2021 discharge: General budget of the EU - Commission

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The Committee on Budgetary Control adopted the report by co-rapporteurs Jeroen LENAERS (EPP, NL) and Monika HOHLMEIER (EPP, DE) on discharge in respect of the implementation of the general budget of the European Union for the financial year 2021, section III - Commission and executive agencies.

The committee responsible recommends that the European Parliament **give discharge** to the Commission and the executive agencies in respect of the implementation of the general budget of the European Union for the financial year 2021.

Political priorities

The report underlines the importance of the EU budget in delivering the EU's political priorities, as well as its role in supporting Member States in unforeseen situations such as the COVID-19 pandemic and its consequences.

Members remain concerned about the rule of law situation in several Member States which results in serious losses for the EU budget. Stressing that EU funds should not be used for anti-democratic activities or to reinforce authoritarianism, Members call on the Commission to immediately trigger the application of the **conditionality mechanism** whenever breaches of the principles of the rule of law affect or are likely to affect in a sufficiently direct manner the sound financial management of the Union budget or the protection of the Union's financial interests.

Members reaffirm the imperative need for a **single, mandatory, integrated and interoperable monitoring and information system**, provided by the Commission, allowing the electronic recording and storage of data on recipients of Union funds, including their beneficial owners. They regret that not all Member States use the Commission's data mining and risk scoring tool to identify, under the Recovery and Resilience Facility (RRF), projects, beneficiaries and service providers exposed to the risk of fraud, conflict of interest or irregularities. They reaffirm the need to step up efforts in the fight against fraud both at EU level and at Member State level, in close cooperation with the European Public Prosecutor's Office and OLAF.

The Commission is called on to put forward a **proposal for an NGO Regulation** including a clear definition and categorisation of the fields of activity and size of NGOs. The legislation should provide for a clear overview of the conditions for receiving Union funds by NGOs.

The report notes the successful efforts of the Commission to raise funds on the financial markets to provide the financial means for the RRF. Members nevertheless expresses concerns about the rising interest rates and the resulting uncertain capacity to repay the loans and the risk this poses for the agreed Union budget and Union policies. They call on the Commission to mitigate the risk and keep Parliament fully informed on the annual status of these loans.

Members are concerned that the **late adoption** of a number of regulations governing different Union policies has, similarly as at the beginning of the 2014-2020 programming period, implied a significant delay in the start of implementation for the 2021-2027

programming period. They urge the Commission to take all the necessary measures to speed up the implementation of the policies on the ground.

Multiannual financial framework (MFF)

The report welcomes the fact that the Court has concluded, in accordance with the Financial Regulation, that the EU's accounts for the financial year 2021 are reliable and that the budget's revenue is **free from material error**. Members regret the Court's adverse opinion on the legality and regularity of the expenditure side of the EU budget, noting the overall error rate calculated by the Court of 3.0 %, which is 1.0 % point above the materiality threshold. This is a deterioration in comparison with 2020, when the error rate was 2.7 %, also well above the materiality threshold.

Members note the Court's finding that low-risk expenditure was free of material error, but that high-risk expenditure remained affected by material error. The biggest contributors to the 3.0 % error rate were 'Cohesion, Resilience and Values' (1.2 percentage points), followed by 'Natural Resources and Environment' (0.7 percentage points), 'Neighbourhood and the World' (0.4 percentage points) and 'Single Market, Innovation and Digital' (0.4 percentage points).

The report notes with concern that in 2021 the implementation of commitments was very low, at **68%** of the total amount available, and that the late adoption of sectoral regulations during 2021 delayed the launch of new programmes. It notes that still not absorbed ESI Funds for the 2014-2020 period represent a significant part of the Union’s budget outstanding commitments. At the end of 2021, the total outstanding commitments reached a record level of **EUR 341.6 billion** (total outstanding commitments of the Union budget and Next Generation EU).

Revenue

The report notes that the revenue of the EU budget comprises own resources, external assigned revenue mainly financing the expenditure of the RIF and other revenue. 115.8 billion (48.2%), budgetary guarantees, borrowing and lending operations under Next Generation EU amount to 19 billion (7.9%), own resources based on value added tax amounted to EUR 17.9 billion (7.5%), own resources from plastic packaging waste amounted to EUR 5.9 billion (2.5%) and other revenue amounted to EUR 5.7 billion (2.4%).

