from helping non-profit organisations deliver medical goods via drones, to supporting the integration in the EU of people fleeing the war.



## Making a significant contribution to the digitalisation of businesses and public services

The result of the 2023 first 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 first estimates for 2021 and 2022 set at EUR 42.3 billion the support of the EU budget for e-government (including the digitalisation of health and justice systems, or of the transport and energy network) and at EUR 22.8 billion the support for the digitalisation of businesses.** The Recovery and Resilience Facility as well as the European Regional Development Fund and Cohesion Fund are important contributors to these investments. Based on Member States' programmes, more than 12% of the planned EU amounts from the European Regional Development Fund and Cohesion Fund will be used to finance interventions that advance the digital transition, particularly supporting small and medium-sized enterprises.



Support of the EU budget including NextGenerationEU to the digitalisation of public services, in billion EUR. These amounts are the result of the first stock-taking exercise conducted for the years 2021 and 2022, and exclude the external action programmes and the common agricultural policy due to methodological limitations.

Source: European Commission.

The EU budget is also contributing significantly to the digitalisation of transport systems, with an estimated EUR 7 billion dedicated to this in 2021 and 2022, of which almost EUR 6 billion comes from the Recovery and Resilience Facility and EUR 0.7 billion from the Connecting Europe Facility.

**The Connecting Europe Facility <sup>(12)</sup> contributed to the digitalisation of transport and energy systems.**



## Connecting Europeans: enhancing digital connectivity

The EU budget, including NextGenerationEU, is **enhancing digital connectivity**, which will give all citizens and businesses new opportunities to benefit fully from the digital single market and accelerate economic growth. The amounts dedicated to connectivity, including investments in very high-capacity broadband network and 5G network coverage, are estimated to have reached **EUR 13.8 billion** for 2021-2022 <sup>(13)</sup>.

The main contributing programmes are the **Recovery and Resilience Facility (with EUR 13 billion)**, the **European Regional Development Fund and Cohesion Fund (EUR 2.3 billion)** and the **Connecting Europe Facility**. The **common agricultural policy** is also playing a key role in improving 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**.

Thanks to the European Regional Development Fund and Cohesion Fund, 6.3 million households were given broadband access of at least 30 megabits per second between 2014 and 2021. During the same period, 550 000 additional energy users were connected to smart electricity grids.

<sup>(12)</sup> The digitalisation of transport systems is part of the digitalisation of public services (based on the digital strategy for the Digital Decade and the Digital Compass, as well as the Recovery and Resilience Facility).

<sup>(13)</sup> This amount does not include any contributions from the common agricultural policy, due to methodological limitations.

### 3. An economy that works for people



*We choose to not only repair and recover for the here and now, but to shape a better way of living for the world of tomorrow.*

*Ursula von der Leyen*

President of the European Commission

The 2022 EU budget supports sustainable growth by investing in research and innovation, education and infrastructure. The EU budget is also used to foster equality for all, in every sense of the term. Many programmes are contributing to this priority. Among the biggest are the Recovery and Resilience Facility (EUR 74.4 billion of payments made in 2022), the European Regional Development Fund and the Cohesion Fund (EUR 4.1 billion for the 2021-2027 period plus EUR 38.7 billion for the 2014-2020 period, European Social Fund Plus (EUR 1.5 billion of payments made in 2022), Horizon Europe (EUR 7.9 billion of payments made in 2022), and Erasmus+ (EUR 3.0 billion of payments made in 2022) <sup>(14)</sup>.

**97% of the 2021-2027 cohesion policy programmes were adopted before the end of 2022**, paving the way for countries and communities to benefit from the opportunities created by the EU's transition to a more digital and sustainable economy, and to leave no one behind. The adoption process of these programmes has been slower than expected, due to the COVID-19 crisis and the implementation of the respective crisis and recovery measures requiring priority, the war in Ukraine and the late adoption of the multiannual financial framework and programme legislations.

#### Towards a stronger and fairer economy

**The programmes with a European Social Fund Plus contribution that were adopted, represent a total amount of EUR 91.5 billion for the 2021-2027 period** <sup>(15)</sup>. The fund promotes social inclusion and improving employment opportunities by supporting projects focused, among others, on job-search assistance, training, education, social inclusion, reduction of youth employment, better work-life balance for women and reintegration into the labour market for those who are disadvantaged or excluded from the labour market.

**Despite the slow start in implementation of the 2021-2027 European Social Fund Plus programmes in 2022, as a result of the late adoption of the European Social Fund Plus regulation, a smooth transition between the 2014-2020 programmes and the new programmes was ensured.** At the same time, maximum use was made of flexibilities to adjust to national specificities.

<sup>(14)</sup> Committed appropriations stemming from the annual voted budget by the budget authorities. For the Recovery and Resilience Facility and Horizon Europe, NextGenerationEU appropriations are also taken into account. External contributions, notably from non-EU countries or recoveries, are not taken into account.

<sup>(15)</sup> Total financial programming of the European Social Fund Plus managed in shared management, excluding EUR 3.5 billion Technical Assistance at Member State initiative and external contributions.

This included budget transfers from the European Social Fund Plus, for instance to other cohesion policy funds <sup>(16)</sup>, to the Border Management and Visa Instrument <sup>(17)</sup> and to the Just Transition Fund <sup>(18)</sup>.

<p><b>55.2 million</b></p> <p>people had been supported by the European Social Fund and by Youth Employment Initiative actions by the end of 2021.</p>	<p><b>6.4 million</b></p> <p>people had found a job (including being self-employed) thanks to the European Social Fund and Youth Employment Initiative actions by the end of 2021.</p>	<p><b>8.8 million</b></p> <p>people had gained a qualification thanks to the European Social Fund and Youth Employment Initiative actions by the end of 2021.</p>	<p><b>3.7 million</b></p> <p>participants were in education or training thanks to the European Social Fund and Youth Employment Initiative support by the end of 2021.</p>
<p><b>15 million</b></p> <p>people benefited from food assistance in 2021 under the Fund for European Aid to the Most Deprived.</p>	<p><b>2.1 million</b></p> <p>people received material assistance under the Fund for European Aid to the Most Deprived in 2021.</p>	<p><b>14 559 job placements</b></p> <p>had been obtained since the start of the targeted mobility schemes in 2015 (including ‘Your first EURES job’ ) by the end of the first semester of 2022 under the employment and social innovation programme.</p>	<p><b>EUR 3.1 billion</b></p> <p>worth of loans were awarded to 182 425 microenterprises between their launch and 30 September 2022, thanks to EUR 417 million in guarantees for 114 microfinance intermediaries under the employment and social innovation programme.</p>

On 4 March 2022, only a week after Russia’s full-scale invasion of Ukraine, the EU activated the temporary protection directive to support Member States in providing people fleeing Ukraine access to education and training, the labour market, healthcare, housing and social welfare. So far, almost 4 million Ukrainians have registered for temporary protection.



**In 2022, the European Globalisation Adjustment Fund for Displaced Workers received three applications by three Member States requesting a total of EUR 21 million to support workers made redundant, helping them to find new jobs, retrain or start their own businesses <sup>(19)</sup>.** The fund supports workers in all sectors who have been affected by the transition to a greener economy, but also workers affected by the latest crises, such as the COVID-19 pandemic coupled with the energy crisis. In 2022, the European Globalisation Adjustment Fund supported 559 Belgian workers from the logistics sector,

<sup>(16)</sup> Nine countries transferred EUR 3.9 billion from the European Social Fund Plus budget to the European Regional Development Fund and the Cohesion Fund: Czechia, Greece, Croatia, Lithuania, Hungary, Poland, Romania, Slovenia and Slovakia.

<sup>(17)</sup> EUR 175 million.

<sup>(18)</sup> EUR 109 million.

<sup>(19)</sup> Only one case was mobilised in 2022 (EUR 17.7 million), while the remaining two, received in the second half of 2022, will benefit from support from the European Globalisation Adjustment Fund in the first half of 2023 (EUR 3.2 million).

1 580 French workers from an airline and 303 Spanish workers from the manufacturing sector in Spain. The restructuring of the economy can have even more of an impact on low-skilled workers and workers aged above 50 that are already in disadvantage in the labour market. Thanks to this fund, they will be provided with additional support such as training, support toward business creation, incentives and allowances or outplacement assistance to overcome these issues in their regional labour market.

## Addressing economic and social inequalities while responding to the pandemic

The COVID-19 pandemic has had a significant impact on the EU economy. The **cohesion policy funds** are instrumental in avoiding an asymmetric recovery with widening disparities, where some regions would bounce back while others stagnate or decline. The Commission, therefore, **launched in April 2020 two packages of measures: the Coronavirus Response Investment Initiative and the Coronavirus Response Investment Initiative Plus**, which were supplemented in May 2020 with the **Recovery Assistance for Cohesion and the Territories of Europe (REACT-EU) package** to support crisis-repair capacities, including employment measures, support to healthcare systems and small and medium-sized enterprises and prepare the green, digital and resilient recovery of the economy. This swift response contributed to the overall economic recovery of Member States and to a more inclusive and resilient European Union.

**25 Member States and the United Kingdom have requested 239 amendments to their existing cohesion policy programmes using the flexibilities offered by the Coronavirus Response Investment Initiative and the Coronavirus Response Investment Initiative Plus.** The Commission has modified its internal procedures to allow for swift treatment of all requests under lighter and faster procedures. The administrative burden has been alleviated through extension of deadlines, enlargement of project scope and other simplifications.

**Following the thematic reprogramming, the main focuses of investments are: the health sector** – to secure personal protective equipment, finance testing and support hospitals by purchasing additional medical equipment; **the business sector** – by providing working capital to small and medium-sized enterprises, facilitating digitalisation and setting up or redesigning financial instruments; and **supporting people** – by implementing employment retention schemes and supporting vulnerable groups.

**The headline figures <sup>(20)</sup> on the volume of resources mobilised under the Coronavirus Response Investment Initiative and the Coronavirus Response Investment Initiative Plus are as follows:**

- EUR 8.3 billion in EU reallocations for health actions, resulting in a net increase of EUR 8 billion at the EU level;
- EUR 12.5 billion in EU reallocations in business support, resulting in a net increase of EUR 4.2 billion at the EU level;
- EUR 5.1 billion of direct support for people, including workers and vulnerable groups (the allocated 'direct support to people' amounts overlap partially with the European Social Fund health and enterprise reprogramming).

<sup>(20)</sup> As of 15 September 2022 (<https://cohesiondata.ec.europa.eu/stories/s/4e2z-pw8r>).

**At the end of December 2022, an estimated total of EUR 405 billion, accounting for 76% of the planned total of EUR 532 billion of EU and national expenditure under cohesion policy for 2014-2020, was incurred on the ground as investment spending** <sup>(21)</sup>, compared to EUR 331 billion investment spending by the end of 2021. The national and regional programmes have until the end of 2023 to deliver the remaining planned investment.

<p><b>6.3 million</b></p> <p>households had broadband access of at least 30 megabits per second between 2014 and 2021 <sup>(22)</sup>.</p>	<p><b>310 000</b></p> <p>jobs were directly created in supported enterprises between 2014 and 2021.</p>	<p><b>60 million</b></p> <p>people benefited from new or modernised health services between 2014 and 2021.</p>
<p><b>550 000</b></p> <p>additional energy users connected to smart electricity grids between 2014 and 2021.</p>	<p><b>22 million</b></p> <p>citizens benefited from flood protection between 2014 and 2021.</p>	<p><b>30 million people</b></p> <p>lived in areas with integrated urban development strategies between 2014 and 2021.</p>

<sup>(21)</sup> [Cohesion policy 2014-2020: estimating investment progress](#).

<sup>(22)</sup> The reporting mechanism allows achievements up to 2021 to be reported on. The most recent information on cohesion achievements is available through the cohesion open data portal (<https://cohesiondata.ec.europa.eu/>).

**The Cohesion’s Action for Refugees in Europe and the Flexible Assistance to Territories initiatives, adopted by the Commission in March and June 2022 respectively, helped Member States and regions to provide emergency support to people fleeing Russia’s war of aggression against Ukraine.** The Cohesion’s Action for Refugees in Europe initiative introduced further flexibility to the rules of the 2014-2020 cohesion policy to allow the swift reallocation of available funding for those welcoming and integrating displaced people. In particular, they provided the possibility of a 100% co-financing option for priorities promoting the socioeconomic integration of non-EU nationals and introduced EUR 3.5 billion of additional pre-financing available to Member States in 2022 and 2023.

The cohesion programmes were among the first to provide flexibility for responding to the different crises. **The Cohesion’s Action for Refugees in Europe and Flexible Assistance to Territories initiatives make it possible for funding from the Recovery Assistance for Cohesion and the Territories of Europe package to provide vital aid for people from Ukraine.** Their aim is to allow Member States and regions to mobilise cohesion policy funds to help people fleeing the war. Emergency support covering the basic needs of people fleeing the Russian invasion of Ukraine includes, for instance, access to services such as temporary accommodation, food and water supplies or medical care. Some funds were used to enhance the administrative capacity of Member States to cater for the needs of refugees by supporting, for instance, additional infrastructure equipment or staff necessary to cater for the needs of refugees or develop tailor-made solutions for the long-term integration of people with a migrant background, through investments in housing, education, employment, health, social inclusion and care or other social services.



Thanks to the Cohesion’s Action for Refugees in Europe initiative, **EUR 4 million** from the Recovery Assistance for Cohesion and the Territories of Europe package **was allocated to Germany’s ‘Employment pilot for Refugees’ project in the state of Rhineland-Palatinate to help Ukrainians integrate into German society** <sup>(23)</sup>. The pilot is part of a programme launched on 1 July 2022, with six projects operating across the state. The primary goal of the pilot is to create regional structures to support training and labour-market integration. The employment pilots provide tailored support and advice on how to best navigate social services. Displaced people from Ukraine also receive support on how to file direct applications to municipal services across the country, and receive assistance with many administrative issues – such as creating a curriculum vitae or finishing a residency, medical or housing application. After making sure that families are safe and stable, the centres assist adults in finding suitable employment through skills mapping and liaising with the local job centre or employment agency to further assist with help in applying for a job.

**This cohesion policy assistance complements support from the Asylum, Migration and Integration Fund and other funding sources.** The Commission also adapted its European Neighbourhood Instrument Cross-Border Cooperation programme to better reflect the new realities in the neighbourhood. It proposed Supporting Affordable Energy to address the consequences of the high energy prices. All of these were adopted without changes and in record time.

<sup>(23)</sup> Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions – A Union of Equality: Gender Equality Strategy 2020-2025 ([COM/2020/152](#), 5 March 2020).

## Supporting research and innovation to tackle global challenges

**Through its policies, the EU strengthens the impact of research and innovation and facilitates collaboration. The EU actively supports creating and spreading excellent knowledge and technologies.**



By the end of 2022, 24 Horizon Europe mission calls were launched and evaluated. They attracted 8 167 eligible proposals, out of which 137 were retained for funding for a total EU requested contribution of EUR 1.0 billion. At the end of 2022, 71 grants involving 1 525 participants had been signed for a total amount of EUR 0.6 billion.

The Recovery and Resilience Facility will contribute to research, development and innovation with around EUR 47.4 billion for the duration of the facility <sup>(24)</sup>. By the end of 2022, Member States have implemented key reforms and investments to support industrial research, innovation in the medical sector and the development of national artificial intelligence strategies.

The EU put in place the Chips Act to strengthen the EU's research and technological leadership. It aims to address skills shortages in advanced manufacturing and prevent disruptions like the recent global chip shortage, so that the EU remains an attractive place for the world's top talent in this important field. The Chips Act is mobilising EUR 43 billion in public and private investments focusing on three pillars. Of that amount, EUR 3.3 billion will be dedicated to the Chips for Europe Initiative (pillar 1), while almost EUR 2 billion from Horizon Europe will be committed to research and innovation, and the funding from the Digital Europe programme will finance capacity-building activities.

In 2021–2022, the European Innovation Council selected 65 innovative start-ups and small and medium-sized enterprises to receive EUR 363 million of funding for breakthrough innovations. In 2022, 43 new calls for proposals were launched under Horizon Europe's main work programme for 2021–2022: overall, 855 topics under 160 calls for proposals and 195 other actions were launched for a total budget of around EUR 16 billion. In 2022 Horizon Europe established five EU Missions to address the most urgent societal challenges, namely: (i) adaptation to climate change, (ii) cancer; (iii) 100 climate-neutral and smart cities by 2030; (iv) restoring our oceans and waters by 2030; and (v) a soil deal for Europe.

Another focus in 2022 was to establish European partnerships. These deliver on global challenges and modernise industry through concerted research and innovation initiatives, and bring together Member States and associated countries, the private sector, foundations and other stakeholders. The Commission released its first report on performance, which stated that the partnerships' key strength is the ability to engage major, strategic industry partners in the EU's priority areas across borders and business sectors. As an example, the Photonics partnership, with the help of 3 349 partners from the EU and beyond, aims to speed up photonic innovations for a digital, green and healthy future in Europe, as it contributes to six sustainable development goals of the United Nations.

<sup>(24)</sup> This estimate is calculated by the Commission and corresponds to measures attributed either as primary or secondary assignment to research, development and innovation, including in the green and digital sectors.

**The EU's Marie Skłodowska-Curie Actions funds the 'MSCA4Ukraine' initiative, which supports displaced researchers from Ukraine.** In all, 13 doctoral candidates and 111 postdoctoral researchers from Ukraine will, as of 2023, be able to continue their work in Member States and countries associated with Horizon Europe. The selected researchers will be hosted by academic and non-academic organisations in 21 countries.



The Commission decided that it will **open a new Horizon Europe programme office in Kyiv** in 2023. The office will provide support to the National Contact Points across Ukraine and strengthen research and innovation networks between Ukrainian and European institutions. Hosted by the National Research Foundation, it aims to take Ukraine's participation in Horizon Europe to a new level.

## Supporting education and training

**Education and training are essential components of the EU's strategy for sustainable growth, competitiveness and social cohesion.** The EU is committed to ensuring that all citizens have access to high-quality education and training. The EU provides funding for education and training programmes through several channels. The primary sources of funding include the European Social Fund Plus and the European Regional Development Fund. The EU's funding has helped to improve access to education and training for all citizens, regardless of their background or socioeconomic status. It also helped to improve education and training systems and enhance the skills of the workforce. The funded initiatives reflect the EU's commitment to improving the quality of education and training, increasing employability and reducing unemployment rates while also promoting cultural exchange and contributing to the development of a more cohesive and integrated Europe.

Within the Erasmus+ 2021-2027 programme, the European universities initiative will provide better and more inclusive education and research. Meanwhile, the EU is promoting several initiatives in favour of innovation, especially toward the green transition, like the European urban initiative to support urban innovation and cities' capabilities and knowledge with a view to building a sustainable future.

The Recovery and Resilience Facility is another important source of funding, contributing to education and skills with around EUR 73 billion for the duration of the facility <sup>(25)</sup>. By the end of 2022, Member States have implemented a wide range of reforms and investments which cover education – from early childhood to adult education – along with green and digital skills.

Learning mobility opportunities aim to encourage the mobility of students, staff, trainees, apprentices, youth workers and young people. By the end of 2022, the Erasmus+ programme supported 1.5 million participants in learning mobility activities.

<sup>(25)</sup> This estimate is calculated by the Commission and corresponds to measures attributed either as primary or secondary assignment to early childhood education, general, vocational and higher education, adult education, green skills and human capital in digitalisation.

## Improving the integration of the gender-equality dimension into the EU budget

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**The EU is a global front runner in promoting gender equality. The Commission applies gender mainstreaming across all policies and action.** The EU gender equality strategy 2020-2025 <sup>(26)</sup> delivers on the von der Leyen Commission commitment to achieving a Union of Equality. The strategy presents policy objectives and actions to make significant progress towards a gender-equal Europe by 2025.

In line with the gender equality strategy, in November 2020 the EU adopted its third Gender Action plan for 2021-2025. It sets out the framework for action for all activities on gender equality and women's empowerment in the EU's external relations, as well as for Member States. The Commission developed a pilot methodology to track all EU spending programmes' contributions to gender equality under the 2021-2027 multiannual framework and applied it for the first time already in the context of the draft budget 2023.

In line with the methodology, a programme may qualify for one or more scores based on the objectives pursued by its respective interventions. The total EU budget, based on the aggregation of the 2022 interventions qualifying for each score, has been allocated as follows:

- score 2: interventions whose principal objective is to improve gender equality are included in 12 programmes and correspond to 2% of the total Commission budget;
- score 1: interventions having gender equality as an important and deliberate objective (but not as the main reason for the intervention) follow with 9% of the total budget and are included in 15 programmes;
- score 0\*: interventions having the potential to contribute to gender equality correspond to 73% of the total budget and are included in 31 programmes;
- score 0: interventions not having a significant bearing on gender equality correspond to 16% of the EU budget and are included in 26 programmes.

