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

**2019 Annual Management and Performance Report for the EU budget**

# Annual Management and Performance Report for the EU Budget

#EUBUDGET

FINANCIAL YEAR

2019

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INTEGRATED FINANCIAL AND  
ACCOUNTABILITY REPORTING 2019







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# Foreword



It is my pleasure to present the *Annual Management and Performance Report for the EU Budget – Financial year 2019*. The report provides an overview of the performance, management

and protection of the EU budget, and is part of the Commission's integrated financial and accountability reporting package. It fulfils the Commission's obligations under the Treaty on the Functioning of the European Union <sup>(1)</sup> and the financial regulation <sup>(2)</sup>, and is an essential part of a highly developed system of financial accountability.

2019 was the final year of the 2014-2019 legislature, thus the focus was on completing work on the priorities of the Juncker Commission and preparing the transition to a new Commission led by President von der Leyen.

The EU budget contributes to strengthening the European economy and making it more resilient. Around half of the budget is allocated to smart and inclusive growth. It is also used for investing in the future, in particular in the transition to a greener and more digital Europe. In 2019 the EU budget again demonstrated that it can make a tangible difference in the life of EU citizens in many areas, be it through improved transport offers, better connectivity at home and while travelling, or improving the environment by delivering on its promise to spend at least 20% on combating climate change. The EU budget also supported the common European response in the fields of migration and security.

The EU budget will continue to play a key role in supporting the ambitious European Green Deal. At the same time, it remains on the frontline when tackling new challenges: in the current crisis, we have used all the flexibility in the budget to channel funding swiftly to where the crisis repair needs are greatest.

The current coronavirus crisis has also shown once more how important it is for the EU to be able to rely on a well-dimensioned and flexible multiannual financial framework. Within the established limits of its capacity and its regulatory flexibility, it offers the means to act

and to react quickly to unforeseen and unprecedented crises. Boosted by Next Generation EU, the EU's long-term budget will also be at the heart of the recovery, having demonstrated its capacity to act as a catalyst for solidarity, responsibility and innovation, while ensuring sound financial management throughout the life cycle of the programmes it funds.

The Commission attaches great importance to ensuring that the EU budget is spent responsibly and correctly, and to working with all parties involved to make sure that it delivers tangible results on the ground. This report sets out the steps that are being taken to ensure that the EU budget is managed in accordance with the highest standards of sound financial management.

The Commission carefully monitors the implementation of the EU budget on the ground. If Member States, intermediaries or final beneficiaries are found to have spent EU money incorrectly, the Commission takes immediate steps to correct these errors, and recover the funds as necessary. The Commission estimates that, after corrections and recoveries over the coming year(s), the remaining level of error for the 2019 expenditure will be under 1% – well below the materiality threshold of 2%. Through this report, the Commission takes overall political responsibility for the management of the EU budget in 2019.

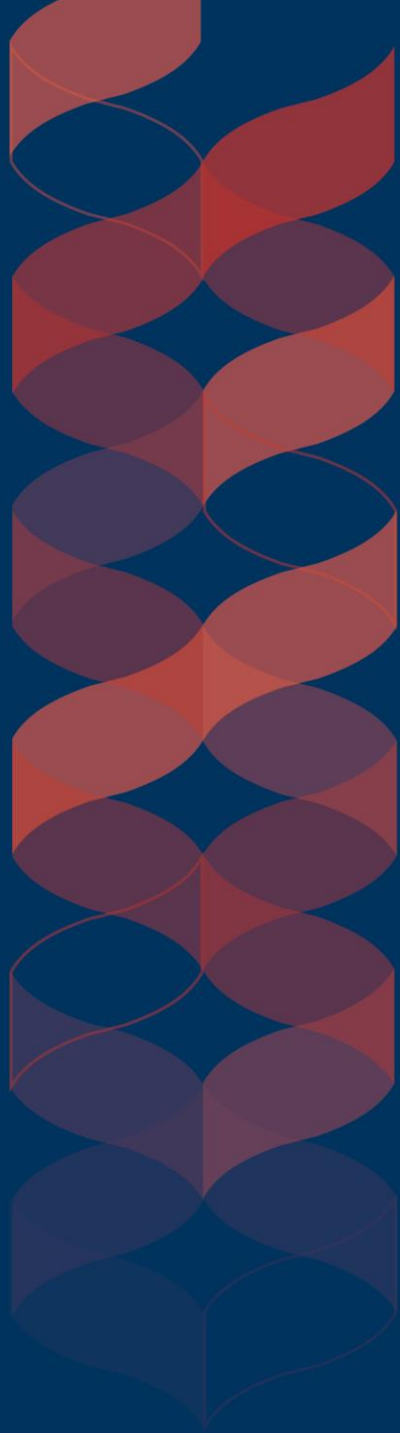
For the Commission, reporting consistently and improving the various control instruments are instrumental to protecting the EU budget. I can assure you that we will continue working to make sure that every euro contributed by EU taxpayers is well spent in the interests of the citizens.

**Johannes Hahn, Commissioner for Budget and Administration**

<sup>(1)</sup> Article 318 of the Treaty on the Functioning of the European Union.

<sup>(2)</sup> Article 247 of the financial regulation.





# Annual Management and Performance Report for the EU Budget

Financial year 2019

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# Introduction

The *Annual Management and Performance Report for the EU Budget – Financial year 2019* is the Commission's main contribution to the annual discharge procedure <sup>(3)</sup> by which the European Parliament and the Council scrutinise the implementation of the EU budget. The report covers both the performance of the programmes financed by the EU budget and the Commission's management of the EU budget in the reporting year.

This report is part of the broader integrated financial and accountability reporting package <sup>(4)</sup>, which also includes the annual accounts <sup>(5)</sup>, a long-term forecast of future inflows and outflows covering the next 5 years <sup>(6)</sup>, the report on internal audits <sup>(7)</sup> and the report on the follow-up to the discharge <sup>(8)</sup>.

**Section 1** provides a high-level overview of the performance of the EU budget in 2019, focusing on the key programmes. This section presents the latest information, from a variety of sources including programme monitoring, evaluations and audits, on the results achieved with the EU budget up until the end of 2019. This section is structured according to the headings of the current multiannual financial framework.

This reporting is supplemented by more detailed programme-by-programme performance information in the **'Programme performance overview' (Annex 1)**. The overview summarises the key performance messages from the programme statements accompanying the 2021 draft budget proposal.