Single market, innovation and digital

Heading 1 of the MFF represents 10.2% of the EU budget, or **EUR 18.5 billion**.

The Court found that the estimated level of error for expenditure in Heading 1 was material, reaching 4.4%, compared with 3.9% the previous year.

Cohesion, resilience and values

Heading 2 of the MFF accounts for 44.1%, or **EUR 80.1 billion**, of the EU budget.

The report notes with concern that the Court found that the estimated level of error for expenditure on the heading was material and that for heading 2 of the MFF the overall level of error is estimated at 3.6%, compared to 3.5% the previous year. Expenditure in sub-heading 2a has an estimated error level of 4.1%.

Natural resources and environment

Heading 3 of the MFF accounts for 31.3%, or **EUR 56.8 billion,** of the EU budget.

Members are pleased to note that the Court found that the level of error for 'natural resources' was close to materiality, estimated at 1.8% compared to 2.0% in the previous year, and that the majority of errors found were in rural development and market measures. The most frequent source of errors found by the Court was ineligible beneficiaries or expenditure, followed by administrative errors and non-compliance with agri-environmental commitments.

Migration and border management, security and defence

Members welcome the creation of MFF heading 4 'Migration and Border Management' for the 2021-2027 programming period. In 2021, this heading concerned **EUR 2.5 billion in payments**, from the Asylum, Migration and Integration Fund (AMIF) (EUR 1.2 billion), the Internal Security Fund - Borders and Visas (EUR 0.4 billion) and the Union Agency for Asylum, Frontex and the Area of Freedom, Security and Justice (eu-LISA) (EUR 0.9 billion).

Heading 5 of the MFF entitled 'Security and defence' saw payments of **EUR 0.7 billion**, from the European Defence Fund (EUR 0.2 billion), the Internal Security Fund (ISF) - Police (EUR 0.2 billion), decentralised agencies (EUR 0.2 billion) and nuclear safety and decommissioning (EUR 0.1 billion).

Members are concerned that of the 28 transactions examined by the Court, nine (32%) were affected by errors.

Neighbourhood and the World

Payments in 2021 under the heading 'Neighbourhood and the World' amounted to **EUR 10.9 billion**. These payments were made using a variety of instruments and delivery methods. Members are concerned that the Court describes the risk of error in this area of the MFF as 'high', with 32 of the 67 transactions audited (48%) being affected by errors.

COVID-19 related support

The report regrets that the Commission has still not produced a full report on COVID-19 expenditure, financed from the EU budget. They regret that the **impact of SURE** cannot be fully assessed due to insufficient monitoring data and the lack of ex-post evaluation and call on the Commission to significantly improve data monitoring. Members regret that the Commission has not yet provided transparent information on the negotiations that took place with the vaccine manufacturers, leaving room for suspicion. They welcome the European Ombudsman's decision to ask the Commission President for clear and concrete information on the negotiations with the vaccine manufacturers, but also for more transparency on the contracts concluded.

Recovery and Resilience Facility (RRF)

Members recall that the RRF is a temporary performance-based recovery instrument, i.e. payments are linked to the satisfactory fulfilment of milestones and targets related to reforms and investments included in the national RRPs. The Commission approved **22 national RRPs** in 2021, committing EUR 154 billion in loans and EUR 291 billion in grants. Members took note of the Commission's activities in relation to issuing securities on the international capital markets necessary to fund the RRF, for which the Commission raised, by the end of 2021, EUR 71 billion of long-term funding and EUR 20 billion of short-term funding. They also noted the first NextGenerationEU green bond issue of EUR 12 billion.

The report welcomes the Court's conclusion that the Commission's assessment of the national RRPs was generally satisfactory, given the complexity of the process and the time constraints, although a number of weaknesses in the process and risks to the successful implementation of the RRF were also identified.

The Commission is invited, *inter alia*, to:

- make available to the auditors and the discharge authority the list of all final beneficiaries and projects of the RRF funding, for all payments (in 2021 and over the whole implementation period of the RRF);

- take steps to implement the new obligation for Member States to publish the 100 largest final beneficiaries of RRF funding;

- explain to the discharge authority the reasoning and logic behind the framework for assessing milestones and targets under the RRF Regulation and the Commission's methodology for determining the suspension of payments under the RRF Regulation;

- assess Member States' compliance with human rights milestones in the RRPs on the basis of a detailed assessment and clear and defined criteria and not to approve any payment claim until all human rights milestones have been fully met.