Further information on the pilot methodology, which has been implemented since the 2023 draft budget, is described in Annex 4 to this report.

The EU also has a leading role at the multilateral level on gender equality, women's and girl's rights and empowerment, contributing to advancing this agenda in international forums. At the same time, the Commission is promoting awareness and building capacity, both across its services and in the Member States, on the integration of the gender-equality dimension in EU spending programmes by means of specialised trainings and active participation in relevant forums.

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<sup>(26)</sup> <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52020DC0152>

## 4. A stronger Europe in the world



*We can be the shapers of a better global order.*

*Ursula von der Leyen*

President of the European Commission

**In a year of increasing uncertainty, the EU led the response to global challenges and remained a driving force for multilateralism**, pursuing an ambitious neighbourhood policy, showcasing solidarity and developing comprehensive partnerships to secure and promote global peace, stability, democracy and human rights.

**United and determined in their response to Russia's war of aggression against Ukraine and the ensuing energy and food crises, the EU and its Member States provided humanitarian aid, financial assistance and military support.** The EU budget is playing a crucial role in this response, in the form of payment flexibilities in several programmes, macro-financial assistance and budget support, emergency assistance, crisis response and humanitarian aid, not least through reprioritisations under EU spending programmes. In 2022, overall assistance to Ukraine and its people from the EU budget amounted to EUR 11.6 billion <sup>(27)</sup>. The EU reacted swiftly to growing food insecurity, exacerbated by Russia's war of aggression, by launching the Team Europe Response to Global Food Insecurity and by increasing funding. EUR 2.6 billion were disbursed for global food security in 2022.

### Demonstrating the EU's unwavering support for Ukraine

Since the start of Russia's war of aggression, humanitarian needs in Ukraine have risen to unprecedented levels. By the end of 2022, **14 million people in the country had received humanitarian assistance**. The Commission has also deployed an emergency package to provide humanitarian and emergency assistance to secure access to education, healthcare and food. Out of the total amount of financial assistance provided to Ukraine, humanitarian support included EUR 485 million allocated for humanitarian aid programmes supporting civilians affected by the war in Ukraine and EUR 38 million for Moldova, which was also hit hard by the war. This vital support includes access to basic goods and services, such as education, healthcare and food.

**Working with Ukrainian civil protection authorities, the Commission began the biggest and most complex operation under the EU Civil Protection Mechanism** in its history to ensure the delivery of the most urgent non-monetary assistance, such as medical supplies and equipment, to Ukraine and neighbouring countries, and the safe evacuation of those fleeing the armed conflict. By the end of the year, the value of the almost 78 000 tonnes of assistance provided by the Member States and non-EU countries contributing to the mechanism, combined with assistance coming from rescEU reserves, amounted to around half a billion euro.

<sup>(27)</sup> This amount corresponds to the committed appropriations in 2022 stemming from the annual voted budget by the budget authorities on Heading 6 of the 2021-2027 multiannual financial framework, which includes the Neighbourhood, Development and International Cooperation Instrument – Global Europe, humanitarian aid, pre-accession assistance, the common foreign and security policy, macro-financial assistance, the European Instrument for Nuclear Safety Cooperation and the overseas countries and territories (including Greenland).

All 27 Member States (plus Iceland, North Macedonia, Norway, Serbia and Türkiye) have offered assistance, ranging from medical supplies and shelter items to vehicles and energy equipment. The EU has established logistical hubs in Poland, Romania and Slovakia to channel the items to Ukraine more efficiently. The EU Civil Protection Mechanism provided food, water, shelter, energy and healthcare. The EU has mobilised medical and specialised equipment for public health risks such as chemical, biological, radiological and nuclear threats via the Health Emergency Preparedness and Response Authority and rescEU emergency stockpiles.



**Emergency macro-financial assistance helps Ukraine address its financing needs and strengthen economic stability.** In addition to the EUR 7.2 billion support provided in 2022, the EU will provide up to EUR 18 billion to Ukraine in 2023 through the Macro-Financial Assistance + Instrument, in the form of highly concessional loans. This stable and predictable financial assistance will help cover a significant part of Ukraine's 2023 funding needs, in order to pay wages and pensions and maintain the operation of essential public services, such as hospitals, schools and housing for relocated people. It will also help to ensure Ukraine's macroeconomic stability and restore critical infrastructure destroyed by Russia in its war of aggression, such as energy infrastructure, water systems, transport networks, roads and bridges.

In 2022, the Commission mobilised or guaranteed EUR 11.6 billion to support Ukraine's economic, social and financial resilience. It also committed to provide highly concessional loans of up to EUR 18 billion in 2023.



**The Commission has stood at the forefront of global pledging events** to support internally displaced people and refugees.

For example, as part of its pledge to support the future reconstruction of the country, the EU already contributed EUR 100 million for the rehabilitation of damaged Ukrainian schools. The Commission also allocated around EUR 14 million to purchase school buses and bring Ukrainian children safely to school and launched an EU-wide solidarity campaign to donate school buses for Ukraine, channelled through the EU Civil Protection Mechanism.



Russia's persistent and deliberate targeting of Ukraine's energy infrastructure seriously affected the country's energy system. **The EU, together with its Member States and private companies, delivered several million euro worth of emergency energy equipment to Ukraine.**

The EU also delivered more than EUR 40 million of **chemical, biological, radiological and nuclear threat countermeasures and equipment** from rescEU reserves and allocated EUR 13 million for the restoration of laboratories damaged by Russian occupiers at Chernobyl.

**The EU-Ukraine 'Solidarity Lanes' initiative provided new logistics routes to connect Ukraine to global trading partners via rail, road and inland waterways.** At the time of the decision, it was estimated that this would bring back more than EUR 15 billion in much-needed income to Ukrainian farmers and businesses and help Ukraine export its goods – particularly grain – to ensure food security in developing

countries. It also allowed Ukraine to import what it needed, from humanitarian aid to animal feed and fertilisers.

**Outside of the EU budget, the European Peace Facility facilitates the provision of military equipment and security infrastructure to the Ukrainian armed forces and protects the civilian population, leaving a decisive mark in support of Ukraine’s defence.** This is the first time that the EU has supported the delivery by its Member States of this type of equipment to a country to defend itself against an aggression.

## **Mobilising humanitarian aid for those in need and supporting cooperation on civil protection to improve prevention, preparedness and response to disasters.**

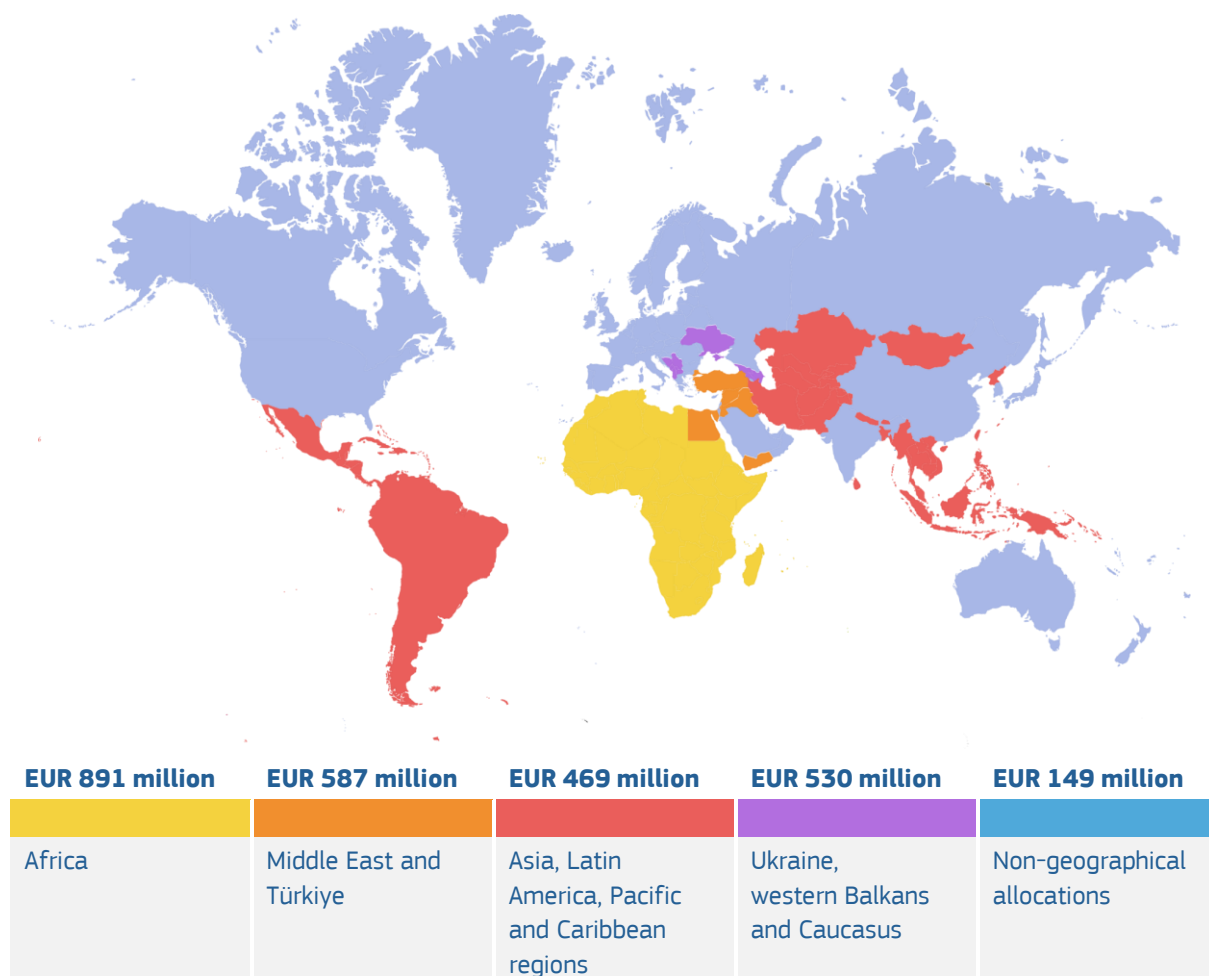
**In 2022, the EU mobilised EUR 2.6 billion of humanitarian aid** to help address the most pressing needs of affected populations around the world. This demonstrated the EU’s commitment to promoting human rights, dignity and security around the world. In 2022, the EU budget responded not only to humanitarian crises attracting widespread attention, such as Afghanistan or Ukraine, but also forgotten crises where affected populations are receiving insufficient international aid. In the context of the Rohingya crisis in Myanmar, for example, the Commission has delivered basic life-saving humanitarian aid, addressing the needs of the most vulnerable people affected by the violence and conflict. The EU’s humanitarian funding provided relief to millions of affected people in some of the world’s most challenging contexts.

### **The EU Civil Protection Mechanism responded to many crises**

Heavy monsoon **rainfall and floods** have been affecting Pakistan since June 2022. On 29 August 2022, the EU Civil Protection Mechanism was activated following a request for assistance from the Pakistani authorities. By the end of October 2022, French and Belgian water purification modules had arrived in the country and produced 729 000 litres of clean water. By 5 November, the teams completed their mission. All of the equipment was donated and would continue to run for at least 6 months.

Europe faced a very **intense wildfire season** in 2022. The EU mobilised assistance for Albania, Czechia, France, Portugal and Slovenia. The EU and its Member States provided firefighting teams and a rescEU fleet including firefighting airplanes, emergency vehicles and helicopters.

## EU humanitarian aid in 2022



Geographical presentation of the EU's humanitarian aid in 2022 throughout the world

Source: European Commission.

**The EU budget also continued in 2022 to provide humanitarian funding in support of 4 million refugees in Türkiye, mostly fleeing the war in Syria.** A further EUR 50 million came in addition to the EUR 325 million humanitarian aid already announced at the end of 2021 for the emergency social safety net programme in Türkiye, bringing the total EU humanitarian funding for Türkiye since 2012 to close to EUR 3.4 billion.

In Türkiye, the EU funded several initiatives for the benefit of refugee children (e.g. conditional cash transfers for education programmes). Funding contributed to almost **quadrupling the overall enrolment rate** of the refugee school-age population over 2014–2022. The project was extended to include Afghan and Iraqi refugees and host communities.

**In 2022 a new tool, the European Humanitarian Response Capacity, was set up** to fill gaps, mainly in logistics, in the humanitarian response to sudden-onset natural hazards and human-induced disasters.

In 2022 the Commission deployed 9 European Humanitarian Response Capacity (EHRC) operations in Madagascar (twice), Ukraine, Moldova, Somalia, Afghanistan, Mozambique, Uganda and Burkina Faso, continued the Humanitarian Air Bridge Flight operations in Kenya, DR Congo and Mali and organised 60 EU Humanitarian Air Bridge flights, supporting 24 partners in 4 countries (Afghanistan, Somalia, Madagascar and Moldova) and transporting 842 tonnes of humanitarian material. Finally, in Ukraine and Moldova, common logistics services were offered free of charge to all humanitarian partners: 660 road transport operations were organised in Ukraine, mainly last mile deliveries close to the frontline; 3 warehouses with temperature control for medical items and kitting services were opened and supported 49 humanitarian partners (both international and local NGOs).

## Cooperating with partner countries overcoming development challenges and pursuing EU values and interests

The Neighbourhood, Development and International Cooperation Instrument contributed to achieving the EU's international commitments and the objectives that it has agreed to, in particular the United Nations 2030 Agenda, its sustainable development goals and the Paris Agreement.

2022 marked the first year of delivery for the Global Gateway strategy<sup>(28)</sup>, which provides partners with a plan for major investment in physical infrastructure development, in alignment with EU values and standards. Global Gateway is implemented in a **'Team Europe'** approach: the EU and Member States work together to boost investments in physical infrastructure, human development and the enabling environment to ensure that projects deliver socioeconomic impacts to local communities across Africa, Asia, Latin America and the Caribbean and Pacific regions. In 2022, more than EUR 9 billion (in grants) from the EU budget supported the implementation of the five key areas under the Global Gateway strategy: digital, climate change and energy, transport, education and research. Key events for the delivery of the Global Gateway strategy included the AU-EU Summit in February 2022, launching the Africa – Europe Investment Package, as well as the EU-ASEAN Summit in December 2022 and the EU – Central Asia Connectivity Conference in November 2022.

As part of the Global Gateway strategy and through the Neighbourhood, Development and International Cooperation Instrument 'NDICI-Global Europe', the rollout of the European Fund for Sustainable Development Plus continued, backed by the External Action Guarantee of up to EUR 53.45 billion. By the end of 2022, the European Investment Bank signed 49 operations globally for a total amount of almost EUR 3 billion under the European Fund for Sustainable Development Plus guarantee, mobilising total investments of between EUR 6-9 billion. This instrument helps the EU to significantly increase the profile, scale and impact of its external engagement.

The Commission continued to support its priorities in cooperation with partner countries. This included EUR 1.7 billion of disbursed support to sustainable agriculture and food systems globally, the EU's reconfirmed commitment to provide EUR 7 billion in support of biodiversity as part of its external cooperation in 2021-2027, the adoption of the Global Health Strategy<sup>(29)</sup> and engagement in the establishment of the new Pandemic Fund, the adoption of the first-ever Youth Action Plan in the EU's external relations<sup>(30)</sup>, and the

<sup>(28)</sup> [https://ec.europa.eu/info/strategy/priorities-2019-2024/stronger-europe-world/global-gateway\\_en](https://ec.europa.eu/info/strategy/priorities-2019-2024/stronger-europe-world/global-gateway_en)

<sup>(29)</sup> [EU Global Health Strategy](#)

<sup>(30)</sup> [EU adopts the first Youth Action Plan in EU External Action](#).

global ‘Digital for Development Hub’ Team Europe initiative – which already involves 13 Member States <sup>(31)</sup> and strengthens coordination among Member States to foster an EU human-centric approach in digital transformation.

A recent strategic evaluation of EU support for the rule of law and anti-corruption measures in partner countries found that the EU has been able to programme relevant rule-of-law interventions and add value in the justice sector, and also in relation to other EU values (e.g., human rights, gender equality, non-discrimination). The EU aligned with national priorities when they were in place or, when they were not, was able to identify feasible entry points. EU support for the rule of law scored high in applying inclusive approaches, choosing an appropriate mix of aid types, providing critical support to civil-society organisations, ensuring flexibility during implementation and adapting to evolving situations.

## Strengthening sustainable growth and job creation in our neighbourhood

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The EU budget supports neighbourhood countries with specific programmes and actions, which are aligned with the political guidelines of President von der Leyen, the Paris Agreement on Climate Change and the United Nations 2030 Agenda.

**For instance, the Commission provided substantial support to Moldova to address the energy crisis and to the Southern Neighbourhood partner countries to mitigate the socioeconomic consequences of Russia’s war of aggression, in particular through the EUR 225 million Food and Resilience Facility.** It also increased the provisioning of external lending mandate and macro-financial assistance legacy loans. Despite this, there has been no major impact on the implementation of the multiannual indicative programmes for 2021-2024 and the economic and investment plan flagship projects. In the Southern Neighbourhood, the plan’s interventions remain very valid in an increasingly challenging environment. Since 2021, EUR 3.3 billion in grants has been committed (EUR 1.6 billion for 2022), amounting to almost half of the expected EUR 7 billion pledged within the framework of the joint communication ‘Renewed partnership with the Southern Neighbourhood’.

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<sup>(31)</sup> Belgium, Germany, Estonia, Spain, France, Italy, Lithuania, Luxembourg, Netherlands, Portugal, Romania, Slovenia, Finland and Sweden.

## 5. Promoting our European way of life



*We will strengthen our partners through cooperation, because strong partners make Europe strong too.*

*Ursula von der Leyen*

President of the European Commission

As a Europe that protects, the EU and its Member States are building a strong European Health Union to better protect the health of EU citizens, prevent and prepare for future pandemics and improve Europe's overall health systems.

A Europe that protects must also stand up for justice and for the EU's core values. Russia's unprovoked war of aggression against Ukraine triggered the largest forced displacement of people in Europe since the Second World War. This happened against a background of increased irregular migration via routes across the Mediterranean and the Western Balkans, and the Belarusian regime's use of migrants for political purposes. The EU continued to improve on the long-term management of migration based on strong borders, modernisation of the EU's asylum system and cooperation with partner countries.

EU funding programmes, such as Creative Europe, directly support European and Ukrainian cultural and creative organisations. The 2022 Creative Europe annual work programme allocated around EUR 400 million to the promotion of the diversity and competitiveness of the cultural and creative sectors across Europe, contributing to their recovery and resilience in the context of the Russian invasion of Ukraine and its consequences on the European economy. A special EUR 5 million call to support to Ukrainian displaced people and the Ukrainian cultural and creative sectors was launched in 2022.

In 2022, the EU continued its work on developing tools to impose political, economic and reputational costs on the perpetrators of harmful information manipulation and interference, including those who target elections and open media environments.

### Preventing, detecting and rapidly responding to health emergencies.

The COVID-19 pandemic and its consequences persisted in 2022. **The EU, together with its Member States, is building a strong European Health Union** to better protect the health of EU citizens, prevent and prepare for future pandemics and improve Europe's overall health systems.

The 2022 work programme for EU4Health foresaw EUR 381 million for the fight against the COVID-19 pandemic. This financed, for example, resources to ensure capacity for the continuous production of vaccines and supported the EU's intelligence-gathering function.

**The EU continued to support vaccination campaigns in the EU and beyond to mitigate the harmful effects of the virus.** The EU's vaccine strategy proved successful. In total, since the start of the pandemic, almost 1 billion doses have been administered to people in the EU. However, evolving COVID-19 variants call for adapted vaccines. In 2022, the EU authorised adapted vaccines to be used in a new booster programme to prevent a rise in cases.

In 2022, the Commission's new Health Emergency Preparedness and Response Authority became the key EU authority for preventing, preparing for and rapidly responding to cross-border health emergencies. It is another important component of a robust health union, which the EU continues to build to better protect the health of EU citizens, prevent and prepare for future pandemics and improve Europe's overall health systems.

**The Health Emergency Preparedness and Response Authority helped provide <sup>(32)</sup> vaccines and boosters against evolving COVID-19 variants for Member States** until the end of 2022. To enhance the roll-out of COVID-19 vaccines in non-EU countries and to ensure the continuity of the fight against the human immunodeficiency virus, tuberculosis and malaria, the EU contributed through the Emergency Support Instrument. To **improve access to vaccines in lower-income countries**, the EU, with its Member States and financing institutions, contributed over EUR 5 billion through the 'COVID-19 Vaccine Global Access' initiative.