**Section 2**, on internal control and financial management, reports on the steps the Commission took in 2019 to ensure the sound financial management of the EU budget. Based on the control results reported by the Commission departments accountable for managing the budget, it confirms that the EU budget is well protected. Through this report the Commission takes overall political responsibility for the management of the EU budget.

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<sup>(3)</sup> The annual discharge procedure is the procedure through which the European Parliament and the Council give their final approval of the budget implementation for a specific year and hold the Commission politically accountable for the implementation of the EU budget ([https://ec.europa.eu/info/about-european-commission/eu-budget/how-it-works/annual-lifecycle/assessment/parliaments-approval\\_en](https://ec.europa.eu/info/about-european-commission/eu-budget/how-it-works/annual-lifecycle/assessment/parliaments-approval_en)).

<sup>(4)</sup> Article 247 of the financial regulation.

<sup>(5)</sup> Article 246 of the financial regulation.

<sup>(6)</sup> Article 247(2) of the financial regulation.

<sup>(7)</sup> Article 118(8) of the financial regulation.

<sup>(8)</sup> Article 261(3) of the financial regulation.





## Section 1 – Performance and results

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## 1.1. A result-oriented EU budget

The EU budget helps turn the Union's priorities into results that make a difference to people's lives. It is primarily an investment budget that helps to match the EU's shared ambitions with the resources to make them a reality. The budget focuses on areas in which pooling resources to tackle common challenges can deliver results that could not be achieved as effectively or efficiently by Member States acting alone. This is the case in areas as diverse as cross-border infrastructure, external border management, large-scale space projects and pan-European research.

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### 1.1.1. The EU budget is well managed with a strong focus on results

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The EU budget is primarily an **investment budget**. Amounting to roughly 1% of the EU's gross national income, and representing around 2% of all public spending in the EU, it aims to complement national budgets and to implement commonly agreed priorities. Unlike national budgets, the EU budget is mainly focused on supporting strategic investments over the medium to longer term, and on using its leverage to catalyse investment from other public and private sources. The EU's financial programmes are managed either directly by the Commission, for example in the area of research, or together with the Member States, such as in relation to cohesion policy. Some two thirds of the EU budget is managed together with Member States through shared management.

The EU budget is adopted annually based on a 7-year financial framework. Structured into five headings, it brings together 60 financial programmes of varying size and scope. In some policy areas the EU budget is the main delivery tool, such as in the common agricultural policy. In other areas the EU budget is complemented by regulatory instruments that contribute to the achievement of EU policy goals.

The EU budget has a robust and integrated **performance framework**, leading to well-managed and result-oriented EU programmes. This framework includes clear and measurable objectives for each programme, together with indicators providing the basis for monitoring, reporting and evaluation. This indicator information, combined with other sources of qualitative and quantitative performance information such as evaluations, allows programme performance and the progress towards the agreed objectives to be assessed. This allows programme managers to anticipate and address weaknesses in programme implementation and is an important input into budgetary decision-making.

Annex 1 to this report, the 'Programme performance overview', presents the latest available performance information for each programme. It provides an overview of the objectives of each programme together with the state of its budgetary implementation and the latest available performance data.

Some financial programmes have embedded performance assessment even more deeply into their design. For example, a **performance reserve** was created for the current European Structural and Investment Funds. This reserve was released in 2019 to programmes that had achieved their predefined milestones by the end of 2018. In the case of programmes and priorities that had not achieved their milestones, resources were reallocated.

The performance framework for the EU budget and related reporting is being strengthened over time. Audits conducted by **internal and external auditors** have helped in this respect. Recent recommendations from the European Court of Auditors have led to more balanced reporting on performance, with more attention given to challenges encountered, a stronger focus on the reliability and quality of data, and clearer explanations of how data on performance have been used to improve performance.

Improvements will continue with the **Commission's proposals for the 2021-2027 Multiannual Financial Framework**. Based on the findings of a comprehensive spending review, the Commission has included a smaller number of higher-quality indicators linked closely to programme objectives in the proposals for the financial programmes. The Commission is now working with the European Parliament and the Council to ensure that these improvements, together with the other changes to programme design that will contribute to improved performance, are reflected in the final versions of the future programmes.

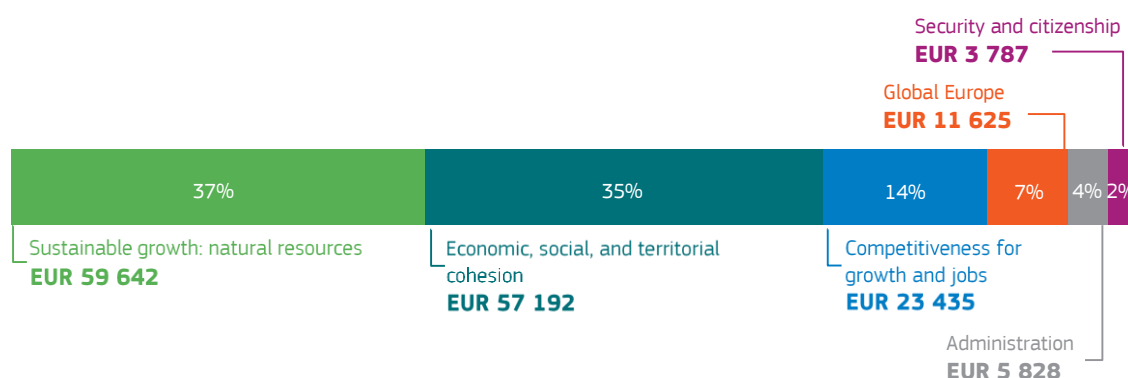
### 1.1.2. The EU budget in 2019

With the European elections in May, 2019 was a year of transition for the European Union. The focus was on completing work on the political priorities of the Juncker Commission and preparing for the arrival of a new European Parliament and a new Commission led by President Ursula von der Leyen. The strategic agenda of the European Council <sup>(9)</sup> and the political guidelines <sup>(10)</sup> of the von der Leyen Commission set out the political framework for the coming period.

2019 was also the penultimate year of implementation of the financial programmes under the 2014-2020 multiannual financial framework. These programmes are now operating at cruising speed and contributing strongly to the delivery of the EU's priorities. There was a particular focus in 2019 on investment in growth and job creation, and on supporting the EU's priorities in the areas of migration and security.