**The EU is also tackling the long-term effects of COVID-19 infection, such as long COVID.** To this end, the EU budget funds large cohort studies that follow populations from around the world over a long period of time. Furthermore, research projects funded under Horizon 2020 and Horizon Europe are also looking into instances of long-term conditions that may appear following a COVID-19 infection.

**The EU Digital COVID Certificate – an important tool during the height of the pandemic – was extended** for another year and will continue to apply until 30 June 2023. This extension will allow people to use their certificates to travel across the EU if the epidemiological situation worsens and travel restrictions are reintroduced.

The crisis and the subsequent recovery have revealed vulnerabilities in the healthcare system. That is why **the EU continued to support Member States' healthcare systems via the Recovery and Resilience Facility, enabling them to emerge stronger from the COVID-19 pandemic.** The recovery and resilience plans will support healthcare with more than EUR 43 billion for the duration of the facility. At the end of 2022, the Member States had fulfilled 33 out of 539 milestones and targets linked to measures contributing to healthcare.

**Europe's Beating Cancer Plan signals the EU's renewed commitment to cancer prevention and providing equal access to cancer diagnosis and treatment.** It is another important building block of the European Health Union. The plan not only sets out to deliver concrete improvements for patients, but also aims to provide extra support for cancer survivors and healthcare professionals across Europe. The actions under this plan are supported under programmes such as EU4Health and the Horizon Europe Mission on Cancer – earmarked for research and initiatives that address cancer. Examples include the development of an inter-speciality cancer training programme and a network for young cancer survivors.

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<sup>(32)</sup> Using commitments made in 2021 via the Emergency Support Instrument.

## Addressing migration and asylum

Asylum, Migration and Integration Fund	Integrated Border Management Fund	Emergency assistance under funds managed by DG Migration and Home Affairs
The EU budget committed EUR 1.4 billion in 2022 under this fund, which promotes the efficient management of migration flows and the implementation, strengthening and development of a common approach to asylum and immigration in the EU.	The EU budget committed 1.0 billion in 2022 under this fund, which addresses challenges in the areas of the management of the external borders and common visa policy.	The EU allocated EUR 400 million to provide emergency assistance to the Member States most affected by the initial reception of Ukrainian refugees and assistance to early integration.

The Commission committed to mobilising EUR 400 million for emergency assistance during the global pledging event ‘Stand Up for Ukraine’ of 9 April 2022. The EU contribution is meant to support the Member States in the reinforcement of their first-reception systems, capacity to manage the external borders and capacity to bridge first reception and early integration. The overall objective is to support the efforts of the Member States most affected by the unprecedented flows of displaced people from Ukraine. In this context, the programme and underlying emergency assistance were reinforced in 2022 by EUR 181.7 million in commitment appropriations and EUR 150 million in payment appropriations.

Moreover, as part of this EUR 400 million envelope, EUR 261 million has been allocated to support the exceptional efforts of the Member States in addressing the needs of the beneficiaries of the temporary protection directive. In practical terms, this means funding for the reinforcement of first-reception capacity to address the immediate and urgent needs of displaced persons from Ukraine and to bridge the gap between first reception and early integration.

An EU Support Hub for Internal Security and Border Management was set up in Moldova. The European Border and Coast Guard Agency offered support at the EU’s borders with Russia and Ukraine to assist local authorities in dealing with arrivals of large numbers of refugees. The European Union Agency for Law Enforcement Cooperation also worked closely with all Member States to prevent and counter crimes such as human trafficking, firearms trafficking, money laundering and labour exploitation.



## 6. A new push for European democracy



*Democracy has the power to quickly spread. But its erosion can happen just as fast. Democracy is freedom. We need to stand up for it.*

*Ursula von der Leyen*

President of the European Commission

Democracy on the European continent is under attack. Russia's aggression against Ukraine is a war against democracy itself. Our democracy cannot be taken for granted. The EU budget is mobilised to strengthen democratic institutions.

The general regime of conditionality continued to protect the EU budget from breaches of the principles of the rule of law.

### **The EU budget was mobilised to strengthen democratic institutions, foster civic engagement and promote European values**

The EU budget is a critical tool for strengthening democratic institutions, fostering civic engagement and promoting European values. Through its support for a wide range of initiatives and programmes, the budget helps to promote democratic values and practices, to support civil-society organisations to promote democratic participation, and to protect human rights and social justice. By investing in these initiatives, the EU budget helps to create a more inclusive, democratic and prosperous Europe.

The EU budget supports a range of programmes aimed at strengthening democratic institutions across the EU. These programmes include support for electoral reform, civil society development and overall help to promote transparency and accountability.

The EU budget also supports initiatives aimed at fostering civic engagement across the EU. These initiatives include support for civil-society organisations and their work, and programmes to promote citizen participation in political processes. An example of citizens' engagement financed by the EU budget was the Conference on the Future of Europe that concluded its work in May 2022, presenting 49 concrete proposals. Through these initiatives, the EU budget helps to promote active citizenship and promote democratic participation of citizens in policymaking.

The EU budget plays a critical role in promoting European values, such as human rights, social justice and the rule of law. The budget supports a range of initiatives supporting marginalised communities, promoting gender equality and protecting the rights of refugees and migrants. Through these initiatives, the EU budget helps to promote a more inclusive and tolerant Europe.

#### **Erasmus+ is the EU's programme to support education, training, youth and sport in Europe.**

Erasmus+ supports student and staff mobility programmes, which allowed individuals to study and work in different Member States. The programmes promote cultural exchange and enhance the quality of education and training. The programme places a strong focus on social inclusion, the green and digital transitions, and promoting young people's participation in democratic life. The outcomes of Erasmus+ are managed through

the Erasmus+ [projects platform](#). This includes most of the initiatives funded by the programme and a selection of good practices and success stories.

## Promoting the rule of law and preventing and mitigating emerging challenges

Systematically upholding the rule of law across all Member States was an objective formulated by the Conference on the Future of Europe. For the first time, the annual Rule of Law Report 2022, published in July 2022, contained recommendations addressing all Member States. **Respect for the rule of law is also key for the sound financial management of the EU budget and the effective use of EU funding.**

**In 2022, the Commission continued to implement the regulation on a general regime of conditionality for the protection of the EU budget (the ‘conditionality regulation’).** It opened a procedure to protect the EU budget against rule of law breaches in Hungary, specifically concerning public procurement, the use of EU funds by public interest trusts, the effectiveness of prosecutorial action and the fight against corruption. On 15 December 2022, based on a proposal from the Commission, the Council adopted measures to protect the EU budget from breaches of the principles of the rule of law in Hungary. The Council decided to suspend 55% of the commitments for three programmes in cohesion policy, which corresponds to an amount of approximately EUR 6.3 billion in total for the 2021-2027 period. The Council also 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. Pursuant to the conditionality regulation, Hungary can submit further remedial measures to demonstrate that the conditions for budgetary measures are no longer fulfilled. The Commission will continue to lead the implementation and enforcement of the regulation, to identify possible breaches of the rule of law that affect or seriously risk affecting the EU budget in a sufficiently direct way and assess whether the conditions to launch the procedure set out in the regulation are fulfilled.

Section 1.6 in Annex 2 describes the implementation of the general regime of conditionality for the protection of the EU budget.

## Fighting disinformation

**The exposure of citizens to large-scale disinformation, including misleading or outright false information, is a major challenge. The EU has taken significant steps to combat disinformation.** In 2022, the EU continued its work on developing tools to impose political, economic and reputational costs on the perpetrators of harmful information manipulation and interference, including those who target elections and open media environments. The EU’s continued efforts in this area are crucial to ensure that its citizens are well-informed and protected from the harmful effects of disinformation.

In 2022, the Europe Direct contact centre assumed the role of an ‘EU solidarity with Ukraine’ helpline, introducing a service in Ukrainian and Russian, in addition to the 24 EU official languages, and a selection of Europe Direct centres also began answering questions in Ukrainian and Russian. In 2022, DG Communication designed and implemented the ‘You are EU’ campaign that showcased how the EU advances and accelerates the necessary transition to renewables and energy independence from Russia.



- The East StratCom Task Force has successfully exposed and countered numerous disinformation campaigns targeting the EU, and its work has received recognition from other countries and international organisations.
- Additionally, in line with the Commission guidance, major technology companies signed a strengthened Code of Practice on Disinformation. The code of practice requires these companies to take steps to prevent the spread of disinformation on their platforms, such as improving transparency in political advertising and promoting authoritative content.
- Furthermore, the EU has established a Rapid Alert System, which allows Member States to quickly exchange information and coordinate their responses to disinformation campaigns. This system was used to respond to numerous disinformation campaigns, including those related to the COVID-19 pandemic.
- The EU extended direct support to Ukraine's strategic communication efforts and worked closely with international and like-minded partners, in particular the Group of Seven and the North Atlantic Treaty Organization, to push back on war propaganda. The Commission's network against disinformation monitored and analysed false narratives and recommended actions and counter-narratives in weekly reports prepared by the Commission.





## Annex 2 – Internal control and financial management

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

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

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

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In 2022, the expenditure managed by the Commission amounted to EUR 169 billion <sup>(33)</sup> (see figure below). This encompasses the share of the EU budget managed by the Commission, along with the European Development Fund <sup>(34)</sup> and the EU trust funds. This expenditure corresponds to more than 260 000 payments, ranging from a few hundred euro (for Erasmus+ mobility grants) to hundreds of millions of euros (for large projects such as the International Thermonuclear Experimental Reactor or Galileo and Copernicus, along with budgetary support for developing countries) <sup>(35)</sup>. The recipients of EU funds are very diverse and numerous.

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<sup>(33)</sup> The amount of the Commission's relevant expenditure corresponds to the payments made in 2022 minus the pre-financing paid out in 2022, plus the pre-financing paid out in previous years and cleared in 2022 (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 is covered in Annex 3.

<sup>(34)</sup> 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.

<sup>(35)</sup> The amount of the Commission's relevant expenditure corresponds to the payments made in 2022 minus the pre-financing paid out in 2022, plus the pre-financing paid out in previous years and cleared in 2022 (for definitions and more details, see Annex 5).

Single market, innovation and digital	Cohesion, resilience and values	Natural resources and environment	Migration and border management	Security and defence	Neighbourhood and the world	European public administration EUR 7.7 billion (4.5%)
EUR 20.4 billion (12%)	EUR 67.5 billion (40%)	EUR 57.7 billion (34%)	EUR 2.5 billion (1%)	EUR 0.03 billion (0%)	EUR 13.6 billion (7%)	
						
More than 5 500 grants were signed under the Horizon Europe research programme by 31 December 2022	Around 3.7 million enterprises have been supported and almost 60 million people have been covered by improved health services, social care, education skills and housings since 2014	6.3 million beneficiaries have been supported with agricultural funds under a variety of different schemes	More than 1.9 million legal migrants benefited from integration measures at the national, local and regional level	The European Defense Fund awarded a total EU support of EUR 1.17 billion in 60 defence industrial cooperation projects by December 2022	Assistance was provided to around 130 non-EU countries on five continents	

Relevant expenditure of the EU budget implemented by the Commission in 2022, by policy area, in % and billion EUR

Source: European Commission annual activity reports.

Similar to previous years, about three quarters of the budget <sup>(36)</sup> (e.g. expenditure on cohesion policy and natural resources) is implemented under shared management. This means that once programmes are negotiated and decided by the Commission, Member States, or bodies designated by them, select projects, distribute funds and manage expenditure in accordance with EU and national law, and share this responsibility with the Commission. The rest of the budget is spent either directly by the Commission or indirectly in cooperation with entrusted entities. The table below describes the three management modes.

<sup>(36)</sup> Not including the Recovery and Resilience Facility.

		<b>Examples of programmes/spending</b>	<b>Other actors involved, in cooperation with the Commission</b>
<p>37%</p> <p>7%</p> <p>56%</p>	<b>Direct management</b> Funds are implemented by the Commission	Horizon 2020; Connecting Europe Facility; administrative expenditure	N/A (funding goes directly to the beneficiaries)
	<b>Indirect management</b> Funds are implemented in cooperation with external entities	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
	<b>Shared management</b> Funds are implemented in cooperation with Member States' national and/or regional authorities, which have a first level of responsibility in budget implementation.	Agricultural funds; Maritime and Fisheries Fund; European Regional Development Fund; Cohesion Fund; European Social Fund and Youth Employment Initiative; migration, border management and security funds	Paying agencies for common agricultural policy: 76; operational programmes for cohesion policy funds: 492, in all Member States

**2022 expenses by management mode - Recovery and Resilience Facility excluded**

Source: European Commission draft annual accounts 2022 – Statement of financial performance.

2022 was the second year of the new 7-year financial framework. In practice, there are still very few payments related to that new programming period in 2022 because of the late adoption of the legal bases (all funding programmes) and the subsequently late adoption of the programmes under cohesion policy (until the end of 2022). Payments related to the 2021-2027 programming period are expected to reach significant levels in the years to come. In 2022, the pandemic no longer affected the way the Commission and its implementing partners' work. However, the new crises that emerged in 2022 and the resulting high inflation put more pressure on resources that are already scarce and require an effective internal control to ensure the strict application of the principles of economy, efficiency and effectiveness when spending the EU budget.

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

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

The governance system and chain of accountability used by the Commission 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 the 51 authorising officers by delegation <sup>(37)</sup> who manage and steer their departments towards delivering on their objectives as defined in their strategic plans, taking into account available resources. The authorising officers by delegation are accountable for the share of the EU budget implemented in their department.

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

The annual management and performance report presents the synthesis of the annual results for the EU budget at the Commission level, based on the assurance and reservations contained in all the annual activity reports. This report is part of the Commission's integrated financial and accountability reporting package <sup>(38)</sup>, 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 its statement of assurance on the reliability of the accounts and the legality and regularity of underlying transactions; the hearings of Commissioners and Directors-General; and a recommendation from the Council.

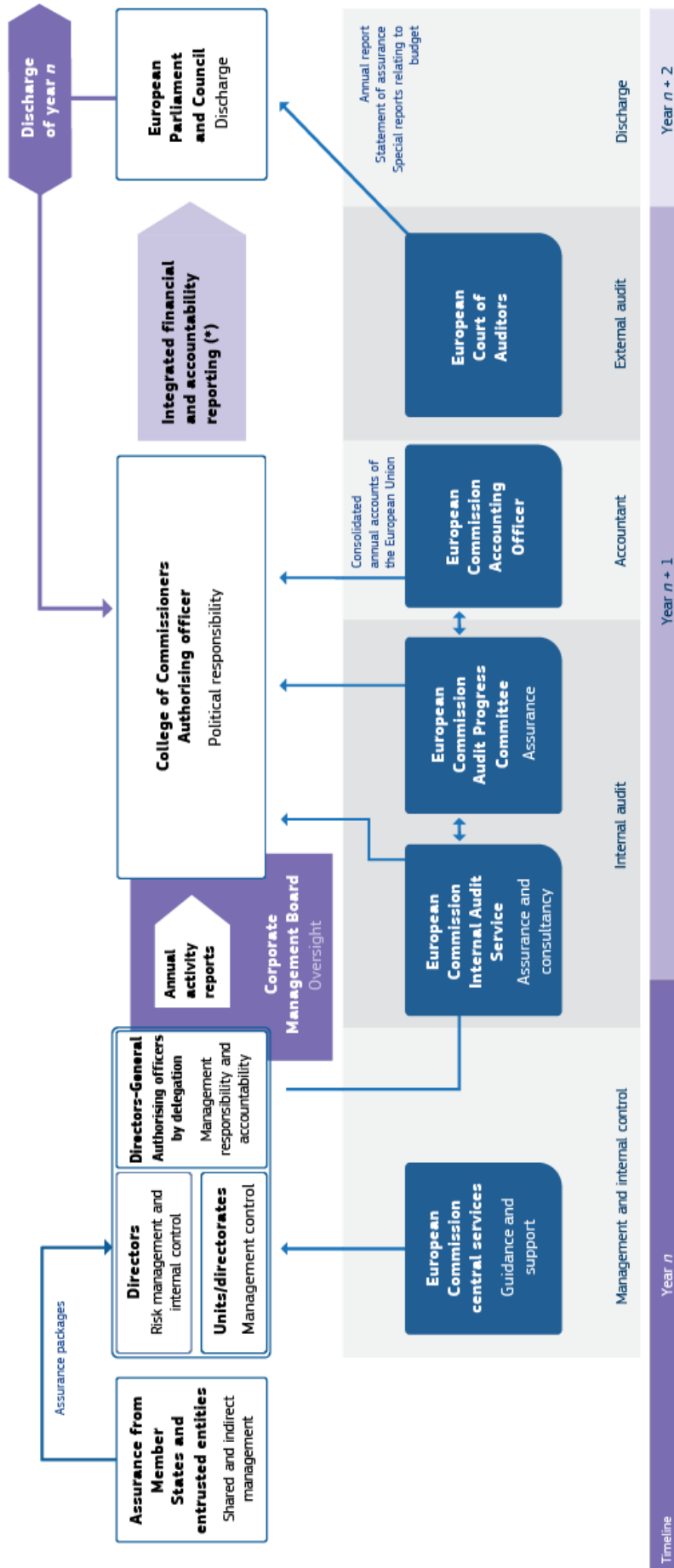
These robust governance arrangements help the College of Commissioners to deliver on the Commission's objectives, to use resources efficiently and effectively and to ensure that the EU budget is implemented in accordance with the principles of sound financial management. An overview is presented in the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

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<sup>(37)</sup> The term 'authorising officers by delegation' covers Directors-General of Commission DGs, heads of executive agencies, offices, services, task forces, etc. Article 74(1) of the financial regulation states that: 'The authorising officer shall be responsible in the Union institution concerned for implementing revenue and expenditure in accordance with the principle of sound financial management, including through ensuring reporting on performance, and for ensuring compliance with the requirements of legality and regularity and equal treatment of recipients.'

<sup>(38)</sup> 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

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

The Commission can rely on a strong corporate internal control framework based on the highest international standards <sup>(39)</sup>.

Risk management and control mechanisms have been further streamlined and reinforced regarding the implementation of the NextGenerationEU recovery plan. Since its endorsement in 2020, a particular focus has been put on adapting the internal control systems to the needs of the related operations. 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 subject to rigorous oversight by a second line of defence (an independent chief risk officer).

In December 2022, the Commission also established the framework for EU borrowing and debt management operations in 2023 under a unified funding approach, i.e. the diversified funding strategy <sup>(40)</sup>, together with the arrangements for the implementation of the diversified funding strategy for borrowing and debt management operations within the scope of Article 220a of the financial regulation, as well as to the related lending operations <sup>(41)</sup>. The asset management governance guarantees a clear delegation of decision-making and lines of accountability, adequate segregation of duties between front office, risk and back office, clearly defined roles and well-framed and documented procedures and processes and checks and balances at all levels. The compliance procedures provide the framework for adequate rules for codes of conduct to manage potential personal conflicts of interest and rules to manage risks of insider trading.

For the implementation of the Recovery and Resilience Facility, on the expenditure side, in 2022, the Commission further fine-tuned and completed the specific audit and control strategies put in place in 2021. These build on the experience gained in 2022 with a higher number of payment requests received and the ensuing intensification of the Commission's audits and controls (see details in Annex 3).

Already in 2021, the Commission adopted guidance on the avoidance and management of conflicts of interest under the financial regulation <sup>(42)</sup>. This guidance covers all methods of EU budget implementation (direct, indirect and shared management). It is part of the Commission's efforts to further strengthen the measures to protect the EU's financial interests. It aims at raising awareness and promoting the uniform interpretation and application of the rules on avoidance of conflicts of interest among staff of the EU

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<sup>(39)</sup> As established by the Committee of Sponsoring Organizations of the Treadway Commission.

<sup>(40)</sup> Commission Implementing Decision establishing the framework for EU borrowing and debt management operations in 2023 under the diversified funding strategy ([C\(2022\) 9701](#)).

<sup>(41)</sup> Commission Implementing Decision (EU, Euratom) 2022/2544 of 19 December 2022 establishing the arrangements for the administration and implementation of the EU borrowing and debt management operations under the diversified funding strategy and related lending operations ([C\(2022\) 9700](#)).

<sup>(42)</sup> Commission Notice – Guidance on the avoidance and management of conflicts of interest under the Financial Regulation [2021/C 121/01](#).

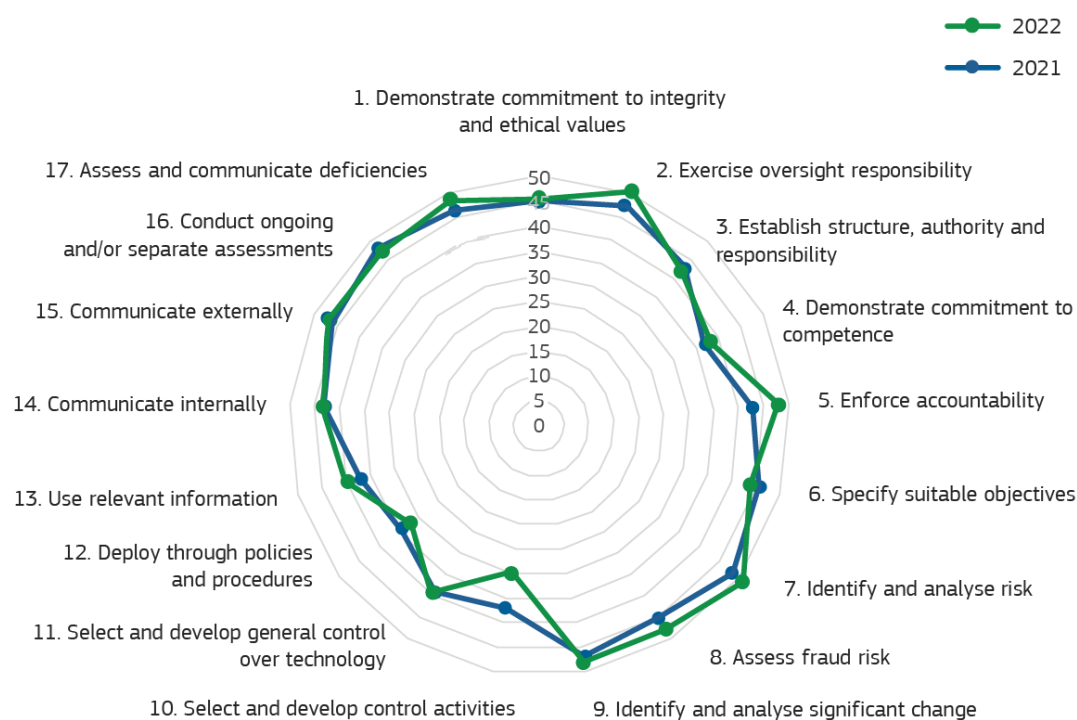
institutions and Member State authorities, along with any person involved in the implementation of EU funds. The Commission is continuing to deliver targeted awareness-raising measures on conflict of interest and presentations of this guidance to Member State authorities and related expert networks, and its internal specialised networks. Such targeted measures and presentations will continue to take place over the course of 2023 and beyond. They aim at raising awareness and promoting the uniform interpretation and application of the rules on avoidance of conflicts of interest among staff of the EU institutions and Member State authorities, along with any person involved in the implementation of EU funds.

In 2022, the Commission continued to provide new or updated guidance. This was namely focused on ways to address the impact of increased inflation and on how to implement the EU restrictive measures among others. As regards indirect management, DG Budget continued to provide horizontal guidance and support to Commission services by issuing instruction notes on key aspects of the process (e.g. on supervisory measures).

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

Overall, for 2022, the internal control principles are present and working as intended. Departments assess the functioning of their internal control according to a common methodology and summarise their conclusions in the annual activity reports. This assessment confirms that the Commission departments have continued to make efforts to address the deficiencies identified in 2021 in their internal control systems, namely for the control environment and the risk assessment components.

The Commission acknowledges that for some internal control principles some improvements are still needed, corresponding to mostly minor deficiencies that have been identified and reported in the annual activity reports of the departments. This mainly concerns control activities, where the assessment is mostly based on control results (i.e. where residual error rates are above 2%), the progress made for the establishment of an internal control system in the case of a new entity taking also into account audit findings. On these points, the relevant departments put measures in place to address the weaknesses identified. They are supported by the corporate services that regularly monitor the progress made. The overall situation is presented in the chart below.



Assessment of the functioning of the 17 internal control principles: number of Commission departments that reported that internal control principles were upheld and functioned properly in 2021 and 2022.

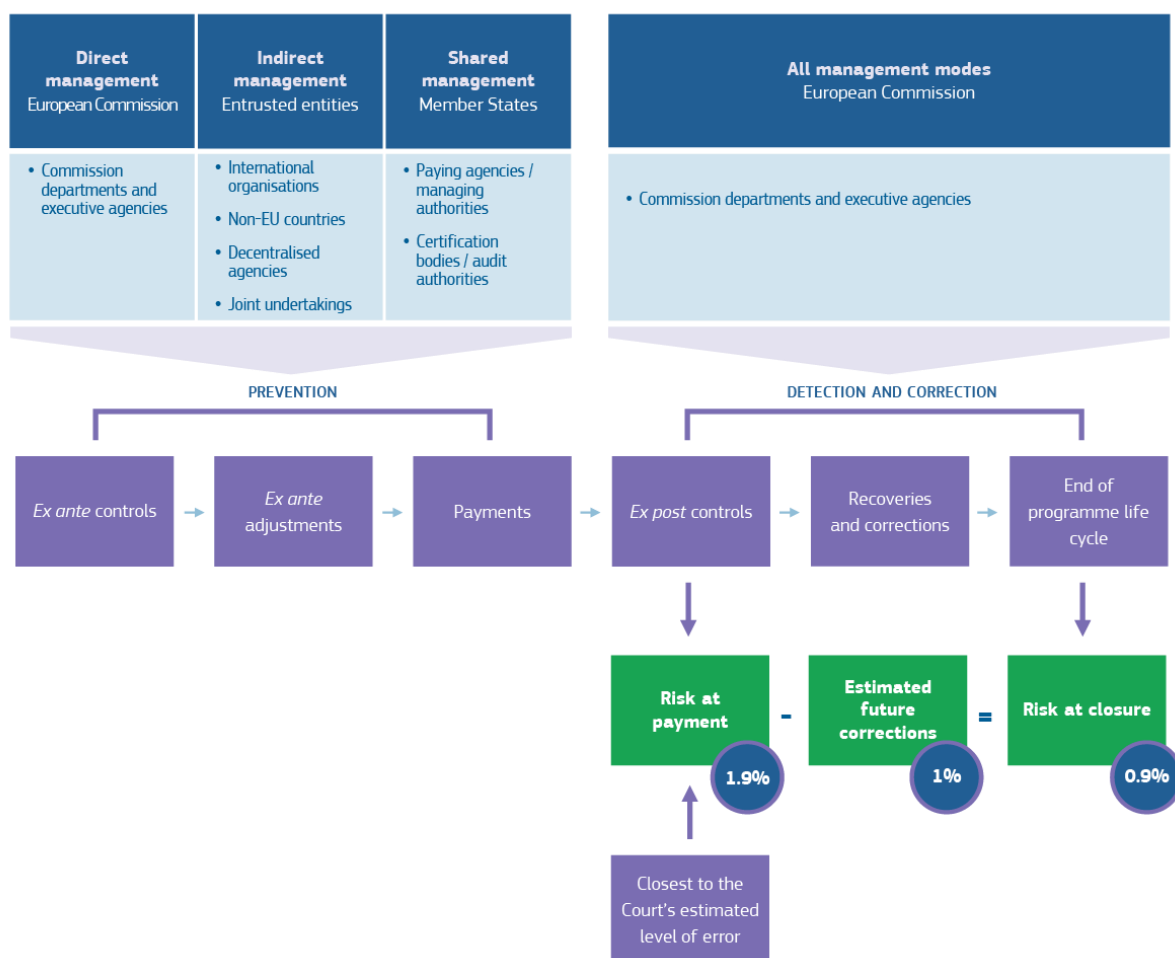
Source: European Commission annual activity reports.

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

### 1.4.1. Control strategies are multiannual and risk differentiated

Within their internal control systems, the authorising officers, as managers of the EU budget, put in place multiannual control strategies designed to prevent errors and, if they cannot be prevented, detect and correct them. 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 and cohesion), to take targeted and proportionate corrective actions and to ensure that any lessons learned are used to improve the management and control systems and are factored into the design of future financial programmes.

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



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

For the 2022 results mentioned in the circles, see Section 2.1.

Source: European Commission.

### 1.4.2. Prevention is the first line of defence against errors

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

- Under shared management, the corrections implemented by the Member States before declaring their expenditure to the Commission result from management verifications, controls and audits, including systems and operations audits, that they carry out *ex ante* and *ex post* at their level (before and after they make payments at their level). Such corrections are mostly applied by way of deductions of ineligible expenditure from payment claims to the Commission or certified accounts.
- The amounts corrected at the Member State level may be reused, under certain circumstances. This serves as an incentive for Member States to carry out the necessary verifications and audits and correct irregular expenditure before they submit their cost claims to the Commission.

### 1.4.3. The detection and correction of errors complements prevention

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

- In relation to agriculture, the bulk of the corrections correspond to cases where systemic errors have been identified and corrections applied to the relevant expenditure for a given paying agency or programme (financial corrections). The remainder of the corrections correspond to amounts detected and imposed on final beneficiaries by the Member States after the Commission's payments; these are partially reimbursed to the EU budget and partially reused for regular expenditure by the Member States.
- In relation to cohesion, until now, for the 2014-2020 programming period, all the corrections, whether related to Member States' *ex post* audits and controls or to the Commission's *ex post* audits and controls (including the follow-up of the Commission on audits of the Court of Auditors and investigations of the European Anti-Fraud Office), were implemented by the Member States. This allows the Member States to reuse the corresponding amounts for eligible expenditure since the strict conditions for net corrections set in the regulatory framework were not deemed fulfilled. If control systems work properly at the Member State level, the need for net financial corrections implemented at the Commission level is much more limited.

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

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

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### 1.5.1. Progress in 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.

At the corporate level, by the end of 2022, the implementation of the action plan connected to the current corporate anti-fraud strategy adopted in April 2019 has been almost fully achieved, with 60 out of the 63 measures completed. The strategy and its action plan play a significant role in preventing the possible misuse of EU money. The European Anti-Fraud Office coordinates and monitors its implementation. To ensure sustained anti-fraud efforts in the Commission and address new challenges, the Commission started preparations in 2022 for a revision of the plan.

At the department level, by the end of 2022, 94% of all local anti-fraud strategies had been updated since the adoption of the Commission Anti-Fraud strategy in 2019. In line with its Anti-Fraud strategy, the Commission has reinforced coordination and cooperation, notably through the Fraud Prevention and Detection Network which brings together anti-fraud correspondents of Commission services and executive agencies and is coordinated by the European Anti-Fraud Office. In this context, several Commission services updated their local anti-fraud strategies in cooperation with the European Anti-Fraud Office in 2022.

**In 2022, the European Anti-Fraud Office further continued its analytical work, for example by finalising a comprehensive risk framework for the Recovery and Resilience Facility and analysing the reasons for the decrease in the reporting of non-fraudulent irregularities between the 2007-2013 and 2014-2020 programming periods in the cohesion policy area.** The Recovery and Resilience Facility risk framework develops a three-dimensional model which takes into account risks linked to: (i) the nature and complexity of the investments; (ii) the achievement of the targets; and (iii) the fraudsters’ capability. It is meant as a tool for national authorities, which, within this framework, should develop their risk assessments based on the type of investment they are responsible for. The analysis of the reasons for the decrease in the reporting of non-fraudulent irregularities highlights a number of potential causes (such as delays in the implementation of the programmes; increased use of simplified costs option; changes in the reporting practices; introduction of annual accounts and the exclusion of ongoing assessments; and increased administrative capacity) to explain this decrease, but underlines that these do not explain the entirety of the assessed gap. The Commission adopted its 2021 annual report on the protection of the EU’s financial interests in September 2022 <sup>(43)</sup>.

In 2022, the European Anti-Fraud Office also continued to perform investigative activities, reporting on them in its annual reports.

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<sup>(43)</sup> COM(2022) 482, 23.9.2022.

### Highway to fraud

The European Anti-Fraud Office opened an investigation, together with the European Investment Bank, into a EUR 100 million alleged fraud linked to irregularities during the tender phase of the construction of a highway in Bosnia and Herzegovina.

The investigation focused on possible corrupt practices involving a publicly owned economic operator, relating to the process of awarding a tender (which was fully funded by a loan from the European Investment Bank) to manage, construct and maintain the highway. The tender process was part of a larger construction project with a total value of over EUR 200 million.

The European Anti-Fraud Office and investigators of the European Investment Bank cooperated closely during the investigation. The European Anti-Fraud Office proved that members of the management of the economic operator exerted undue influence on the members of the tender evaluation committee to exclude one bidder from the process and select a preferred bidder. The European Anti-Fraud Office also proved that both the rules set out in the finance contract between the European Investment Bank and the candidate country and the guidelines on procurement procedures were breached.

Thanks to the investigation, which was completed in less than 1 year, the practices were spotted and stopped before they really got going, thereby preventing EUR 97.8 million from being unduly spent.

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

On 22 March 2022, the Commission adopted a proposal for 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 <sup>(44)</sup>. This proposal establishes a framework for ensuring common cybersecurity rules and measures among the EU institutions, bodies and agencies. It aims at further improving the resilience and incident-response capacities of all entities. It is in line with the Commission's priorities to make Europe fit for the digital age and to build a future-ready economy that works for the people. Moreover, ensuring a secure and resilient public administration is a cornerstone in the digital transformation of society as a whole. This proposal builds on the EU security union strategy (COM(2020) 605) and the EU's cybersecurity strategy for the digital decade (JOIN(2020) 18).

**Fraud prevention and sanctioning also continued through the early detection and exclusion system**, which allows for the early detection of fraudulent or unreliable economic operators, their blacklisting (exclusion) by banning them from obtaining EU funds and possible imposition of financial penalties. The exclusion decisions contained in the early detection and exclusion system database are also currently made available to all entities implementing the budget in all management modes. 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 the early detection and exclusion system panel.

In 2022, the Commission put forward several measures in order to: (i) promote the use of the early detection and exclusion system; (ii) enhance its effectiveness; and (iii) make the system more efficient. In particular, in the context of the proposal for the amendment to the financial regulation, the Commission proposed to

<sup>(44)</sup> Proposal for 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 Union ([COM\(2022\) 122](#)).

extend the early detection and exclusion system to beneficiaries under shared management with a proportionate and targeted approach. Moreover, the Commission proposed to allow the exclusion of affiliated entities and/or beneficial owners of a primary excluded entity from bidding for public contracts and ultimately from obtaining EU funds.

## 1.6. The conditionality regime is being implemented

Since the adoption of the regulation on a general regime of conditionality for the protection of the EU budget (the ‘conditionality regulation’) in December 2020, the EU has had, for the first time, **a specific tool to protect its budget from breaches of the principles of the rule of law**. 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. It aims at protecting the EU budget against breaches of the principles of the rule of law that affect or seriously risk affecting its sound financial management or the protection of the financial interests of the EU in a sufficiently direct way. The validity of the conditionality regulation was fully upheld by the Court of Justice in two judgements (cases C-156/21 <sup>(45)</sup> and C-157/21 <sup>(46)</sup>). Following those judgements, on 2 March 2022, the Commission adopted its guidelines on the application of Regulation (EU, EURATOM) 2020/2092 on a general regime of conditionality for the protection of the EU budget.

The conditionality regulation is yet another tool in the wider ‘rule of law toolbox’ that includes different instruments aimed at safeguarding the respect of rule of law principles in Member States. The conditionality regulation, in particular, protects the Union budget from breaches of the principles of the rule of law. Although not aimed at protecting the EU budget as such, some other instruments of the toolbox are also key to protect the rule of law in the EU: the annual rule of law report, for example, includes recommendations to Member States since 2022. Finally, the national recovery and resilience plans adopted in 2021 and 2022 under the recovery and resilience facility regulation also reinforce the respect of 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 procedure under the conditionality regulation have been transposed into corresponding milestones under the Hungarian recovery and resilience plans.

**Since January 2021, the Commission has constantly monitored the situation across Member States. It will trigger the procedure under the conditionality regulation if the conditions are fulfilled. In 2022, the Commission adopted guidelines on the application of the regulation on a general regime of conditionality for the protection of the EU budget.**

**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.** This concludes a procedure launched by the Commission in April 2022 after the Court of Justice had upheld the validity of the conditionality regulation, which had been contested by Hungary and Poland. The Council decided to suspend 55% of the funds for three programmes under cohesion policy (Environmental and Energy Efficiency Operational Programme Plus, Integrated Transport Operational Programme Plus, Territorial and Settlement Development Operational Programme Plus), corresponding to an amount of approximately EUR 6.3 billion in total for the 2021-2027 period. The Council also prohibited entering into new legal commitments with public interest trusts or entities maintained by them, under any EU programme directly or indirectly managed by the Commission as from 16 December 2022. The Council decision takes into account remedial measures that were proposed by Hungary but not yet completely, adequately or correctly implemented, including the set-up of an independent integrity authority with extensive powers to ensure a level playing field in public procurement procedure and to contribute to the prevention, detection and correction of fraud, corruption and conflict of interest (including important powers to verify asset declarations). It is worth noting that the Council implementing decision has not been challenged by Hungary before the Court of Justice. However, the

<sup>(45)</sup> See judgement of 16 February 2022, *Hungary v Parliament and Council*, C-156/21, ECLI:EU:C:2022:97.

<sup>(46)</sup> See judgement of 16 February 2022, *Poland v Parliament and Council*, C-157/21, ECLI:EU:C:2022:98.

prohibition regarding public interest trusts and entities maintained by has been challenged before the General Court. The Commission intervenes in support of the Council to defend the Council implementing decision.

Following the Council implementing decision of December 2022, in line with the conditionality regulation, Hungary can propose further remedial measures to address the remaining concerns with a view to lifting the measures imposed by the Council. If the Commission considers that the issues have been remedied partly or in full, it must then submit to the Council a proposal for an implementing decision to adapt or lift the adopted measures.

## 1.7. Proposal for a recast of the financial regulation: the process is ongoing

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The proposal for a targeted recast of the financial regulation was adopted on 16 May 2022 <sup>(47)</sup> following an extensive consultation process within the EU institutions and bodies, and a public consultation. The proposal focuses on alignment with the 2020/2021 multiannual financial framework's 2021-2027 package, certain improvements in crisis management (lessons learned during the COVID-19 crisis), enhanced protection of EU financial interests (e.g. compulsory use of data mining for audit and control and extension of the early detection and exclusion system to shared management, to exclude untrustworthy operators from all funding) as well as necessary simplification. The Commission prepared extensive supporting material for the ongoing discussions with the European Parliament and the Council. The Court of Auditors issued an overall supportive opinion in October 2022.

In parallel, the Commission adopted two other proposals for amending the financial regulation. The first one addresses the budgetary impact of recent case-law on annulled or reduced fines <sup>(48)</sup>. It is being discussed together with the targeted recast, awaiting the outcome of relevant Court cases. The second one was urgently adopted by the European Parliament and Council in December 2022 in the context of mobilising financial support for Ukraine and established the diversified funding strategy as a general borrowing method <sup>(49)</sup>.

The Commission will continue to provide support to the European Parliament and the Council on the two pending proposals. The respective mandates on the recast are expected by June 2023. The Commission is committed to facilitating political agreement by the end of 2023. The new rules making the budget more agile, transparent and better protected should enter into force in early 2024.

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<sup>(47)</sup> 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](#)).

<sup>(48)</sup> Proposal for a regulation of the European Parliament and of the Council amending Regulation (EU, Euratom) 2018/1046 on the financial rules applicable to the general budget of the Union ([COM\(2022\) 184](#)).

<sup>(49)</sup> Regulation (EU, Euratom) [2022/2434](#) of the European Parliament and of the Council of 6 December 2022 amending Regulation (EU, Euratom) 2018/1046 as regards the establishment of a diversified funding strategy as a general borrowing method.

### **Use of the single data mining and risk-scoring tool**

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 require 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 which 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 and contribute to the effective prevention, detection, correction and follow-up of fraud, corruption, conflicts of interest, double funding and other irregularities.

The Commission proposal contains a provision making the use of the tool compulsory. This provision may prove difficult to accept for the Member States. In line with Part IV of the Inter-Institutional Agreement of 16 December 2020, the Commission continued promoting the use of the tool for control and audit purposes and proposing its compulsory use in several basic acts, with a view to a generalised application by Member States.

In parallel, DG Budget cooperated with other DGs in 2022 on the establishment of the corporate data mining and risk-scoring tool that would meet the above requirements and the user needs of the Member States and Commission services.

## 2. Cost-effective controls protecting the EU budget

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

### The Commission aims to strike the right balance between:

- a low level of error,
- fast payments,
- reasonable control costs for all actors and reasonable administrative burden on beneficiaries.