During 2019 the EU budget contributed to strengthening the economy of the European Union and making it more resilient. The budget also supported investment in the twin transitions to a greener and more digital Europe, and financed programmes promoting solidarity and security both within and beyond the EU's borders.

The total amount of commitments implemented from the EU budget in 2019 amounted to EUR 161 billion <sup>(11)</sup>. Around half of this (EUR 81 billion) was allocated to Heading 1 '**Smart and inclusive growth**', split between Heading 1a '**Competitiveness for growth and jobs**' (14%) and Heading 1b '**Economic, social and territorial cohesion**' (35%). Heading 2 '**Sustainable growth: natural resources**' was the second-largest area of the budget, with EUR 59 billion (37%). EUR 4 billion was allocated to Heading 3 '**Security and citizenship**', including for reinforcing the external borders of the EU and addressing the refugee crisis and irregular migration. EUR 12 billion was allocated to Heading 4 '**Global Europe**', and EUR 6 billion was spent on the '**Commission's administrative expenditure**' under Heading 5.



The 2019 EU budget, commitment appropriations, per budget heading. All amounts in million EUR.

Source: European Commission.

As regards the **performance of the EU budget**, the available reporting information at the end of 2019 presented in the 'Programme performance overview' in Annex 1 shows that most programmes are progressing well towards the targets set at the beginning of the programming period. Despite the delays in starting up the 2014-2020 cohesion programmes, progress is now accelerating. Where there were specific issues in relation to the implementation of particular programmes, the 'Programme performance overview' provides further explanation on how this has affected performance and the mitigating measures that have been taken. Definitive conclusions on programme performance, however, will only be possible on the basis of detailed evaluations after the closure of the current programmes. The impact of the COVID-19 pandemic and the steps that are being taken to redirect the EU budget to support crisis repair and recovery will need to be given due consideration in any such assessment.

<sup>(9)</sup> <https://www.consilium.europa.eu/en/press/press-releases/2019/06/20/a-new-strategic-agenda-2019-2024/>

<sup>(10)</sup> [https://ec.europa.eu/commission/sites/beta-political/files/political-guidelines-next-commission\\_en.pdf](https://ec.europa.eu/commission/sites/beta-political/files/political-guidelines-next-commission_en.pdf)

<sup>(11)</sup> Commitment appropriations from 2019, including amending budgets, excluding carry-overs and assigned revenues, as well as the amounts for the European Globalisation Adjustment Fund and the EU Solidarity Fund. Implemented commitment appropriations amounted to EUR 173 billion (see consolidated annual accounts).

The performance of the EU budget is a responsibility shared among the many actors involved in its implementation. As the manager of the EU budget with ultimate responsibility for the implementation under the Treaty, the Commission plays a full part by working to ensure that the EU's financial programmes are managed efficiently and effectively, and that they deliver their intended results on the ground.

The administrative budget under Heading 5, which supports both budgetary management and the full spectrum of activities of the European Union institutions, accounts for a small share of the EU budget. Together with the other institutions, the Commission has taken steps to improve the efficiency of all of its operations and has delivered significant savings under the current financial framework, including by implementing a 5% staff reduction between 2013 and 2017 <sup>(12)</sup>. The European Court of Auditors has confirmed these savings, while noting the negative consequences they have had for staff <sup>(13)</sup>. These savings have been made at a time when there are ever-increasing expectations on the Commission to deliver in areas such as the green and digital transitions, industrial policy, economic and social recovery, migration, the rule of law and defence cooperation. These pressures have been heightened by the workload involved in developing and deploying a comprehensive EU response to the COVID-19 pandemic and its aftermath. Stability in the administrative budget under the future financial framework will therefore be essential for the EU institutions to continue to deliver for the EU in all the priority areas.

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<sup>(12)</sup> Further details on the steps the Commission is continuing to take to improve efficiency in budgetary management are provided in Section 2 of this report.

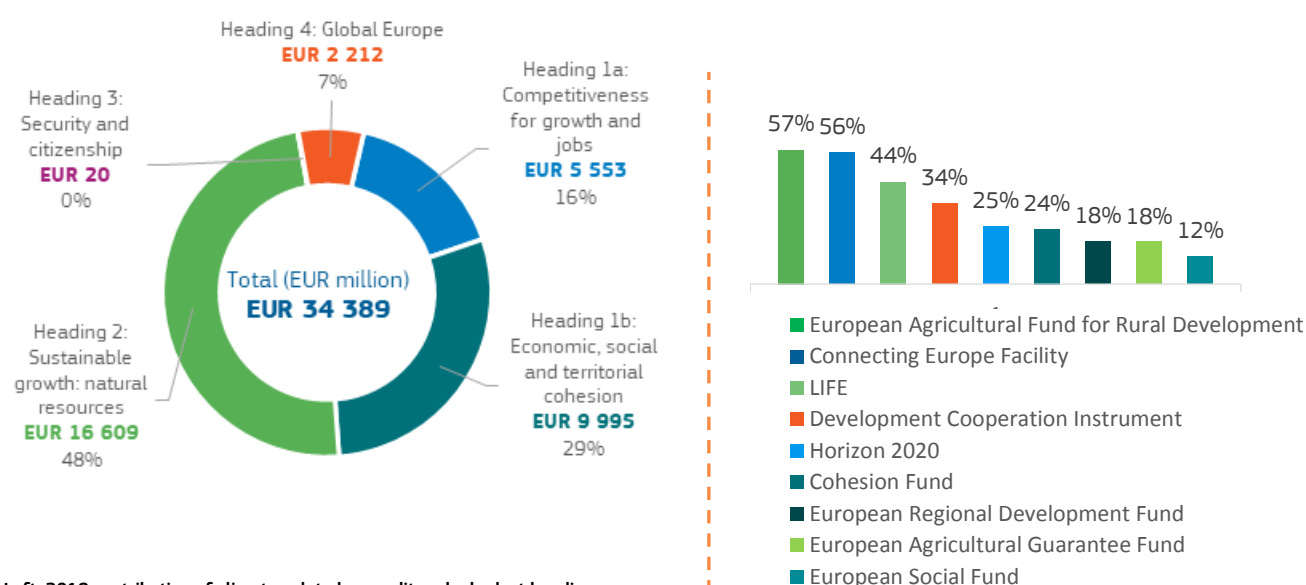
<sup>(13)</sup> European Court of Auditors, *Special Report No 15/2019 – Implementation of the 2014 staff reform package at the Commission – Big savings but not without consequences for staff*.