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

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

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

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



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

### 2.1.1. Overall results for 2022

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

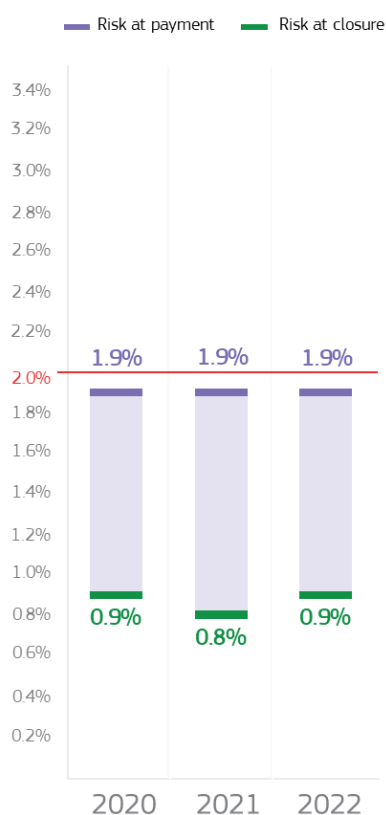
For 2022, the Commission’s overall risk at payment and risk at closure remain in line with 2021, with both being below the materiality threshold of 2%.

Risk at payment: 1.9% (2021 – 1.9%)

Risk at closure: 0.9% (2021 – 0.8%)

Total preventive and corrective measures implemented by the Commission and the Member States: EUR 4.9 billion (2021 – EUR 5.2 billion)

Reservations: 15 reservations with a total financial impact of EUR 877 million. (2021 – 16, with a total financial impact of EUR 987 million)



The risk at payment is an estimate of the errors that could not be prevented despite *ex ante* controls and that affect the payments made. These errors are detected through *ex post* controls and audits <sup>(50)</sup>. The risk at closure is an estimate of the errors that will remain at the end of the programmes’ life cycle once all *ex post* controls and corrections have been made. It is equal to the risk at payment minus a conservative estimate of the future corrections, which will take place between the reporting year and the end of the programmes’ life cycle

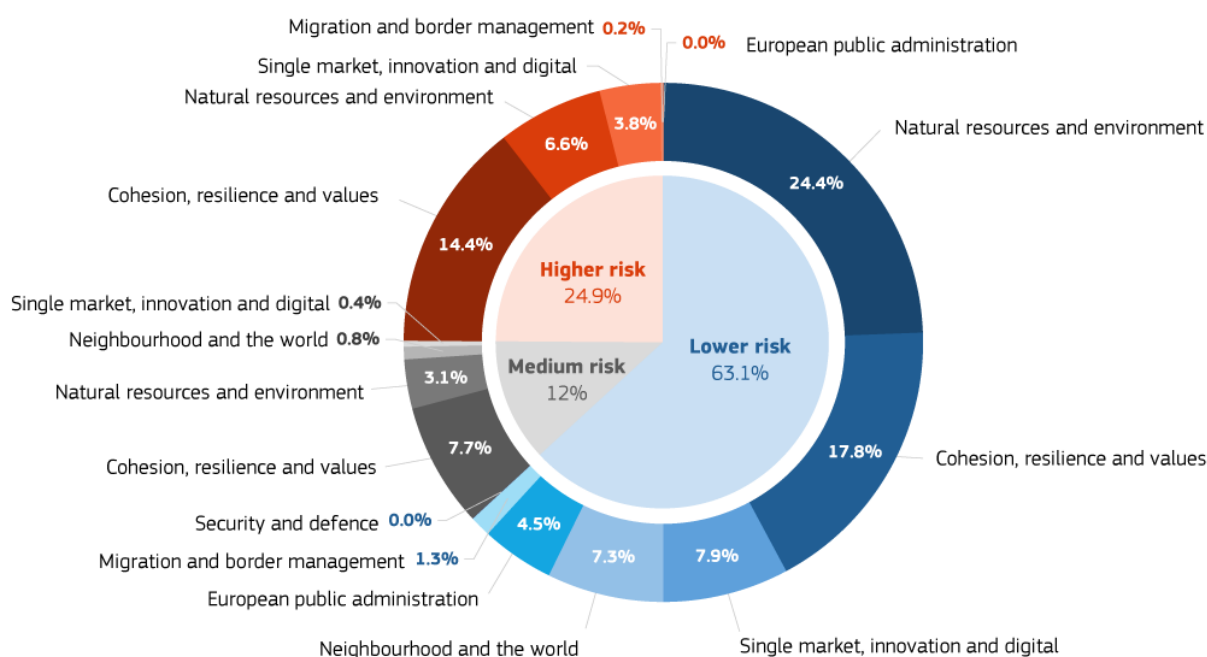
The Commission considers that the budget is effectively protected when, by the closure of the programmes at the latest – i.e. when all controls, corrections, recoveries, etc. have been implemented – the risk at closure is below 2%. This is the same materiality threshold used by the European Court of 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.

<sup>(50)</sup> For shared management, this also includes errors detected but not corrected by the Member States before the payment by the Commission.

The *Annual Management and Performance Report for the EU Budget* is a summary of the 51 annual activity reports. The spending covered in each of these reports is allocated in its entirety to one of the seven multiannual financial framework headings. Similarly to what has been reported in 2021, the spending for ‘security and defence’ of DG Defence Industry and Space, considering the importance of this expenditure, has been isolated from the other expenditure and brought under the relevant heading. For comparison purposes, the risk at payment and risk at closure for 2020 have been recalculated on the basis of this new structure. The situation for each policy area is described below.

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

The Commission identifies which programmes / segments of expenditure are higher risk, allowing it to focus its action where it matters most. Given its in-depth empirical approach, the Commission has reliable data showing the diversified situation of managed funds (see chart below). Based on the risk at payment – before any future correction is implemented – the Commission can divide the annual expenditure precisely into lower risk at payment (where the risk is below 2.0%), medium risk at payment (between 2.0% and 2.5%) and higher risk at payment (above 2.5%). For natural resources and cohesion, this analysis is also applied at the level of individual paying agencies and programmes in the Member States. This allows the Commission to identify which programmes/segments of expenditure are higher risk and to efficiently provide its support and address specific weaknesses even for policies that, taken globally, are lower risk, such as the common agricultural policy.



The European Commission categorisation of expenditure into higher-, medium- and lower-risk segments, as percentages of the total of relevant expenditure for 2022

Source: European Commission.

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

- Lower risk.** This segment amounted to EUR 107 billion in 2022 (63.1% of expenditure in 2022 compared to 55.1% of expenditure last year). More specifically, this lower-risk category includes: the expenditure managed by paying agencies under the common agricultural policy (51 out of 66 in direct payments and 34 out of 74 in rural development), along with 21 out of 25 operational programmes for the European Maritime and Fisheries Fund and 151 out of 448 programmes under cohesion policy funds with a lower risk at payment; expenditure relating to the Connecting Europe

Facility Transport; contributions to agencies (the European Union Agency for the Space Programme, the European Space Agency, etc.); the Marie Skłodowska-Curie actions; European Research Council grants; Erasmus+; the main part of the Emergency Support Instrument; the Asylum, Migration and Integration Fund; the Internal Security Fund; humanitarian aid and civil protection; expenditure to entities entrusted with the implementation of EU funds or budgetary guarantees which have passed a pillar assessment (or, exceptionally, to EU decentralised agencies which may be exempted from passing a pillar assessment); and administrative expenditure.

- **Medium risk.** This amounted to EUR 20.2 billion in 2022 (12.0% of expenditure compared to 22.6% in 2021). This includes: the expenditure of some paying agencies under the common agricultural policy (6 in direct payments and 8 in rural development) and 2 operational programmes for the European Maritime and Fisheries Fund and 169 out of 448 programmes under cohesion policy funds with a medium risk at payment; grants in programmes in development aid and neighbourhood programmes; and expenditure relating to the Connecting Europe Facility Energy.
- **Higher risk.** This amounted to EUR 42.2 billion in 2022 (24.9% of expenditure, similar to 2021 (22.3%)). This also includes the expenditure of 9 out of 66 paying agencies in direct payments, or 32 out of 74 in rural development under the common agricultural policy; 128 out of 448 programmes under cohesion policy funds with a higher risk at payment or with serious deficiencies <sup>(51)</sup> <sup>(52)</sup>; and expenditure from the European Maritime and Fisheries Fund (2 programmes). Although efforts in the simplification of the rules have been introduced in Horizon 2020, this segment of expenditure presented a level of risk in 2022 similar to the years before 2021.

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 where rather complex reimbursement-based schemes are used appear with relatively higher risk at payment (as it is typically the case under 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 risk at payment and risk at closure for the different programmes / segments of expenditure and is taking further action to reduce error rates. For the medium- and higher-risk categories in particular, the Commission will continue to work towards a further decrease in the error rates by raising beneficiaries' and implementing partners' awareness of issues, adjusting the control strategies where necessary, applying the lessons learned to future programmes and simplifying rules wherever possible.

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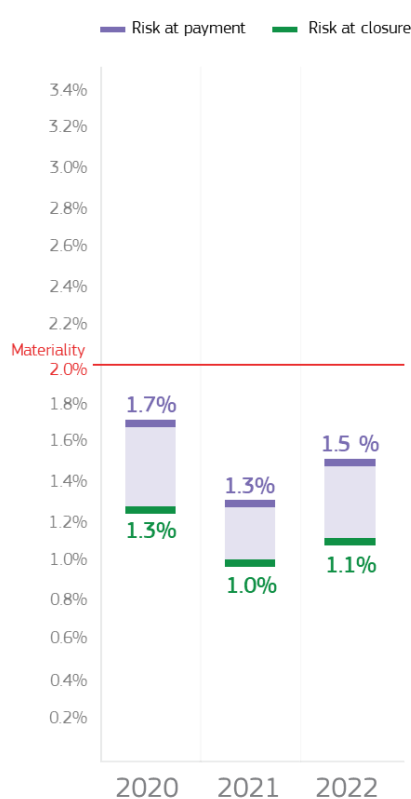
<sup>(51)</sup> In the case of the European Regional Development Fund, the Cohesion Fund and the European Maritime and Fisheries Fund, the level of risk has also been considered high, irrespective of the risk at payment, when the audit opinion issued in the annual activity reports on the functioning of the management and control system of the programmes was either adverse or qualified.

<sup>(52)</sup> There are 441 programmes under cohesion policy funds, out of which seven have two different segments of risks, which result in the number of 448.

## 2.1.3. Control results by policy areas

### Heading 1 – Single market, innovation and digital

Total relevant expenditure: EUR 20.4 billion (2021 – EUR 17.3 billion)  
 Risk at payment: 1.5% (2021 – 1.3%)  
 Risk at closure: 1.1% (2021 – 1%)  
 Total preventive and corrective measures: EUR 171 million (2021 – EUR 162 million)  
 \* Preventive measures: EUR 144 million (2021 – EUR 142 million)  
 \* Corrective measures: EUR 27 million (2021 – EUR 20 million)  
 Reservations: 2 reputational reservations without financial impact.



In 2022, the risks at payment (1.5%) and at closure (1.1%) increased in comparison to 2021. This is due to the increase of the risk at payment for the Horizon 2020 programme, which corresponds to the main payments in 2022.

As in previous years, the research departments have not qualified their declarations of assurance with any reservations in relation to the Horizon 2020 programme <sup>(53)</sup>. The higher risk of Horizon 2020 is inherent in this type of expenditure, where payments are still largely based on the reimbursement of actual eligible costs and where the rules of reimbursement, as per the related legal bases, remain complex. To decrease the risk of Horizon 2020, the Commission defined actions aimed at significantly simplifying the rules, focused communication campaigns and enhanced training for external audit firms performing audits on behalf of the Commission. These actions should pave the way for a significant reduction of the error rate in Horizon Europe.

For Horizon Europe, the late adoption of the Horizon Europe regulation, compared to the initial plan, delayed the start of the implementation of the programme. Due to the late implementation of the programme, the amounts of payments are very low and *ex post* controls have not started yet. As a consequence, a conservative estimate for the risk at payment, set at 2%, has been used.

<sup>(53)</sup> This is because 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 for the Horizon 2020 regulation. The latter 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 research project. The ultimate aim for the residual level of error at the closure of the programmes after the financial impact of all audits, correction and recovery measures will have been taken into account is to achieve a level as close as possible to 2%.' (<https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX%3A52011PC0811>).

Regarding the other programmes, a small number of segments have a residual error rate above 2%. However, this has no impact on the assurance due to the minor financial impact <sup>(54)</sup>. For 2022, two reputational reservations were issued 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. For both reservations, action plans have been put in place by the responsible departments which will be implemented by the end of 2023 at the latest. These actions include, amongst others: the signing of a memorandum of understanding that sets out responsibilities and supervision between the European Innovation Council and SMEs Executive Agency and DG Research and Innovation; the revision of the delegation instrument clarifying tasks and roles; and the assessment of the internal control components to support the update of the anti-fraud and control strategies. Finally, the 2021 reservations related to Connecting Europe Facility (covering energy and telecommunications) have been lifted by the European Climate, Infrastructure and Environment Executive Agency and the new European Health and Digital Executive Agency.

## Heading 2 – Cohesion, resilience and values

Total relevant expenditure: EUR 67.5 billion (2021 – EUR 175.8 billion)  
 Risk at payment: 2.6% (2021 – 2.3%)  
 Risk at closure: 1.3% (2021 – 1.2%)  
 Total preventive and corrective measures Member States & Commission: EUR 3.1 billion (2021 – EUR 3.5 billion)  
 \* Preventive measures: EUR 2.3 billion (2021 – EUR 2.7 billion)  
 \* Corrective measures: EUR 789 million (2021 – EUR 769 million)  
 Reservations: 4 reservations with financial impact. EUR 310 million

Under this heading, the risk at payment at 2.6% increased compared to 2021 (2.3%). Under this heading, the risk at payment and risk at closure are mostly related to the level observed for cohesion policy funds <sup>(55)</sup>, given the volume of relevant expenditure: around 94% of the total managed under the shared management mode. The European Regional Development Fund and the Cohesion Fund show a stable lower value of the range presented for the risk at payment <sup>(56)</sup> and an increase in its upper value, from a range of 1.9% to 2.5% in 2021 to a range of 1.9% to 2.7% in 2022. For the European Social Fund, the range for the risk at payment in 2022, 1.9% to 2.8%, represents a slight increase from the range in 2021 (1.7% to 2.5%) <sup>(57)</sup>.

For all cohesion policy funds, despite continuous efforts and improvements in the functioning of the control systems, the risk at payment remains material. It is estimated to be in the range of 1.9% to 2.7% <sup>(58)</sup>, higher

<sup>(54)</sup> 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 DG's total payments and with a financial impact below EUR 5 million. In such cases, quantified reservations are no longer needed.

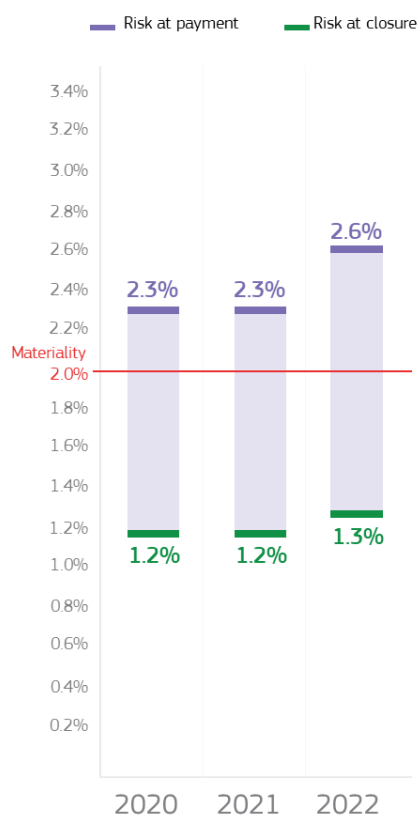
<sup>(55)</sup> The European Regional Development Fund, Cohesion Fund, European Social Fund, Youth Employment Initiative and Fund for European Aid to the Most Deprived.

<sup>(56)</sup> This range contains a conservative assessment of the error rates reported by programme authorities based on all audit results available (including under contradictory procedure for Commission or European Court of Auditors audits or flat rates, if needed), along with possible additional risks taken into account for the upper value (including based on experience from past audits or the fact that not all programmes can be audited every year and over time, based on flat rates). The **upper value of the range** is therefore considered a worst-case scenario that, in many instances, is not confirmed when further audit work is carried out.

<sup>(57)</sup> This increase reflects the consideration of preliminary findings reported by the European Court of Auditors, pending contradictory procedure.

<sup>(58)</sup> This is within the error-level range of between 2.1% and 6.1% estimated by the European Court of Auditors in its [2021 annual reports on the implementation of the EU budget for the 2021 financial year and on the activities funded](#)

than in 2021 (1.8% to 2.5%). The estimated future corrections are the amounts necessary to reduce the error rate of each programme that is above 2% to at least 2%. In total, they correspond to a range of 0.5% to 1.4%, leading to a risk at closure of 1.3%.



In relation to the 2014-2020 programming period, Member States implemented preventive measures for an amount of EUR 2 297 million and corrective measures for an amount of EUR 656 million. The latter amount is attributed on the one hand to the Member States' own controls (EUR 518 million) and on the other to the Commission's controls, follow-ups to investigations of the European Anti-Fraud Office and audits of the Court of Auditor's audits (EUR 138 million). This is overall in line with the amounts implemented in previous years. The corrective measures implemented show an increasing trend which is consistent with the mature stage of the 2014-2020 programming period implementation. In addition, for the 2007-2013 and previous programming periods, the Commission implemented corrective measures for an amount of EUR 130 million.

2022 was the second year of the new multiannual financial framework. However, the common provisions regulation for cohesion policy funds for 2021-2027 was adopted in June 2021 and, for 2022, no payments other than pre-financing took place. One specific feature of the 2021-2027 period 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 during the period. To date, 22% of the allocation for jobs and growth<sup>(59)</sup> has not yet been reimbursed due to unfulfilled thematic enabling conditions.

Despite the continuous efforts and improvements in the functioning of the control systems, the risk at payment for cohesion remains above the 2% materiality threshold. This is mainly due to the inherent complexity of the projects financed by these funds, the multiplicity of actors concerned and the difficulty of tackling some complex rules, notably relating to national rules added to European Union rules, public procurement or State aid. Weaknesses remain mainly at the level of managing authorities or their intermediate bodies, despite the improved situation over the years as a result of the continuous efforts by programme authorities with the Commission's support.

The main categories of irregularities identified by the Member States' audit authorities and the Commission are similar to those identified by the Court of Auditors: ineligible expenditure, public procurement errors and the absence of essential supporting documents. This shows that most programme audit authorities appropriately, but not always entirely, detect the various types of irregularities contributing to the risk at payment<sup>(60)</sup>. There are inherent risks of error due to complex projects and rules. In some cases, the

*by the 8th, 9th, 10th and 11th European Development Funds (EDFs) for the 2021 financial year* (p. 165). The higher level of error estimated by the Court can sometimes be explained by divergences in the interpretation of national rules and in the method used to determine the amount of error, and by the fact that there is no legal basis that would allow financial corrections to be applied.

<sup>(59)</sup> For 152 European Regional Development Fund, Cohesion Fund or European Social Fund Plus programmes in 22 Member States in total.

<sup>(60)</sup> This assessment is corroborated by the 2022 study 'Single audit approach – Root causes of the weaknesses in the work of the Member States' managing and audit authorities', conducted by the Centre for Strategy & Evaluation

weaknesses detected are systemic, and with the remedial actions requested by the Commission and put in place the situation of the relevant (parts of) systems usually becomes satisfactory again. Unless such improvements are put in place, the Commission stops making payments to the relevant (parts of) programmes, to protect the EU budget. In addition, errors or weaknesses found in one programme do not mean that similar errors or weaknesses are present everywhere in the Member State concerned (and even less in programmes of other Member States). Thanks to the Member States' and the Commission's control results, a nuanced and differentiated picture by programme and by authority is obtained. This allows the Commission to conclude that most programmes function well or sufficiently well <sup>(61)</sup>, and that a limited number of programmes present systemic and recurrent deficiencies over years, on which the Commission then focuses its actions. In the latter category of programmes, these are transparently reported in the reservations issued in the respective annual activity reports.

In relation to previous accounting years of the 2014–2020 programming period, after the finalisation of strict contradictory procedures, additional financial corrections have been implemented by the Member States. This has led to a risk at closure of under 2% for each of the last accounting years and confirms the corrective capacity for cohesion policy funds. 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 will be completed.

At the end of 2022, four reservations were issued in relation to cohesion policy funds.

- Two reservations for the 2014–2020 period that include 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 (81) is higher than the number of programmes under reservation in 2021 (68). This is mainly due to systemic deficiencies considered for several programmes. The financial impact has nevertheless decreased from EUR 423 million to EUR 310 million, which is in line with the decrease in relevant expenditure and the fact that many of the operational programmes in question have low levels of relevant expenditure in 2022. 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.
- Two reservations for the 2007–2013 period, in relation to seven programmes that are still not closed. The reservations are not quantified because no payments were made in 2022.

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 2022, the Commission, in close collaboration with the Member States, took various types of actions to further improve the effectiveness of the management and control systems and to boost the prevention, detection and correction of errors, including the following.

- Continuous monitoring, analysis and addressing of the root causes of errors that remained undetected at the Member State level.
- Capacity-building action to improve the administrative capacity of the Member States' managing and audit authorities and better equip them to deal with the most complex parts of fund implementation. This includes, for instance, the provision, free of charge, of the ARACHNE data

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Services at the request of the European Parliament's Committee on Budgetary Control. According to this study, 'Notwithstanding the identified shortcomings in the implementation and control of EU expenditure, overall, the work of the audit bodies in the Member States is perceived as reliable and robust.'

<sup>(61)</sup> 88% of programmes both under the European Regional Development Fund and the Cohesion Fund and of programmes under the European Social Fund, the Youth Employment Initiative and the Fund for European Aid to the Most Deprived.

mining tool to help detect irregularities, fraud and possible conflicts of interest, along with the professionalisation of procurers.

- Providing online guidance, examples of good practice and explanations and promoting peer-to-peer exchanges to support contracting and programme authorities.
- Promoting simplified cost options, which are less error-prone, by providing assistance and support to national authorities to prepare and assess the simplified cost options schemes for 2021-2027 programmes. The Commission has worked relentlessly on designing and implementing appropriate processes to support these new features, including measures to enhance the uptake of simplified cost options and financing not linked to costs schemes, more proportionate control and audits, more compliance-based reporting and enhanced flexibility to adapt programmes to new socioeconomic and territorial contexts.

### Heading 3 – Natural resources and environment

Total amount of relevant expenditure: EUR 57.7 billion (2021 – EUR 56.5 billion)

Risk at payment: 1.7% (2021 – 1.8%)

Risk at closure: 0.4% (2021 – 0.3%)

Total preventive and corrective measures Commission and Member States: EUR 1.5 billion (2021 EUR 1.4 billion)

\* Preventive measures: EUR 561 million (2021 – EUR 551 million)

\* Corrective measures: EUR 956 million (2021 – EUR 877 million)

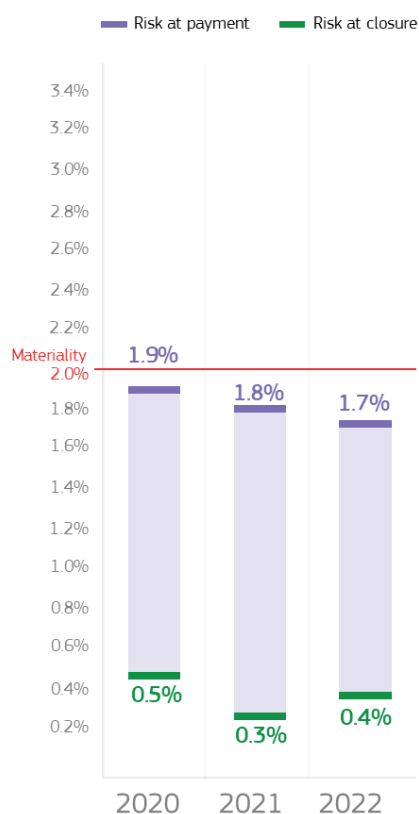
Reservations: 5 reservations, financial impact EUR 556 million.

For ‘Natural resources and environment’, the risk at payment remains below the materiality threshold of 2%, rounded at 1.7%, and in fact slightly decreased compared to 2021 (1.74% from 1.82%). The estimated future corrections have also slightly decreased to 1.4% of 2022 expenditure (1.5% in 2021), keeping the risk at closure <sup>(62)</sup> stable compared to 2021. This also corresponds to the control results for expenditure for agriculture, which represents the bulk of the expenditure in this policy area (98%), the rest being dedicated to maritime and fisheries <sup>(63)</sup>, environment and climate expenditure.

The EU’s financial interests are well-protected by both the Commission and the Member States. In 2022, corrective measures amounted to EUR 956 million, of which EUR 615 million was net financial corrections implemented by the Commission and EUR 341 million was based on the Member States’ controls but partially implemented by the Commission (EUR 220 million). Preventive measures amounted to EUR 561 million, with the bulk, EUR 557 million, being the result of Member States’ controls.

<sup>(62)</sup> As there is no closure for the European Agricultural Guarantee Fund measures, in the area of agricultural expenditure the risk at closure is replaced by the final amount at risk.

<sup>(63)</sup> European Maritime and Fisheries Fund expenditure, although included under the ‘Natural resources’ heading, follows the same delivery mechanism as cohesion expenditure.



For the common agricultural policy, the risk at payment continued the downward trend observed over the past several years. The risk at payment for direct payments under the European Agricultural Guarantee Fund, which account for 67% of payments, further declined to 1.3% from 1.4% in 2021. For rural development and market measures, the risk at payment remains above the materiality threshold due to complex eligibility rules. For rural development, it remained rather stable at 2.7% compared to 2021 (2.8%), while for market measures it increased from 2.1% in 2021 to 2.9% in 2022. The increase is partially explained by the fact that for those measures for which there was neither statistical nor audit information available, an assessment was made of the maximum amount of the expenditure that might be at risk. For 2022, this was necessary in respect of around 19% of the expenditure for the market measures, corresponding mainly to the exceptional adjustment aid that was adopted under Regulation (EU) 2022/467 following Russia's invasion of Ukraine on 24 February 2022. In addition, improvements to the management and control systems in the Member States are continuous and the Commission actively supports Member States in their transition to digital-based governance systems, using automation and artificial intelligence solutions. Notably, the integrated administration and control system secondary legislation adopted in 2022 emphasises the mandatory use of technological tools based on earth

observation (e.g. Copernicus satellite imagery) and geotagged photos. The integrated administration and control system, including its elements (area monitoring system, geo-spatial aid application system and land parcels identification system), when implemented in accordance with applicable rules and guidelines, effectively limits the risk of irregular expenditure.

Expenditures relating to fisheries and the environment and climate initiatives continue to be inherently low risk. The risk at payment for the European Maritime and Fisheries Fund increased slightly from 1.03% in 2021 to 1.38% in 2022 mainly due to one programme under reservation for which corresponding financial corrections and safeguard measures are being implemented.

At the end of 2022, 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** (affecting three Member States), **direct payments** (affecting 14 paying agencies in 11 Member States) and **European Agricultural Fund for Rural Development measures** (affecting 29 paying agencies in 15 Member States and the United Kingdom that (temporarily) experienced control weaknesses and/or high error rates).
- One reservation for control 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: conformity clearance procedures to ultimately protect the EU budget, monitoring of the implementation of remedial actions taken by Member States and, where necessary, interruption or reduction/suspension of payments to the Member States. This systematic and precisely targeted approach ultimately enables the protection of the EU budget (for more details, see Volume III, Annex 5).

## Heading 4 – Migration and border management

Total amount of relevant expenditure: EUR 2.5 billion (2021 – EUR 2.5 billion)

Risk at payment: 1.4% (2021 – 1.9%)

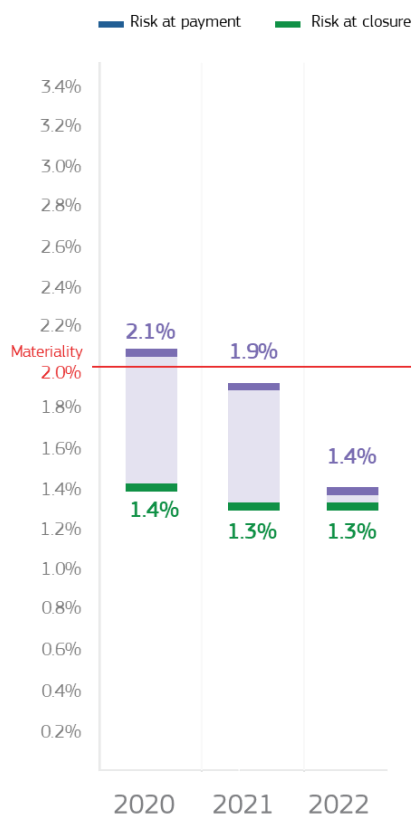
Risk at closure: 1.3% (2021 – 1.3%)

Total corrective and preventive measures: EUR 8 million (2021 – EUR 17 million)

\* Preventive measures: EUR 5 million (2021 – EUR 8 million)

\* Corrective measures: EUR 3 million (2021 – EUR 9 million)

Reservations: 2 reservations; financial impact EUR 9 million



For 'Migration and border management' <sup>(64)</sup>, the risk at payment (1.4%) decreased compared to 2021 (1.9%) and the risk at closure (1.3%) was stable. Both remaining below 2%. In 2022, the amount of preventive and corrective measures was lower at EUR 8.3 million – EUR 5.5 million preventive and EUR 2.8 million corrective. The decrease is mainly explained by the fact that in 2021 there were still corrections related to the funds for the 'Solidarity and Management of Migration Flows' of the 2007-2013 programming period.

This policy area consists mostly of low-risk segments of expenditure. Contributions to decentralised agencies and delegation agreements represented 50% of the relevant expenditure for 2022, with an error rate at 0.5%, while shared management and the implementation of the Internal Security Fund and the Asylum, Migration and Integration Fund represent 38% of the relevant expenditure, with a risk at payment of 1.1%. For the latter, reservations are issued when, at the Member State level, the residual error rate is above 2% or serious deficiencies in management and control systems have been identified. The higher-risk expenditure segment consists of EU actions and emergency assistance grants under direct management to support Member States in the fields of migration and border management, with an error rate at 6.8%. In 2022, the share of this segment in the total relevant expenditure has decreased to 10.6% from 13.8% in 2021.

At the end of 2022, two reservations were issued.

- One reservation concerning the Asylum, Migration and Integration Fund and the Internal Security Fund (2014-2020 programming period), quantified for one Member State and Iceland and non-quantified for five Member States.
- One reservation for the EU initiatives and emergency assistance grants. The Commission continues in its endeavours to apply measures for reducing errors. The implementation rules for grants under direct management have been greatly simplified while action has been taken to streamline and harmonise procedures regarding monitoring and final payment. For the 2021-2027 generation of grants, DG Migration and Home Affairs is applying to a large extent decisions on unit costs concerning volunteers, travel, subsistence and accommodation. In addition, for the recently awarded emergency assistance, the use of financing not linked to costs minimised the administrative burden for beneficiaries and simplified the implementation of these projects.

<sup>(64)</sup> Heading 4 also includes the Internal Security Fund of heading 5, since all Home Affairs Funds are audited and controlled on the basis of management mode and expenditure and risk cannot be split between the budget headings.

## Heading 5 – Security and defence

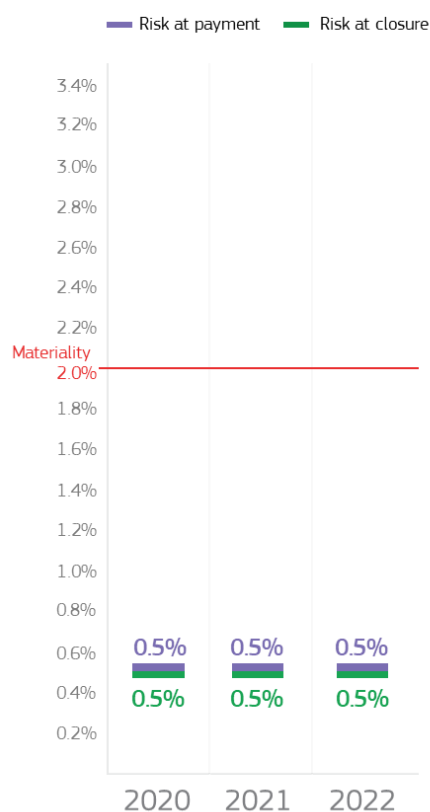
Total amount of relevant expenditure: EUR 30.1 million (2021 – EUR 13.8 million)

Risk at payment: 0.5% (2021 – 0.5%)

Risk at closure: 0.5% (2021 – 0.5%)

Total preventive measures: EUR 3 million (2021 – EUR 0)

Reservations: None (2021 – none)



For ‘Security and defence’, the risk at payment and the risk at closure, which are both at 0.5%, are very low, and well below 2%. This is because the types of payments for this activity are very low risk, mostly payments to agencies. The relevant expenditure of EUR 30.1 million corresponds to EUR 18.7 million in contribution to the European Defence Agency, and to EUR 4.3 million in contribution to the Organisation for Joint Armament Cooperation, whereas EUR 7.2 million corresponds to expenditures managed directly by the Commission through procurements and grants. All these activities have a low risk at payment, of 0.5%. To achieve its objective, the Commission largely relies on entrusted entities and regulatory agencies, and on close cooperation with various partners and international organisations.

## Heading 6 – Neighbourhood and the world

Total amount of relevant expenditure: EUR 13.6 billion (2021 – EUR 12.7 billion)

Risk at payment: 1.1% (2021 – 1.1%)

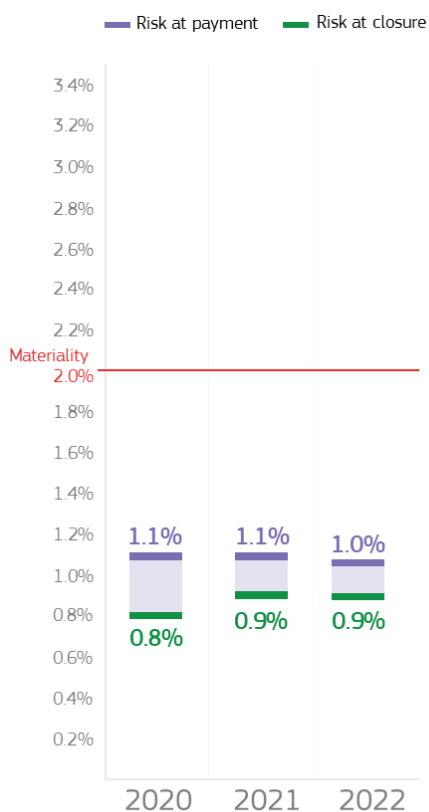
Risk at closure: 1.0% (2021 – 0.9%)

Total corrective and preventive measures: EUR 141 million (2021 – EUR 131 million)

\* Preventive measures: EUR 125 million (2021 – EUR 110 million)

\* Corrective measures: EUR 16 million (2021 – EUR 21 million)

Reservations: 1 reservation without financial impact (1 in 2021 with slightly different scope).



In 2022, for 'Neighbourhood and the world', both the risk at payment (1.1%) and the risk at closure (1.0%) are similar to 2021 and are well below 2%. In 2021, the Commission's preventive and corrective measures amounted to EUR 141 million – EUR 125 million preventive and EUR 16 million corrective, which is also similar to 2021.

Notwithstanding the low level of error rate in most of the expenditure segments, the Commission continues to take measures to further improve its financial management, given the complex operational environment characterised by unpredictability, volatility and insecurity and where some programmes may also be governed by complex funding modalities. This includes measures to simplify and clarify procedures and contractual conditions for grants, to enhance cooperation with international organisations, to clarify and promote the use of results-based funding and to reinforce the Terms of Reference for expenditure verifications <sup>(65)</sup>.

In 2022 the completion of additional *ex ante* checks on implementing partners' management and control systems <sup>(66)</sup> – also called pillar assessments – continued and at the end of 2022 very few still had to be finalised. New contribution agreements cannot be concluded before the complementary pillar assessments are finalised and few Financial Framework Partnership Agreements are still being negotiated. When needed, mitigating measures were put in place to minimise the impact on the implementation of indirect management interventions.

The efforts made in 2021 and previous years by DG Neighbourhood and Enlargement Negotiations, to address the causes of errors for grants under direct management continued to have a positive impact in 2022. In particular, awareness of the (new) grantees on the most frequent sources of errors in grant management has been increased with information sessions to explain their contractual obligations and provide clear information on the related requirements. Additional guidance on checking the occurrence of such errors has been provided to the relevant staff. Detailed analyses of the types of errors have been shared with all authorising officers by delegation to monitor and enhance the controls on the implementation of grants.

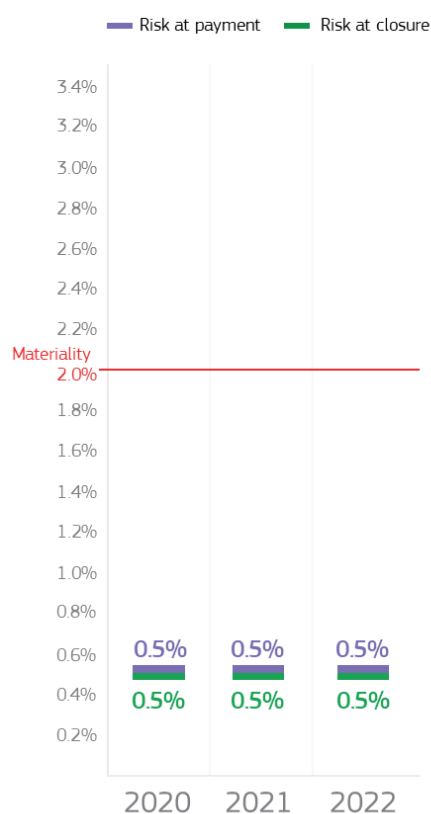
At the end of 2022, there was one reservation, non-quantified, under this heading. In 2022, DG Neighbourhood and Enlargement Negotiations' reservation concerning projects in Libya and Syria was extended to include Ukraine, which represents a significant share of the department's expenditure in 2022. In these countries, the delegations cannot implement standard monitoring and evaluation activities. It is impossible to send staff to conduct on-site project visits or other similar verifications due to security and political constraints. Several measures have been put in place, such as remote monitoring, contracts with independent experts to monitor projects in the field, a risk-based review of the contract portfolio and cross-checking of information from different sources. This has improved the understanding of local dynamics and reduced reaction time to address a very unstable and erratic environment. However, the countries remain active conflict zones and the reservation is justified.

<sup>(65)</sup> For more information, please see the annual activity report of DG International Partnerships, p. 34.

<sup>(66)</sup> This is required by Regulation (EU, Euratom) 2018/1046, the financial regulation.

## Heading 7 – European public administration

Total amount of relevant expenditure: EUR 7.7 billion (2021 – EUR 7 billion)  
 Risk at payment: 0.5% (2021 – 0.5%)  
 Risk at closure: 0.5% (2021 – 0.5%)  
 Total corrective and preventive measures: EUR 3.6 million (2021 – EUR 4 million)  
 \* Preventive measures: EUR 3 million (2021 – EUR 4 million)  
 \* Corrective measures: EUR 0.6 million (2021 – EUR 0 million)  
 Reservations: no reservations (1 in 2021)



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 80% of the relevant expenditure of this heading. The risk at payment is prudently set at 0.5% for this low-risk type of expenditure. As most of the corresponding control systems involve predominantly *ex ante* controls, the estimated future corrections are often set at a conservative 0.0%. Thus, the risk at closure is equal to the risk at payment and remains very low at 0.5%. In 2022, the Commission's preventive measures amounted to EUR 3 million, slightly less than in 2021 (EUR 4 million).

From the revenue side, in 2022 there were significant positive developments. The reservation resulting from the loss of traditional own resources due to undervalued imports of textiles and shoes imported from China into the United Kingdom between November 2011 and October 2017 has been lifted. Based on the European Court of Justice judgment delivered in March 2022<sup>(67)</sup>, the Commission quantified the final amount due by the United Kingdom. The amount has been paid (including interest), while 26 Member States, where similar shortcomings were identified, have made significant provisional payments. The Commission will recalculate<sup>(68)</sup> the

final amounts due by Member States, which will lead to lower amounts ultimately due to the EU budget than those paid by Member States under reservation. The overpaid amounts will be returned.

<sup>(67)</sup> A European Anti-Fraud Office investigation report and several traditional own resources inspections by DG Budget on the undervaluation of textiles and footwear imported in the United Kingdom concluded that the United Kingdom had failed, even after repeated warnings and requests to that effect by the Commission services and the European Anti-Fraud Office, to apply the appropriate measures to prevent systematically undervalued imports of textiles and footwear from China from entering the EU through the United Kingdom. As from October 2017, the United Kingdom gradually implemented the measures requested by the Commission. As the United Kingdom refused to make available the traditional own resources lost in this regard, the Commission referred the case to the Court of Justice of the European Union on 7 March 2019 (case C-213/19). The Court delivered its judgment on 8 March 2022, confirming the position of the Commission.