## 1.2. Horizontal priorities in the EU budget

The EU budget addresses specific policy needs through one or several programmes. The horizontal nature of some policy objectives, however, requires deeper integration throughout the budget. This is particularly true for climate-related expenditure, protecting biodiversity and pursuing the sustainable development goals.

### 1.2.1. The EU budget provides strong support for its climate and biodiversity goals

The **climate mainstreaming** approach entails the deep integration of climate-related expenditure throughout the long-term budget. The current overall target is to dedicate 20% of EU expenditure to climate objectives. In 2019, climate-related expenditure exceeded this target and amounted to some EUR 35 billion, or 21% of the EU budget. Cumulatively over the 2014-2020 period the EU budget will contribute EUR 211 billion, or 19.8%, to climate objectives. While this falls slightly short of the target, annual climate-related expenditure has consistently been above 20% in recent years, catching up after relatively low levels earlier in the period.



Left: 2019 contribution of climate-related expenditure by budget heading.  
Right: Climate-relevant share of the main contributing programmes in 2019.

Source: European Commission.



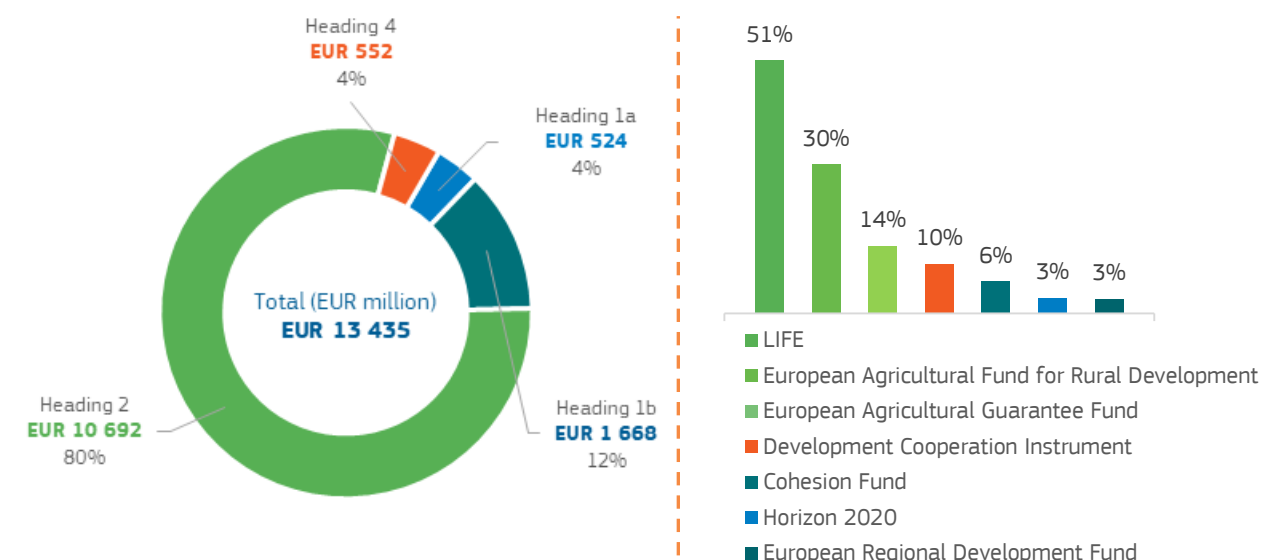
Thanks to the mainstreaming approach, all headings contribute to the achievement of this overarching priority. More than **90%** of climate-related expenditure is financed under the headings 'Sustainable growth: natural resources' (Heading 2), 'Economic, social and territorial cohesion' (Heading 1b) and 'Competitiveness for growth and jobs' (Heading 1a).

The degree to which an individual programme is climate related varies in accordance with its field of operation and the nature of the investment. In 2019, 28%, or EUR 16 billion, of the funding for the **common agricultural policy** and 21% of the European Regional Development Fund and Cohesion Fund contributed to climate objectives. Thanks to careful programming, the share of climate expenditure is rising in other areas: for example, the **European Social Fund** increased its contribution from 0% in 2014 to 12%, or EUR 1.6 billion, in 2019.

To fight climate change and environmental degradation and become the **world's first climate-neutral economy by 2050**, the EU needs to accelerate the transition to a more sustainable economy. In line with the Paris Agreement on climate change and the United Nations sustainable development goals, for the next long-

term budget the Commission has proposed an even more ambitious goal for climate mainstreaming across all EU programmes, **with a target of at least 25% of EU expenditure contributing to climate objectives**. This will make an important contribution to delivering the European Green Deal proposed by the Commission.

The EU is also making a concerted effort to support **biodiversity**. Between 2014 and 2020 the EU budget contributed EUR 85 billion (8% of total expenditure) to support biodiversity. Throughout the period the contribution of the budget has been stable, with the exception of the first 2 years of implementation.



Left: 2019 contribution of biodiversity-related expenditure by budget heading.  
Right: Biodiversity-relevant share of the main contributing programmes in 2019.  
Source: European Commission.



While the majority of expenditure on biodiversity is linked to the heading 'Sustainable growth: natural resources' (Heading 2), many other programmes contribute to tackling biodiversity loss.

In 2019 the contribution from the EU budget to the fight against biodiversity loss amounted to almost **13.4 billion**, or **8.3%** of the budget. More than **75%** of the expenditure comes from the common agricultural policy.

As an integral element of the European Green Deal, the **new biodiversity strategy for 2030** will include a transformative plan to further protect and restore nature, with resulting benefits for both halting biodiversity loss and mitigating the effects of climate change. The EU budget will play an important role in delivering this strategy.

Further information on how the EU budget is used to support climate and biodiversity is provided in Annex 2 to this report.

### 1.2.2. The EU budget and the 2030 agenda for sustainable development

The EU, together with its Member States, is fully committed to being at the forefront of implementing the **2030 agenda for sustainable development**. The 2030 agenda is the shared roadmap adopted under the auspices of the United Nations for a peaceful and prosperous world, of paramount importance to the values of the EU and the future of Europe. The EU has committed to implementing the sustainable development goals in both its internal and its external policies. Since the adoption of the agenda in 2015 the EU has made

significant progress in delivering on the sustainable development goals, and is continuing to strengthen its efforts.