<sup>(68)</sup> In line with the Court of Justice judgment and based on the United Kingdom case methodology.

## 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 forwards 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** 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.

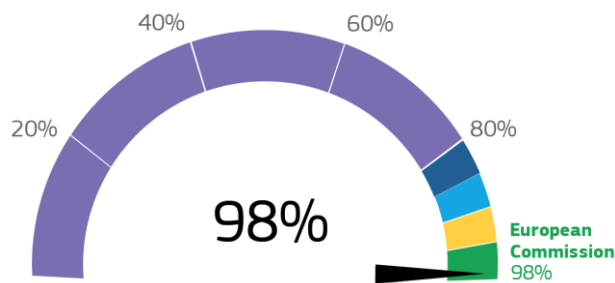
Since January 2022, SUMMA has been used by three pilot agencies as their new financial system, in line with the programme timeline. The system was also rolled out to an additional pilot entity at the end of 2022, also incorporating the integration of the eGrants suite and the functionalities needed for the management of grants. The development of the system for the Commission has progressed in line with the objective of going live at beginning of 2024. When fully implemented, the system will serve a community of over 13 000 users, used by all Commission DGs and around 50 other EU entities, manage an annual budget of over EUR 150 billion, support some 295 000 contracts and process over 2 million payments per year.

Regarding eProcurement, the Commission continued to be closely involved in the ongoing developments for building a corporate eProcurement solution which will be integrated into SUMMA.

As far as indirect management mode is concerned, in 2022 DG Budget and DG Informatics also developed the pillar assessment automated workflow with the aim of automating the pillar assessment process of entities working under indirect management with the Commission. The new corporate information technology tool was launched in December 2022 in the form of an online repository which provides up-to-date information on pillar-assessed entities.

In terms of internal control systems, the Commission is also currently developing a corporate web-based central register for internal control systems. This application focuses on the digitalisation and centralisation of internal control related information in line with the current Commission's objectives. It will provide responsible authorising officers with a central tool for registering, monitoring and reporting on risks, exceptions, non-compliance events and other components of the Commission's Internal Control Framework. Furthermore, it will provide an aggregated overview of the strengths and weaknesses of its internal control systems. In due time, the central register for internal control systems will become an essential tool for improving and providing guidance, reporting and decision-making and for continuous enhancement of internal control. This risk register module was rolled out in 2022, while the remaining four modules are planned to be rolled out in 2023.

In addition, the Commission is moving towards a paperless administration. In this context, the Commission is currently working on the extension of the use of electronic signatures, including qualified electronic signatures. While a full integration of electronic signature (EU Sign) in all the Commission's corporate information technology systems cannot be guaranteed, the Commission already provides web-based qualified electronic signatures to authorising officers by delegation and will expand the use of qualified electronic signatures to every system/process identified as able to benefit from their use.



In 2022, 98% of payments (in terms of amounts) were made within the legal payment deadline (see graph), despite the fact that the working environment was still strongly impacted by the various crisis, and thanks to the abovementioned initiatives. This is of paramount importance, as many beneficiaries rely on these payments to carry out their activities and projects, which, in turn, contribute to the Commission's objectives.

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

In 2022, 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. Some departments reported a slight decrease in relative terms, which was due to an increased volume of payments in 2022 compared to the previous period of the COVID-19 crisis. The variety of spending programmes and their different features do not allow for a meaningful comparison of their control costs. However, some common cost drivers can be identified, as shown in the box below.

#### Examples of common cost drivers

- **The intrinsic complexity of the programmes managed.** Grants based on the reimbursement of real costs imply labour-intensive controls as opposed to financing based on lump sums or simplified cost options or in the case of performance-based instruments.
- **The complexity of the environment in which the programmes are implemented.** The cost of controls is likely to be higher in the case of a multi-site organisational structure or when partners and/or beneficiaries are located outside the EU's jurisdiction.
- **The volumes and amounts to be processed.** A high number of low-value payments will generate higher control costs than recurrent mass payments, while the regulatory framework requires certain incompressible controls. This results in diseconomies of scale.
- **The type of 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, those departments dealing with shared and/or indirect management have also reported on the cost of controls in Member States and entrusted entities separately from the Commission's own cost of controls in their annual activity reports.

## 3. Management assurance

As part of the governance system explained above, the 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 2021 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

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In their 2022 declarations of assurance <sup>(69)</sup>, all 51 authorising officers by delegation <sup>(70)</sup> declared they had reasonable assurance that: (i) 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; (ii) the resources assigned to their activities were used for their intended purpose and in accordance with the principle of sound financial management; and (iii) the control procedures put in place give the necessary guarantees concerning the legality and regularity of the underlying transactions, taking into account the multiannual character of some programmes and the nature of the payments concerned.

Within the context of their overall assurance-building processes and from their management perspectives, the authorising officers 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 is likely to be above the materiality threshold of 2% and/or whether the reputational impact is significant. If so, they qualify their declaration of assurance with a reservation for the specific segment affected.

**For 2022, 10 authorising officers issued a qualified declaration of assurance, resulting in a total of 15 reservations as follows.** Likewise in 2021, 10 authorising officers reported 16 reservations.

- A total of **12 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 Member State, paying agencies or programmes levels that rarely persist for more than 1 year thanks to the remedial action plans in place.
- **Three reservations are new** but only one is quantified, albeit with a limited financial impact of EUR 1.8 million, due to a material level of error. The other two are non-quantified reservations related to the investment component of the European Innovation Council accelerator scheme and have been issued by both the parent DG and the executive agency, covering all aspects of the weakness found in the governance and internal control system of the two entities. The action plan to address these weaknesses is being implemented.
- **Four reservations issued in 2021 were lifted in 2022.** In three cases, the underlying issues have been resolved, while in one case the weakness is no longer considered substantial (application of the de minimis rule).

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<sup>(69)</sup> [Annual activity reports](#).

<sup>(70)</sup> The term ‘authorising officer by delegation’ covers Directors-General of Commission departments and heads of executive agencies, offices, services and task forces.

- **Six reservations** were not issued by virtue of the *de minimis* rule, whereby reservations are not considered meaningful where limited expenditure is involved (less than 5% of the payments of the DG or service) and the resulting financial impact is low (less than EUR 5 million). The total financial impact of these cases is very limited at EUR 4.8 million <sup>(71)</sup>.

The total financial impact of all reservations is EUR 877 million for 2022, i.e. 11% lower than the EUR 987 million in 2021. This decrease is linked to the lower level of expenditure in the policy area of cohesion, resilience and values and the fact that the programmes under reservation have lower relevant expenditure (for details, see Section 2.1.3).

Annex 5 in Volume III provides a complete list of the reservations for 2022, along with further explanations and details.

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

The Commission DGs and services also base their assurance on the work done by the Internal Audit Service. The Internal Audit Service audits the management and control systems within the Commission and the executive agencies, providing independent and objective assurance on their adequacy and effectiveness. As required by its mission charter, the Internal Audit Service issued an annual overall opinion on the Commission's financial management, based on the audit work it had carried out in the area of financial management in the Commission covering the previous 3 years (2020-2022). The overall opinion also takes into account information from other sources, namely the reports from the European Court of Auditors.

**Based on this audit information, the internal auditor considered that, in 2022, 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.** However, the overall opinion is qualified with regard to the reservations the authorising officers by delegation made in their declarations of assurance, issued in their respective annual activity reports. As regards the overall opinion, the internal auditor also considered the combined impact of all amounts estimated to be at risk at payment as these go beyond the amounts put under reservation. Given these elements, the Internal Audit Service considers that the EU budget is adequately protected in total and over time.

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

- implementation of the EU budget in the context of unpredictable and repetitive crises;
- implementation of the Recovery and Resilience Facility;
- supervision strategies to ensure the sound financial management for the implementation of policies and programmes by third parties.

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, which were submitted to the Internal Audit Service, who subsequently 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 96% of the recommendations issued between 2018 and 2022 and followed up by the Internal Audit Service were adequately and effectively implemented by the auditees. This

<sup>(71)</sup> It should be noted that the *de minimis* rule for reservations is not applied for cohesion policy funds, since reservations are made for individual (parts of) programmes and then aggregated by programming period.

result indicates that the Commission services are diligent in implementing the recommendations and mitigating the risks identified by the Internal Audit Service.

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

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

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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 DGs and services and that they receive appropriate follow-up.

During this reporting year, which was marked by the effects of the post-COVID-19 pandemic, the Russian war of aggression against Ukraine and the ensuing energy and supply-chain crises, **the committee continued to play 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 2022 and 2023 work programmes. In connection with its areas of responsibility, the committee continued to receive information from management and the Internal Audit Service about the mitigation and appropriate audit coverage of high risks, with a particular focus on cross-cutting risk themes.

**The committee discussed critical audit findings raised by the Internal Audit Service with relevant auditees and urged completion of mitigating actions as soon as possible**. It also held a thematic discussion on the error rates and the Commission's corrective capacity, given its crucial importance in the protection of the EU budget and as part of the Commission's approach in ensuring the legality and regularity of the underlying transactions to the discharge authorities.

**The committee was satisfied with the independence and quality of the internal audit work and welcomed the internal auditor's planning**, which adequately covers the audit universe and the key risk areas. The effective implementation rate of the internal auditor's recommendations remained very high (i.e. covering 96% of recommendations issued and followed up during 2018-2022), and only three very important audit recommendations were overdue by more than 6 months as of January 2023.

**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 2023**. The committee also continued to monitor the progress in implementing the Court of Auditors' recommendations, and was satisfied when, for the 15th time in a row, the Court of Auditors gave a clean opinion on the reliability of the consolidated EU accounts.

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

### 3.4. The opinions of the European Court of Auditors on the 2021 accounts and on the legality and regularity of transactions

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The European Court of Auditors' *Annual report on the implementation of the EU budget for the 2021 financial year*, published in October 2022, once again gave a clean opinion on the EU accounts, for the 15th year in a row. Revenue also continues to be free from material error.

As regards legality and regularity of expenditure, the Court of Auditors issued for the first time an audit opinion on the Recovery and Resilience Facility. It concluded that Recovery and Resilience Facility expenditure for 2021 was legal and regular in all material respects, hence providing a clean opinion. As regards expenditure under the multiannual financial framework, the Court of Auditors maintained an adverse opinion. The overall estimated level of error for the EU budget (3.0%) slightly increased compared to 2020 (2.7%).

The Court's adverse opinion is mainly explained by the share of what it considers to be high-risk expenditure. High-risk expenditure, which is often subject to complex rules and is mainly based on reimbursement of costs, covers in particular cohesion, research expenditure, rural development, market measures under the European Agricultural Guarantee Fund and some parts of external initiatives. The Court of Auditors concludes that high-risk expenditure represented 63% of the audited population for 2021, an increase compared to 2020 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 Court's estimated level of error remained close to / below the level of materiality in the case of natural resources <sup>(72)</sup>, accounting for 39.7% of the audited population. Administrative expenditure remained free from material error. More generally, the Court confirmed again that the risk of error is lower for expenditure subject to simplified rules, mainly the entitlement-based payments (as opposed to reimbursement-based payments), for which beneficiaries must meet certain – often simple – conditions, as well as some parts of administrative expenditure (mostly salaries and pensions of EU civil servants).

The Commission follows up on the Court's recommendations, stemming both from the annual reports and from special reports. It reports on the measures taken in the annual activity reports. Moreover, it reports on a regular basis on the implementation of the Court's recommendations to the Commission's Audit Progress Committee, which performs certain monitoring activities in this respect under its updated mandate <sup>(73)</sup>.

The European Court of Auditors also monitors the Commission's implementation of its recommendations and provides feedback, helping the Commission to enhance its follow-up activities. In the *Report of the European Court of Auditors on the performance of the EU budget – Status at the end of 2021*, the Court reviewed the extent to which the Commission had pursued the implementation of 255 audit recommendations addressed to it in 28 special reports published in 2018. The Court noted that the Commission had implemented 85% of the recommendations either fully (62%) or in most respects (13%), and another 11% in some respects. In 2% of the cases, the Court considered the recommendations as no longer relevant. Of the 27 recommendations (11%) that the Court considered not to have been implemented, the Commission had initially not accepted 16 and partially accepted two. These results are in line with previous years.

### 3.5. Discharge of the budget for 2021

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The European Parliament granted discharge to the Commission for the 2021 financial year on 10 May 2023, 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

<sup>(72)</sup> 1.8% for 2021, compared to 2.0% for 2020.

<sup>(73)</sup> Communication to the Commission from Commissioner Reynders in agreement with the President – Update of the charter of the Audit Progress Committee of the European Commission ([C\(2020\) 1165](#)).

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 over 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 one of the key elements of the discharge discussions, due to its financial firepower and the specific nature of its delivery mode, which is performance-based rather than based on costs incurred. In particular, several interinstitutional exchanges covered the issue of the traceability of the funds disbursed under the facility and information on its final recipients. The discussions on discharge also touched upon issues such as the rule of law and fundamental rights, smoother implementation and absorption of EU funds, the mainstreaming of the EU's horizontal priorities throughout the EU budget, the simplification of rules and procedures to spend EU funds, the use of information technology tools for the management, control and audit of the funds, and the methodologies to estimate the level of error and the level of risk. As usual, the Commission is taking appropriate action to implement these recommendations and report on the follow-up in a dedicated report.



## Annex 3 – The Recovery and Resilience Facility

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

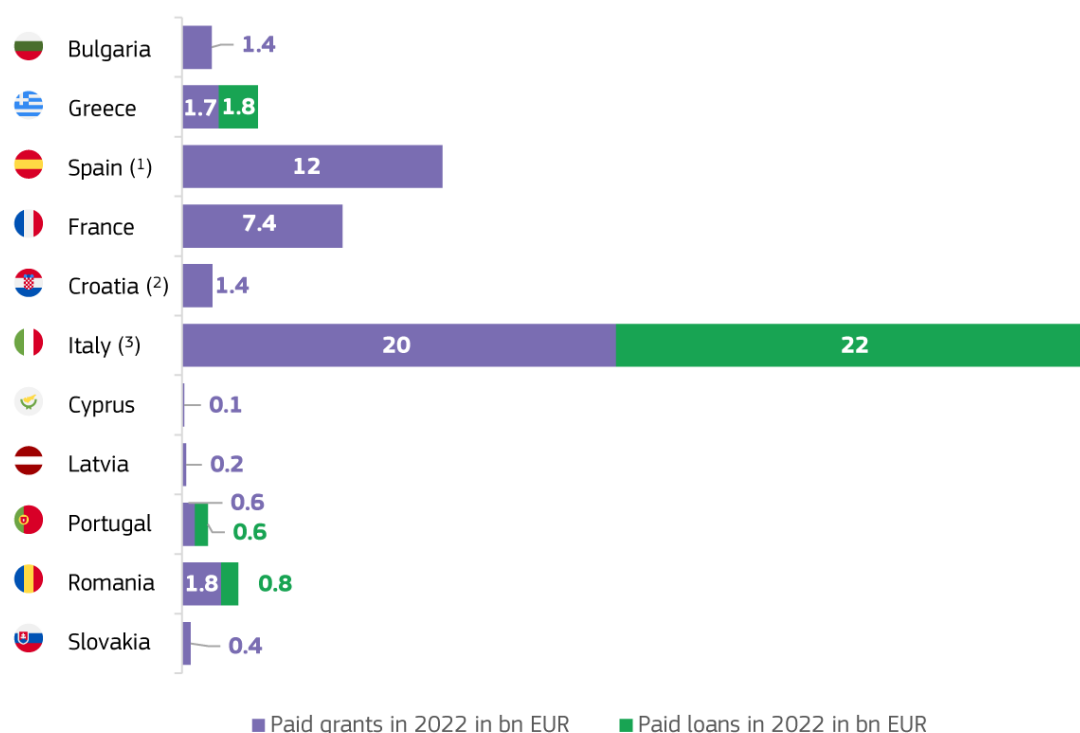
The Recovery and Resilience Facility is at the heart of the NextGenerationEU recovery plan for Europe and was established in the midst of the COVID-19 pandemic to help the Member States recover faster and become more resilient. It provides a powerful tool at the European level to support an accelerated 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.

## 1.1. Implementation is being rolled out

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**All 27 national recovery and resilience plans had been approved by the end of 2022, as the Commission endorsed the five remaining plans of Bulgaria, Hungary, Poland, Netherlands and Sweden.** The 27 plans account for a total allocation of EUR 335.1 billion in non-repayable financing and EUR 165.3 billion in loans. In support of the green and digital transitions, the reforms and investments proposed by the Member States have exceeded the objective to dedicate at least 37% of the expenditure to measures contributing to climate objectives and at least 20% of the expenditure to digital objectives. For the facility as a whole, the estimated climate expenditure amounts to about 40% and the digital expenditure to 26%.

**In 2022, the Commission disbursed 13 payments to 11 Member States, amounting to a total of EUR 74,4 billion including pre-financing, following the satisfactory fulfilment of 366 milestones and targets.** Out of this amount, EUR 27.2 billion correspond to loans. While in many cases the Commission sought additional information to enable a comprehensive assessment, all payment requests were assessed positively in 2022. The overall state of play of the implementation of the Recovery and Resilience Facility, as of 31 December 2022, is summarised below.



Disbursements to Member States in 2022 without pre-financing (billion EUR)

<sup>(1)</sup> Spain – second payment request (first payment request took place in 2021)

<sup>(2)</sup> Croatia – first and second payment requests

<sup>(3)</sup> Italy – first and second payment requests

Source: European Commission

## 1.2. Delivering on the REPowerEU plan

**The REPowerEU plan, proposed in May 2022, is the Commission's response to economic hardship and the energy market disruptions caused by Russia's invasion of Ukraine.** The plan aims at reducing the EU's dependence on Russian fossil fuels by accelerating the green transition and achieving a more resilient energy system. The regulation <sup>(74)</sup> introducing REPowerEU chapters in the recovery and resilience plans was adopted by the co-legislators on 27 February 2023, following the political agreement reached on 14 December, making the Recovery and Resilience Facility better equipped to effectively address the objectives of the REPowerEU plan. The Recovery and Resilience Facility provides financing for the REPowerEU plan in the form of EUR 225 billion already available in loans under the facility, new grants worth EUR 20 billion funded by the auctioning of Emission Trading System allowances and up to EUR 5.4 billion from the Brexit Adjustment Reserve.

## 1.3. Achieving the first performance results

**Overall, the implementation of the recovery and resilience plans in 2022 was broadly on track. In total, 934 milestones and targets had already been achieved <sup>(75)</sup> by the end of 2022, in line with**

<sup>(74)</sup> 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.

<sup>(75)</sup> Reported as completed by Member States in the scoreboard, but not yet necessarily assessed by the Commission as fulfilled.

**initial expectations.** The first results obtained indicate that the facility is making a key difference in the life of our citizens. Some of the major achievements are shown below <sup>(76)</sup>.

**Green transition.** By the end of 2022, thanks to the facility, annual energy consumption had been reduced by 14 million megawatt per year and more than 0.4 million refuelling and recharging stations for clean vehicles had been installed or upgraded.

- **Digital transition.** More than 9.2 million dwellings gained access to very high-capacity internet networks and 123 million users were already using new or improved public digital services <sup>(77)</sup>.
- **Healthcare.** Healthcare capacity has been increased, including hospitals, clinics, outpatient care centres and specialised care centres. By the end of 2022, approximately 28 million was the maximum annual number of people that can be served by a new or modernised health care facility, thanks to the facility.
- **Education and training.** In all, 2.6 million people had participated in education and training and 2.7 million young people aged 15–29 had received support, whether monetary or in-kind (i.e. education, training and employment support), thanks to measures supported by the facility by the end of 2022.
- **Support to businesses.** Almost 413 000 enterprises had received support – whether monetary or in-kind – under the facility by the end of 2022.

#### **Thanks to the Recovery and Resilience Facility, progress was already made on some key reforms**

during the first two years of implementation of the facility. This ranges from reforms of civil and criminal justice systems to make them more efficient by reducing the length of proceedings and by improving the organisation of courts, to improving affordable housing or supporting the roll-out of renewable energy and sustainable transport. In addition, the facility unlocks the full potential of structural reforms by complementing them with key investments. Some of the major investments with key steps already completed include the decarbonisation and energy efficiency of industry, investments to support vulnerable people or the selection of digital innovation hubs to support companies in their digitisation efforts. An overview of Member States' progress in implementing their recovery and resilience plans, and disbursements made, is easily accessible in the recovery and resilience scoreboard <sup>(78)</sup>, a public online platform set up by the Commission. It also shows common indicators to report on progress and to evaluate the Recovery and Resilience Facility and the national plans. Information about concrete projects supported under the Recovery and Resilience Facility, including details on their implementation and their geo-location in the Member States' territory, is available in an [interactive map](#) that is regularly updated <sup>(79)</sup>.