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

In light of the interlinked nature of these goals, most of the EU's budgetary programmes are designed to address multiple sustainable development goals. Currently, 75% of the EU budget programmes (45 out of 60) contribute towards these goals. The following infographic illustrates, in a non-exhaustive manner, the many examples of how EU programmes contribute to the sustainable development goals. The EU's coherent approach supports a variety of initiatives in a wide range of policy fields across the globe, with the aim of promoting sustainable development for all.

	<p>In 2018 the <b>Asylum, Migration and Integration Fund</b> awarded over EUR 194 million for a cash assistance and accommodation scheme in Greece, providing approximately 25 000 places in apartments and suitable shelters to the most vulnerable migrants.</p>		<p>The <b>Spotlight Initiative's</b> 'safe and fair' programme (EUR 25 million), aims at ensuring that labour migration is safe and fair for all women in the region covered by the Association of Southeast Asian Nations.</p>
	<p>Food assistance reached 12.6 million people in 2018 through the <b>Fund for European Aid to the Most Deprived</b>.</p>		<p>By the end of 2018 <b>European Regional Development Fund and Cohesion Fund</b> financing had resulted in an increase in waste-recycling capacity to 765 000 tonnes per year, compared to 48 000 tonnes per year at the end of 2017.</p>
	<p>27.5 million people had benefited from improved health services financed by the <b>European Regional Development Fund</b> by the end of 2018.</p>		<p>With financing from the <b>Development Cooperation Instrument</b>, Switch Africa Green provides funding to green business projects in Africa. In its first phase, it supported 3 000 micro, small and medium-sized enterprises and contributed to creating or securing 10 000 green jobs.</p>
	<p>In 2019, under the Africa–Europe Alliance, over 8 000 African students and staff were granted scholarships in EU universities by <b>Erasmus+</b>, bringing the total to over 26 000 since 2014.</p>		<p><b>Humanitarian aid</b> provided financing to 24 countries and for six regional interventions in 2019 to strengthen the disaster preparedness of national response systems and mitigate the impact of climate-induced disasters on humanitarian needs.</p>
	<p>EUR 2.4 billion were committed by the <b>European Social Fund</b> to projects targeting gender equality by the end of 2019. For example, the 'nidi gratis' project in Lombardy, Italy has provided 30 000 low-income families with free access to nursery schools for their children.</p>		<p>To date, the <b>European Maritime and Fisheries Fund</b> has funded nearly 15 000 projects on preserving the marine environment and ensuring better resource efficiency.</p>

 <p>Since 2014, over 3 million people have been provided access to high-quality drinking water and wastewater treatment under the <b>European Regional Development Fund</b> and the <b>Cohesion Fund</b>.</p>	 <p>The <b>diversifood</b> project, financed by <b>Horizon 2020</b>, aims at achieving organic and low-input agriculture by enriching the diversity of cultivated plants within diverse agroecosystems.</p>
 <p>The <b>European Fund for Strategic Investments</b> has helped provide renewable energy to approximately 10 million households and save over 5 000 gigawatt hours of energy per year.</p>	 <p>The <b>justice</b> programme supported the participation of 1 358 participants in judicial training programmes in 2018, thereby fostering a common legal and judicial culture.</p>
 <p>Innovation management capacity assessments and guidance are provided to more than 4 000 SMEs per year under the <b>competitiveness of enterprises and small and medium-sized enterprises programme</b>.</p>	 <p>Free, full and open data access resulting from the <b>Copernicus</b> international cooperation arrangements is expected to reach approximately 50% of the world's population via a local data hub.</p>
 <p><b>Galileo's</b> search and rescue service allows the time required to detect emergency distress beacons to be reduced to 10 minutes.</p>	

### 1.2.3. The EU budget: a powerful crisis response tool

The EU budget can be mobilised quickly and flexibly as part of a coordinated European response to crises. This has been illustrated vividly by the ongoing response to the COVID-19 pandemic. The Commission has proposed to use all of the remaining flexibility in the current financial framework to get funding quickly to where it is most needed. This has included the following examples.

- The **Coronavirus Response Investment Initiative** mobilised all available cohesion funds to provide immediate support to Member States' crisis response measures. This includes meeting the most pressing needs for medical supplies and equipment as well as addressing the effects of the economic crisis through short-term work schemes, financial support to SMEs and an immediate liquidity injection. The measures are accompanied by a number of flexibility arrangements, including on co-financing rules. **Overall, the initiative could mobilise up to EUR 54 billion from the European Structural and Investment Funds to address immediate crisis needs in Member States.**
- The scope of the **EU Solidarity Fund** was extended as of 1 April 2020 to encompass major public-health emergencies. Up to EUR 800 million could be made available to Member States and candidate countries that are seriously affected by the COVID-19 crisis to finance assistance to the population (medical, health-sector and civil-protection-type measures) and measures taken to contain the spread of the disease.
- The **Emergency Support Instrument** was reactivated in April 2020 with a budget of EUR 2.7 billion to support Member States, and the Union Civil Protection Mechanism/rescEU budget was increased by EUR 380 million. This money is being used to help Member States rapidly procure and distribute the supplies needed to fight the coronavirus through measures that include creating a strategic rescEU stockpile of medical equipment, including ventilators and personal protective equipment such as masks.

- Under **the Horizon 2020** programme for research and innovation, the Commission launched a special call for expressions of interest to support research on COVID-19 with funding mobilised from the **special fund for emergency research**. Examples include a first call in January 2020 on health research on COVID-19 which targeted the development of vaccines, alternative diagnostic tests, new treatments and improving public health measures. As a result, 136 research teams will work with an overall budget of EUR 47.5 million in 17 projects. A further EUR 45 million will be made available through the Innovative Medicines Initiative Two Joint Undertaking, as well as EUR 164 million through a call launched by the European Innovation Council pilot.
- The **EU, as global actor, and in collective action as Team Europe** (EU, Member States, financial institutions) secured financial support to partner countries for a total of more than EUR 36 billion, focusing on addressing the immediate health crisis and resulting humanitarian needs, strengthening partner countries' health, water and sanitation systems and their research and preparedness capacities to deal with the pandemic, as well as mitigating the socioeconomic impact. In addition, the **EU promotes a Coronavirus Global Response with multilateral partners**; an international pledging conference collected pledges of more than EUR 9.8 billion made by more than 40 Heads of State or Government and ministers to support the collaborative development and universal deployment of diagnostics, treatments and vaccines against coronavirus.

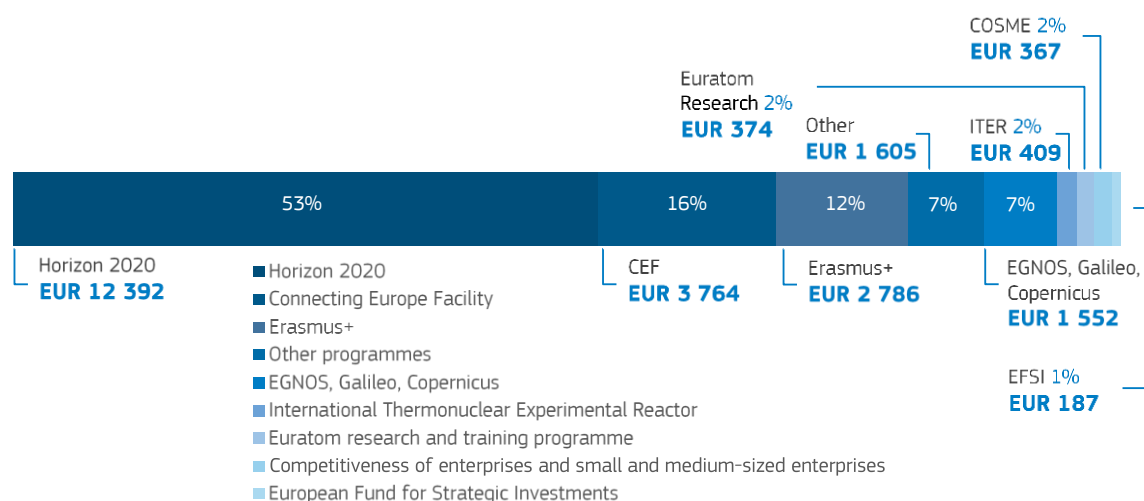
Beyond this response that will bring rapid support, the Commission proposed also to harness the full potential of the EU budget to build a lasting and prosperous recovery. As part of the European Union's Recovery Plan <sup>(14)</sup>, on 27 May 2020 the Commission proposed a reinforced multiannual financial framework for 2021-2027, together with a new European Recovery Instrument ('Next Generation EU') to boost and frontload funding. These proposals support crisis repair and provide a framework for long-term investment in the EU's resilience and the green and digital transitions. Increasing the flexibility of the EU budget and investing in crisis preparedness and resilience will be priorities for the future financial framework.

The funding raised for Next Generation EU will be invested across three pillars: support to Member States with investments and reforms; kick-starting the EU economy by incentivising private investments; and addressing the lessons of the crisis. An example of addressing the lessons from the crisis is the proposal for the EU4Health programme 2021-2027: the overall budget of EUR 9.4 billion marks a step change in the EU's contribution to the health sector.

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<sup>(14)</sup> COM(2020) 442 final, 27.5.2020, The EU Budget Powering The Recovery Plan For Europe, Communication from the Commission to the European Parliament, the European Council, the Council, the European Economic and Social Committee and the Committee of the Regions.

## 1.3. Competitiveness for growth and jobs



All amounts in million EUR.

Source: European Commission.

In 2019, EUR 23 billion was allocated to competitiveness for growth and jobs, representing almost 15% of the EU budget. Under this budget heading significant economic investment has been triggered in infrastructure, in research and innovation and in support of small and medium-sized enterprises. This type of investment is key for the dual transitions to a **climate-neutral and digital economy**, and is fundamental for sustainable long-term growth in Europe.

This heading also illustrates the power of the EU budget to mobilise investment from other sources. For example, by the end of 2019 the **European Fund for Strategic Investments** had triggered more than EUR 458 billion in investment and supported over 8.5 million jobs<sup>(15)</sup>. It has played an important role in supporting the economy by financing key infrastructure investments in areas such as energy and transport and supporting small and medium-sized enterprises.

A significant share of the investment under this budget heading is designed to ensure that the EU retains its competitive edge in today's global markets. Developing state-of-the-art technology and supporting its deployment in the EU are fundamental to ensuring the uptake of such technology by market participants and citizens. These programmes also provide investment in essential infrastructure, be it through providing direct financing in areas where existing financing is insufficient or through investment in the development or maintenance of infrastructure that are fundamental for the functioning of the internal market. In addition, this budget heading, together with other parts of the EU budget, invests in human capital, in particular by providing opportunities for mobility.

### 1.3.1. The EU budget enables the green transition by supporting innovation and investing in clean energy and transport

In order to enable the green transition, the EU budget finances relevant infrastructure, such as for the generation of renewable energy, and focuses on smart solutions by developing innovative technologies and combining them with investment in essential infrastructure.

The **Horizon 2020** programme for research and innovation is one of the largest single integrated research and innovation programmes of its type in the world. It is particularly important for and emblematic of the wider drive to support innovation and technological development through the EU budget. Horizon 2020 supports the entire chain of research and development from the lab to the market. The goal is to ensure the EU produces world-class science and technology, removes barriers to innovation and makes it easier for the

<sup>(15)</sup> See Annex 1 – Programme performance overview for European Fund for Structural Investments.

public and private sectors to work together in delivering solutions to major challenges facing society. By the end of 2019 the programme had supported more than 23 000 organisations in accessing risk finance, along with 5 522 high-quality research projects under the European Research Council and 44 000 innovations that include prototypes and testing activities <sup>(16)</sup>. Nonetheless, the share of climate-related expenditure under Horizon 2020 remained below the expected level, at 27%, due to the difficulty of assessing in advance the extent to which certain research projects will contribute to climate-related objectives. The Commission is addressing this situation with the launch of a call dedicated to the European Green Deal in 2020, with a budget of EUR 1 billion. This will considerably raise the level of climate-related expenditure.

Horizon 2020 released a cross-cutting call for proposals for **‘Building a low-carbon, climate-resilient future: next-generation batteries’**, which for the first time brought together all battery-related topics into one ‘Battery alliance’ call, including seven topics addressing transport and stationary applications, materials and production. Sixteen proposals were funded, with a total EU contribution of EUR 97 million <sup>(17)</sup>.