<sup>(76)</sup> This data is based on data reported by the Member States in the context of the bi-annual reporting on the common indicators. More information and data are available on the recovery and resilience scoreboard.

<sup>(77)</sup> The same person can use the service multiple times, in which case they would be counted multiple times.

<sup>(78)</sup> [https://ec.europa.eu/economy\\_finance/recovery-and-resilience-scoreboard/](https://ec.europa.eu/economy_finance/recovery-and-resilience-scoreboard/)

<sup>(79)</sup> [https://commission.europa.eu/business-economy-euro/economic-recovery/recovery-and-resilience-facility\\_en#rff-supported-projects-in-the-member-states](https://commission.europa.eu/business-economy-euro/economic-recovery/recovery-and-resilience-facility_en#rff-supported-projects-in-the-member-states)

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

**The regulation establishing the Recovery and Resilience Facility<sup>(80)</sup> 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 the 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 the national budget with no direct link to the expenditure incurred to finance the reforms and investments.

### 2.1. At the Member State level

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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 are assessed by the Commission before each plan is adopted. During the lifetime of the facility, Member States must implement 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 the irregularities. If a Member State does not undertake the necessary corrections in case of fraud, corruption or double funding, the Commission will recover 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 Member States' control systems were assessed as adequate overall by the Commission, but further improvements were needed in most cases.** As a consequence, the Commission required that milestones on audits and controls be included in the Council implementing decisions. Deficiencies in the Member States' control systems included, for example: the repository system for collecting and storing data not being fully in place at the time of the assessment, as required by the recovery and resilience facility regulation; the absence of formal legal mandates for the various bodies in charge of implementing and auditing the funds; insufficient administrative capacity on the part of the implementing and audit bodies in charge of implementing the plan; and the lack of a clear audit strategy or anti-fraud measures.

**The Member States' audit bodies must implement all the audit work necessary to provide assurance on the proper functioning of the internal control system implementing the Recovery and Resilience Plan,** resulting in an audit summary accompanying each payment request and considered for the management declaration. This document should contain the summary of audits conducted during the implementation period, in particular the system audits carried out on national control systems. The audit summary should reflect the assessment of the impact of the identified weaknesses and the adequacy of the corrective action taken.

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<sup>(80)</sup> Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility.

**Regarding the achievement of the milestones and targets, Member States must check that the pre-defined milestones and targets are completed and that the evidence submitted to the Commission is complete and accurate.** This forms the basis for the management declaration to be submitted by the Member States for each payment request. In the management declaration, the Member States must confirm that the control systems in place give the necessary assurances that the funds were managed in accordance with the principle of sound financial management and with all applicable rules, in particular rules on avoidance of conflict of interest, as well as prevention of fraud, corruption and double funding.

**The recovery and resilience facility regulation obliges the Member States to collect data on final recipients, which the Commission and other competent authorities can request for specific audit and control purposes.** The entry into force of the amended Recovery and Resilience Facility regulation on 1 March 2023 further strengthened the transparency of the facility framework by requiring national authorities to publish information on the 100 final recipients receiving the highest amounts of funding per Member State.

## 2.2. At the Commission level

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**The Commission has designed its control strategy to fully comply with its responsibilities stemming from the 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 an *ex ante* assessment of all the payment requests received from the Member States, and *ex post* audits on the spot for a selection of payment requests, milestones and targets.
- **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 interests 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 States. For this purpose, the Commission makes an **assessment of the control systems described in the plans** submitted to the Commission before their adoption. In addition, the Commission carries out **system audits** in the Member States over the entire duration of the facility.

### Assessment of the plans

**Before their adoption, the Commission assesses the recovery and resilience plans submitted by the Member States as regards their relevance, effectiveness, efficiency and coherence, along with the robustness of the Member States' control systems.**

Given the Member States' responsibility in the compliance of the implementation of the funds received with EU and national rules and in the protection of the EU's financial interests, their control framework as defined in the plan is a critical contribution to the reasonable assurance over payment requests that will materialise in the future. In addition, the Commission relies on national arrangements and information systems to make its assessment of the payment requests received.

The Commission is thus assessing whether the arrangements proposed by the Member State in their recovery and resilience plans are expected to prevent, detect and avoid double funding from other EU programmes, to correct corruption, fraud and conflicts of interest, and to provide an adequate protection of the financial interests of the EU when using the funds provided under the facility.

Where the Commission identifies inadequacies in these arrangements, it will require the Member State to include in the plan, before its adoption by the Council, the relevant measures and associated milestones and targets necessary for complying with the requirements of the regulation on these aspects. The Commission proposal for a Council implementing decision will include these relevant measures and the associated milestones and targets necessary for complying with the requirements of the regulation on the issues that need to be attained before the first disbursement can be made (except for pre-financing).

## Ex ante controls at the payment stage

### Assessment of the satisfactory fulfilment of the milestones and targets

**Upon receiving a payment request, the Commission checks the documentation provided as supporting evidence where relevant, by using sampling methods and establishes whether the milestones and/or targets have been satisfactorily fulfilled.** The Member State needs to provide due justification that the milestones and/or targets have been fulfilled, specifying their reasoning and providing the underpinning evidence. The Commission verifies that the justification demonstrates that the requirements of the Council implementing decision are fulfilled. These controls are designed to prevent, detect and correct errors and irregularities in the evidence that is provided, to establish that the milestones and targets have been satisfactorily completed. The Commission's methodology provides a clear and consistent approach to determine the relevant amounts, while retaining a margin of discretion where, in a limited number of circumstances and in line with the application of the *de minimis* principle, minimal deviations<sup>(81)</sup> linked to the amounts<sup>(82)</sup>, formal requirements<sup>(83)</sup>, timing<sup>(84)</sup> or substance<sup>(85)</sup> can be accepted. The Commission may ask for additional information and may decide to carry out additional controls in order to obtain the necessary complementary assurance on the achievement of the milestones and targets before making the payment. The evidence considered and the rationale followed by the Commission for each milestone and target assessment is systematically recorded in specific assessment fiches, to ensure an audit trail of the key contributions and evidence.

For measures with 'do no significant harm' safeguards in the milestone or target, the Commission verifies compliance as part of the assessment of the satisfactory fulfilment of a milestone or target in the context of payment requests. As for any other requirement, this is done based on evidence provided by the Member States.

**To foster transparency, in February 2023, the Commission published its framework for assessing the satisfactory fulfilment of the milestones and targets<sup>(86)</sup>,** taking into account the experience gained during a full year of implementation. The Commission strongly believes that by making this framework public, national authorities, stakeholders and the wider public will gain a better understanding of how the implementation of measures supported by the Recovery and Resilience Facility is evaluated before each disbursement. It reflects the experience that the Commission has gained so far in the assessment of milestones and targets under the recovery and resilience facility regulation.

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<sup>(81)</sup> Minimal deviation as specified in COM (2023) 99 final – Annex 1.

<sup>(82)</sup> A minimal deviation from amounts specified in that milestone/target is defined as a deviation of around 5% or less.

<sup>(83)</sup> A minimal deviation from a formal requirement of the milestone/target related to the internal procedures of Member States, which does not affect the progress towards the achievement of the reform or investment that the milestone/target represents.

<sup>(84)</sup> Limited and proportional delays between the publication of regulatory measures and their effective entry into force, provided that the certainty of their application and the beginning of legal effects are respected.

<sup>(85)</sup> A minimal deviation from a formal requirement of the milestone/target related to the internal procedures of Member States, which does not affect the progress towards the achievement of the reform or investment that the milestone/target represents.

<sup>(86)</sup> COM(2023) 99 final.

### Assessment of the specific milestones on audit and control

**The specific milestones on audit and control are assessed during the assessment of the first payment request. No payment can be made unless these milestones have been satisfactorily achieved.**

### Analysis of the management declarations and audit summaries

**The Commission performs a systematic analysis of the management declarations and summaries of audits accompanying each payment request.** The objective is to identify any information that puts the fulfilment of milestones and targets into doubt, for instance cases in which the management declaration or the summary of audit indicate that inconsistencies or data errors were found in relation to data which is provided for one of the milestones and targets. Similarly, if the documents highlight possible or actual fraudulent procurement procedures for a measure, the Commission will closely investigate the evidence provided for the related milestones and targets.

### Ex post audits

**Based on a risk assessment of all the milestones and targets included in the payment requests of each plan, the Commission selects all payments entailing milestones and targets it considers as potentially high-risk.** Where resources allow for it, some medium-risk milestones and targets will also be audited. Depending on the outcome of the risk assessment, a number of *ex post* audits on specific milestones and targets are performed in the Member States.

### System audits

**The Commission conducts system audits of the Member States' internal control set-ups during the entire lifetime of the facility.** These audits on the protection of the financial interest of the EU are carried out to ensure that Member States comply with their obligations to have processes in place to prevent and detect serious irregularities (i.e. fraud, corruption or conflicts of interest) or serious breaches of obligations of the financing agreement (including double funding) and to allow the Commission to exert its right of reduction and/or early repayment. In line with its audit strategy for the Recovery and Resilience Facility, the Commission will carry out system audits in all Member States by the end of 2023. In the context of these system audits, the Commission also checks that the Member States' systems generally provide for and check compliance with EU and national rules, including specific elements of the public procurement procedure. Furthermore, on a risk-based approach, the Commission performs system audits to check if the data collection system of Member States is reliable.

### Assessment of checks carried out by Member States on compliance with public procurement and State aid rules

At the beginning of 2023, considering a recommendation of the Court of Auditors' special report on the design of the Commission's control systems for the Recovery and Resilience Facility and concerns expressed by the Committee on Budgetary Control of the European Parliament, the Commission conducted additional work to further build the assurance it could provide concerning Member States' obligations concerning compliance with public procurement and State aid rules pursuant to Article 22(2)a of the recovery and resilience facility regulation.

This analysis is mainly based on the audit work carried out by Commission audit services and on the results of national audit work.

## Audits of national authorities

**The Commission also carries out audits on the work done by national audit authorities on the Recovery and Resilience Facility.** The objective is to assess the reliability of the work performed at the national level, in particular regarding audits carried out on national control systems to ensure that national and EU rules are complied with and that the EU budget is protected.

### 2.3. Suspension of payments in case of non-implementation

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**In February 2023, the Commission adopted a payment suspension methodology <sup>(87)</sup> that allows for partial or full suspension of payments in case of implementation shortcomings.** The

Commission will 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. The methodology provides a clear and consistent approach to determine the amounts of reduction and/or repayments, while retaining a margin of discretion. The methodology fully reflects the performance-based nature of the Recovery and Resilience Facility and the unique combination of reforms and investments. Consequently, the suspended amount will reflect the fact that not all measures contribute equally to the realisation of the objectives of a recovery and resilience plan. A contradictory procedure will ensure that the Member States can submit observations regarding the negative assessment by the Commission underpinning the suspension decision. The payment suspension procedure favours the continued implementation of the plan and provides time for Member States to lift the suspension by fulfilling the relevant milestone(s) or target(s) within a period of 6 months.

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<sup>(87)</sup> COM(2023) 99 final.

## 3. Control results confirm the satisfactory fulfilment of all milestones and targets for the payments made in 2022

### 3.1. Main results

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#### Assessment of the plans

**The Commission positively concluded its assessment of the five plans received at the end of 2021 and the beginning of 2022 (Bulgaria, Hungary, Netherlands, Poland and Sweden).**

Nevertheless, the Commission requested to include additional milestones on audit and control for all of them.

#### *Ex ante* controls at the payment stage

##### Assessment of the satisfactory fulfilment of the milestones and targets

**The Commission positively concluded its assessment of satisfactory fulfilment for all of the 13 payment requests received in 2022, covering 366 milestones and targets (328 milestones, 38 targets).** As a result, no suspension or reduction of payments were needed in 2022.

##### Assessment of the specific milestones on audit and control

**In all, 9 out of 11 Member States for which the first payment already took place since the beginning of the implementation were concerned by audit and control milestones.** In most cases, Member States had to ensure that a repository system for monitoring the implementation of the Recovery and Resilience Facility had been set up, along with the entry into force of laws or decrees setting out legal mandates or defining audit and control procedures. The Commission assessed those Member States' 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.

**Based on the current audit work, the Commission identified mixed situations regarding the implementation of internal control systems** across the audited implementing and coordinating bodies. The main issues encountered, for which the Commission issued recommendations and agreed deadlines for their implementation, concern: the lack of sufficient coordination/supervision by the coordinating bodies; incomplete anti-fraud strategies for the protection of the financial interests of the EU; missing elements in the fraud risk assessments; the need to improve the *ex ante* controls carried out to prevent conflict of interests; low participation in training sessions organised to raise fraud awareness; and deficiencies in reporting of irregularities to the European Anti-Fraud Office. Nevertheless, good practices for some of the auditees were also identified, such as: existence of risk assessment for sensitive staff; procedures in place for detection of possible fraud and corruption, notably using data-mining tools such as ARACHNE; existence of procedures for preventive detection of possible conflict of interests; and procedures in place for verification of possible double funding before the grant award decision.

## Analysis of management and audit summaries

**The Commission reviewed the 13 management declarations and audit summaries accompanying the 13 payment requests submitted and paid in 2022.** Based on the audit summaries, the Commission requested the corresponding audit reports and analysed them. None of the information included in the corresponding reports puts into question the satisfactory fulfilment of milestones and targets included in the payments made in 2022. The analysis of the management declaration and the summary of audits was also used to update the risk assessments to determine the upcoming audit plans and to establish the audit and management opinions.

## Ex post audits on milestones and targets

**In line with its audit strategy, the Commission has carried out seven audits on milestones and targets** regarding the first payment requests submitted by Spain, France, Croatia, Italy, Portugal and Romania and the second payment request submitted by Croatia. The *ex post* audits on milestones and targets were conducted using a risk-based approach. **The Commission has reached its objective to audit all of the 15 high-risk milestones and targets and 12 out of 22 deemed as medium-risk.** The non-audited payment requests contained mainly low-risk milestones<sup>(88)</sup> for which an *ex post* audit was not relevant. The Commission concluded that the audited milestones and targets have been satisfactorily achieved, hence no suspension or reduction of payments were needed in 2022. The discrepancies identified between the data declared and the data audited remain within the margin of 5% considered by the Commission for its assessment.

## Audits of the national audit authorities

In 2022, the Commission also reviewed, with a positive outcome, the audit work carried out by two national audit authorities (France and Croatia) in the context of two audits on milestones and targets.

## System audits on the protection of the financial interests of the European Union

**In 2022, the Commission already carried out 16 system audits on the protection of financial interests of the EU**<sup>(89)</sup>. The system audits covered 16 coordinating bodies and 48 implementing bodies, such as ministries or agencies. By the end of 2023, all the Member States will have been audited at least once.

In the context of these system audits, the Commission carried out targeted checks on compliance with public procurement procedures, covering both the procedures in place to prevent fraud, corruption and conflict of interests in public procurement procedures, and actual implementation of these procedures on a few sampled measures. For the main issues encountered, the Commission issued recommendations and agreed with the Member States on deadlines for their implementation. Member States have started to implement the necessary improvements stemming from the audit findings in the audited implementing bodies, but also in other relevant bodies.

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<sup>(88)</sup> For example, the entry into force or publication of a law are considered as low risk.

<sup>(89)</sup> Bulgaria, Czechia, Denmark, Estonia, Ireland, Greece, Spain, Italy, Cyprus, Latvia, Lithuania, Malta, Poland, Slovenia, Slovakia and Finland.

## Assessment of checks carried out by Member States on compliance with public procurement and State aid rules

According to Article 22(2)(a) of 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 conflict of interests.

To support its declaration of assurance, the Commission conducted an assessment of the respect by the Member States of their obligation to regularly check that State aid and public procurement rules have been complied with. This risk assessment covered 11 Member States (Bulgaria, Greece, Spain, France, Croatia, Italy, Cyprus, Latvia, Portugal, Romania and Slovakia), corresponding to **the 13 payments made by the Commission in 2022**.

The Commission mainly relied on the results of national audit work (reported in the audit summaries or transmitted as complementary information), but also the audit work carried out by the Commission in the context of compliance audits on public procurement and State aid rules carried out in common bodies. In addition, in the absence of sufficient evidence from a desk review, the Commission conducted a fact-finding **mission in one Member State**.












Based on the evidence collected and assessed and to the best of its knowledge, the Commission considers that the control procedures put in place give the necessary guarantees concerning, notably for public procurement and State aid, the respect of the obligation of Member States to regularly check that the financing provided in the context of the 2022 transactions has been properly used and implemented in accordance with all applicable rules.

## Annual audit and management opinions

Based on its audit work, the Commission provided 11 annual audit opinions covering the 13 payments made in 2022. These audit opinions have complemented other available information to provide the management opinion for the payments made to the 11 Member States in 2022. These opinions were used to support the declaration of assurance of the authorising officer by delegation.

## Ongoing work of the European Court of Auditors in the context of the Statement of Assurance 2022

**The Commission was informed by the Court of Auditors of its preliminary findings (the ‘clearing letters’). The Commission is currently assessing the Court’s findings to conclude on the level of risk for each payment done in 2022.** By the cut-off date of 30 April 2023, the Commission had received 12 clearing letters from the Court. With respect to five clearing letters, after careful analysis the Commission 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. This implies a low level of risk. For the other clearing letters, the assessment is still on-going at the time of signature of the DG Economic and Financial Affairs 2022 annual activity report.

Country	Payment request number	Commission Legality and regularity audits						Level of risk		
		Total number of milestones and targets			Number of audited milestones and targets			Audit opinion	Management opinion	Overall Level of risk
		high	medium	low	high	medium	low			
 Bulgaria	1 <sup>st</sup>							Low	Low	Low
 Greece	1 <sup>st</sup>							Low	Low	Low
 Spain	2 <sup>nd</sup>	5	0	35	5	0	0	Low	Low	Low
 France	1 <sup>st</sup>	6	8	24	6	2	0	Low	Low	Low
 Croatia	1 <sup>st</sup>	0	2	32	0	1	1	Low	Low	Low
	2 <sup>nd</sup>	3	4	5	3	3	0	Low	Low	Low
 Italy	1 <sup>st</sup>	1	3	47	1	1	0	Low	Low	Low
	2 <sup>nd</sup>							Low	Low	Low
 Cyprus	1 <sup>st</sup>							Low	Low	Low
 Latvia	1 <sup>st</sup>							Low	Low	Low
 Portugal	1 <sup>st</sup>	0	3	35	0	3	0	Low	Low	Low
 Romania	1 <sup>st</sup>	0	2	19	0	2	0	Low	Low	Low
 Slovakia	1 <sup>st</sup>							Low	Low	Low
<b>Total</b>	<b>13</b>	<b>15</b>	<b>22</b>	<b>197</b>	<b>15</b>	<b>12</b>	<b>1</b>			

Control results

### Qualitative assessment of the legality and regularity of payments

**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 the results from:** (1) the assessment of the payment requests; (2) the Member States' management declaration and summary of audits that has to accompany each payment request; (3) the Commission's audits; and (4) other checks carried out by the Commission at the Member State level in the context of other funding programmes such as cohesion policy funds. As a result, the Commission determines for each payment a level of risk to the legality and regularity of the payment, which can be low, medium or high.

On the basis of the work carried out, the Commission concludes that all 13 payments made in 2022 have a low level of risk, in line with the materiality criteria, since:

- on the basis of Commission's *ex ante* and *ex post* controls, all the milestones and targets have been assessed as satisfactorily fulfilled;
- Member States are taking the required actions to address the weaknesses identified during the systems audits;
- the Commission carefully analysed the available results of the Court's compliance audits for payments made in 2022 and maintained its position that the milestones and targets included in the corresponding payment requests were satisfactorily achieved, while some of the Court's preliminary audit results were not yet available at the time of signature of the DG Economic and Financial Affairs 2022 annual activity report.

### **3.2. The authorising officer by delegation for the facility confirmed that they had reasonable assurance**

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The College of Commissioners takes political responsibility for the Commission's role in the management of the facility. It relies for this on the work of the authorising officer by delegation for the facility. In their conclusions on the assurance for the Recovery and Resilience Facility, the officer <sup>(90)</sup> confirmed that they had reasonable assurance on:

- the legality and regularity of the payments made in 2022 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 2022 (for clearing letters received and assessed by the cut-off date);
- notably for public procurement and State aid, the respect of the obligation of Member States laid down in Article 22(2)(a) of the regulation establishing the Recovery and Resilience Facility 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 interests; and
- the implementation of Article 22(5) of the regulation on the proportionate reduction of the support under the Recovery and Resilience 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 interests 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.

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<sup>(90)</sup> 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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