The **Flow Induced Phase Transitions project supports innovations replacing plastic with the creation of a sustainable and resistant fibre**. The project allows the testing and development of a novel form of polymer processing via controlled solidification derived from natural materials with reduced use of water and energy. It takes inspiration from spiders and silkworms to create a high-performance natural fibre (sustainable, degradable and elastic) in a way that is over 1 000 times more energy efficient than industrially manufactured fibres. Thanks to the very low CO<sub>2</sub> emissions engendered, and the use of natural resources, this new form of polymer processing will reduce energy consumption and the production of plastic. The project is now part of the Enhanced European Innovation Council pilot project.

Another important contribution in this area is made by the EU space programmes. The **Copernicus** programme is the world leader in **Earth observation, currently operating seven satellites with preparations for an eighth completed in 2019**. It is essential to the understanding of climate systems, offering a wide range of services to all EU stakeholders free of charge. In 2019 the number of active users surpassed 300 000 <sup>(18)</sup> for the first time – a much larger number than originally expected. Copernicus services support both accurate weather forecasting and the monitoring of climate change and pollution effects. A key component of Copernicus is its **Emergency Management Service**, which assists civil protection authorities in the immediate response to disasters such as the forest fires in Greece and Italy in 2019, but also the wildfires in Australia, among others.

Direct investment in infrastructure is made under the **Connecting Europe Facility**, which finances essential transport, energy and telecommunications infrastructure, integrating networks across the EU. The Connecting Europe Facility focuses on smart solutions, bringing together digitalisation and infrastructure to create safe and efficient integrated networks to support decarbonisation through sustainable solutions in the transport, energy and digital sectors. For instance, the facility has co-funded projects in the transport sector which will lead to the electrification of more than 2 000 km of railways, the upgrade of almost 3 000 km of inland waterways and the deployment of around 13 000 supply points for alternative fuels all over Europe, hence fostering the greening of the transport sector. The energy component of the Connecting Europe Facility has amongst other things contributed to ending the energy isolation of the Baltic States, improving the interconnectivity of the Iberian Peninsula with the rest of Europe and linking Ireland with continental Europe, all of which has helped significantly with the integration of a larger share of renewable energy in the electricity system. Moreover, in line with the goal of climate neutrality, the Commission is evaluating the existing Trans-European Network Regulations to further align its large infrastructure investments.

With regard to transport infrastructure, progress has been made in the Baltic Sea region, and on rail infrastructure across the German–Polish border, leading to an estimated 95 million citizens benefiting from it.

<sup>(16)</sup> See Annex 1 – Programme performance overview for Horizon 2020.

<sup>(17)</sup> Directorate-General for Research and Innovation, *Annual Activity Report 2019*, pp. 18–19.

<sup>(18)</sup> See Annex 1 – Programme performance overview for Copernicus.

### Maritime: zero-emission ferries – a green link across the Oresund

The action covered the introduction of new and innovative concepts and technology by converting two existing complex passenger ships – originally fuelled by heavy oil – to plug-in all-electric-powered operation exclusively using batteries. The action has brought a more environmentally friendly solution to a very busy maritime link, connecting the comprehensive trans-European transport network ports of Helsingør (Denmark) and Helsingborg (Sweden). Moreover, the power-provision and charging installations required in the ports/ferry terminals were put in place. The project supported the development of clean motorways of the sea by testing and deploying new technological solutions in real operational conditions.

## 1.3.2. The EU budget supports the digital transition by investing in key digital infrastructure, research and services

Support for the digital transition plays a major role in investments from the EU budget. Beyond providing access to the digital realm, a key underlying consideration is the safety and the well-being of citizens and enterprises, be it to protect them from issues such as cybercrime or to directly improve the safety of citizens and the resilience and safety of essential infrastructure. The vision is to create an ecosystem of interoperable digital services available to citizens, businesses and administrations across the EU so they can fully benefit from the digital single market.

To support the digital transition, **Horizon 2020** resources were targeted at projects to build new capabilities in the area of artificial intelligence and to tackle cybercrime. Key projects in 2019 include Formobile, a complete end-to-end forensic investigation chain targeting mobile devices used by criminal offenders <sup>(19)</sup>, and Spider, a research project to investigate the security of 5G telecommunications networks.

The **Connecting Europe Facility** supports the digital transition by providing necessary basic broadband infrastructure and promoting connectivity, and by integrating digital innovation into the design of supported transport and energy infrastructure projects. In the telecommunications sector, the EU budget is enabling EU-wide interoperability of specific services in areas such as health, justice, social security information, eGovernment, disinformation, digital skills, and cybersecurity. By the end of 2019, the uptake of these services in the Member States and European Economic Area participating countries reached a portfolio of 500 projects. Through the WiFi4EU initiative, CEF Telecom also supported 7 980 European municipalities to install free-of-charge Wi-Fi based connectivity in public spaces, and created an equity instrument, the Connecting Europe Broadband Fund, for the deployment of very high capacity networks.

The eHealth Digital Service Infrastructure facilitates continuity of care and patient safety for citizens seeking cross-border healthcare, allowing health data to be exchanged across national borders. Cross-border ePrescriptions/eDispensations (eP) allow patients abroad to receive the equivalent medication that they would receive in their home country. The Patient Summary (PS) services provide health professionals with access to the verified key health data of a patient needing unplanned cross-border healthcare. The cross-border exchanges of electronic Patient Summaries and ePrescriptions takes place since January 2019, with almost 8 000 ePrescriptions already dispensed between Finland, Portugal, Estonia and Croatia. In 2019, Czechia, Luxembourg, Croatia and Malta enabled the exchange of patient summaries and Portugal joined them in early 2020.

Another area is geolocation. The **Galileo** programme with 26 satellites in orbit <sup>(20)</sup>, helps improving the accuracy and reliability of location services in the smartphones of more than 1 billion users worldwide. In addition, the **European Geostationary Navigation Overlay Service is playing a key role** in safety critical services such as aviation safety. At the end of 2019, 350 airports equipped with this service were

<sup>(19)</sup> Project call for Formobile – also <https://formobile-project.eu/>

<sup>(20)</sup> In 2019, 22 Galileo satellites are fully operational for all services.

operating in 23 countries in Europe, with the number increasing for a fifth consecutive year from 129 in 2014 <sup>(21)</sup>.

**Galileo's** three initial services (the open service, the public regulated service and the search and rescue service) were provided continuously in 2019, with the exception of a 6-day interruption in July 2019 of the Galileo initial navigation and timing services due to a technical incident. During this period, the Galileo search and rescue service was unaffected. The independent inquiry board set up by the Commission analysed the root causes of the incident and provided recommendations. The Commission has put in place a process to implement the recommendations to ensure that Galileo is a stable, robust and resilient system.

Many of these investments and infrastructures take time to build, and investment cycles are very long, which means it is often difficult to point to direct progress and concrete results. At the same time, such financing from the EU budget has a real impact on the lives of citizens. For instance, one third of all EU municipalities are implementing WiFi4EU under the Connecting Europe Facility, providing EU-supported Wi-Fi connectivity to citizens free of charge. Galileo-improved location services are saving lives by making the location available to emergency services when calling 112 from mobile phones.

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### 1.3.3. The EU budget provides essential support to small businesses and entrepreneurs

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Beyond the specific focus on the green transition, the EU budget more broadly supports the investments necessary for the EU to have a long-term sustainable economy with a focus on people. While research and development and infrastructure remain important in this area, there are other important angles such as support for small and medium-sized enterprises and for entrepreneurship and social innovation.

Small and medium-sized enterprises are the backbone of the EU's economy, representing 99% of all businesses. They produce 56% of economic output and provide 67% of overall employment <sup>(22)</sup>. In spite of their importance to the economy, small and medium-sized enterprises still face challenges such as finding financing in various segments of the internal market. The EU budget provides support and opportunities throughout their life cycle, from starting up, through commercialisation, to long-term investment and sustainability. The main budget programme assisting small and medium-sized enterprises is the **EU programme for the competitiveness of enterprises and small and medium-sized enterprises**, which promotes entrepreneurship, helping these businesses to gain access to finance and markets and improve their competitiveness.

In April 2020, one of its components, the Loan Guarantee Facility, has been boosted with additional resources from the European Fund for Strategic Investments to enable banks to offer bridge financing for small and medium-sized enterprises. Through the facility, the programme had provided financing to more than 500 000 small and medium-sized enterprises operating in 32 countries <sup>(23)</sup> by the end of 2019. It has also helped businesses hit by the economic impact of the coronavirus pandemic. The financial support is in the form of working capital loans (of 12 months or more), along with credit holidays allowing for the delayed repayment of existing loans. The Enterprise Europe Network is also helping small and medium-sized enterprises through innovation partnerships on areas linked to COVID-19 (such as protective or medical equipment) and advice on accessing dedicated European and national financial support.

More targeted start-up financing is provided to innovative start-ups from the **European Innovation Council** under Horizon 2020 and to micro and social enterprises from the **Employment and Social Innovation Programme**. The focus in this regard is to target specific segments of the market – highly innovative small and medium-sized enterprises and social enterprises – that historically have had specific difficulties in accessing financing. The numbers are encouraging, and show a significant increase in breakthrough

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<sup>(21)</sup> A major step in enhancing the market uptake of the European Geostationary Navigation Overlay Service was the adoption of airspace usage requirements and procedures for performance-based navigation in 2018.

<sup>(22)</sup> *Annual Report on European SMEs 2018/2019*, study carried out on behalf of the Directorate-General for Internal Market, Industry, Entrepreneurship and SMEs ([https://ec.europa.eu/growth/smes/business-friendly-environment/performance-review\\_en#annual-report](https://ec.europa.eu/growth/smes/business-friendly-environment/performance-review_en#annual-report)).

<sup>(23)</sup> See Annex 1 – Programme performance overview for the programme for the competitiveness of enterprises and small and medium-sized enterprises.

innovations and high-growth companies. Every euro invested from the European Innovation Council triggers follow-on investments of EUR 2.4 <sup>(24)</sup>. Moreover, more than EUR 2.7 billion of financing is expected to be unlocked under the Employment and Social Innovation Programme, as a result of guarantee agreements worth EUR 236 million concluded by the Commission with financial intermediaries.

Support for entrepreneurship is also provided in non-financial form under **Erasmus for Young Entrepreneurs**, which fosters exchanges between newer and more experienced entrepreneurs. In 2019, 2 100 exchanges took place, and the programme has been considered successful by over 90% of participating entrepreneurs.

Another important contribution from the EU budget is made by providing financing under the small and medium-sized enterprises window of the **European Fund for Strategic Investments**. In the area of risk financing for innovative micro, small and medium-sized and social enterprises, along with those operating in cultural and creative sectors, the fund is expected to support more than 1.1 million such enterprises.

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### 1.3.4. The EU budget invests in EU citizenship and values by promoting cross-border mobility

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Beyond direct investment in economic infrastructure and enterprises, the EU budget also invests in people and institutions promoting shared European values under the EU motto 'United in diversity'.

**Erasmus+** offers opportunities for young people, learners and staff of all ages to study, train and volunteer within Europe and beyond. In 2019 more than 900 000 people had a chance to go abroad and experience life differently, in higher education, in vocational training and through various other exchange possibilities <sup>(25)</sup>. The sometimes life-changing effects of these experiences are making an important contribution to improving employment prospects and promoting the idea of EU citizenship.

**The Employment and Social Innovation** programme backed the mobility of workers through cross-border partnerships and targeted mobility schemes. The support to mobile workers was further enhanced in 2019 with the establishment of the European Labour Authority <sup>(26)</sup>, an entity aiming to ensure that EU rules on labour mobility and social security coordination are enforced in a fair and effective way, making it easier for citizens and businesses to benefit from the internal market.

In addition to promoting intra-EU linkages and exchanges, cross-border cooperation has also been shown to foster successful and impactful research. **Horizon 2020** continued to support cross-border networks of researchers. Under its strand of the **Marie Skłodowska-Curie actions**, Horizon 2020 continued investing in European researchers to enable them to work and collaborate in other countries, at all stages of their career, supporting initiatives that break down barriers between academia, industry and business.

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<sup>(24)</sup> Directorate-General for Research and Innovation, *Annual Activity Report 2019*, p. 7.

<sup>(25)</sup> See Annex 1 – Programme performance overview for Erasmus.

<sup>(26)</sup> Regulation (EU) 2019/1149 of the European Parliament and of the Council of 20 June 2019 establishing a European Labour Authority.