Review

NO 03

EN

Financial contributions from non-EU countries to the EU and Member States

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Contents

Executive summary

I The European Union (EU) and its Member States receive contributions from non-EU countries, based on agreements concluded with these countries. The contributions, which are mainly financial, are either channelled through the EU general budget and the budgets of EU agencies, or provided directly to some Member States. Through these agreements with the EU, the non-EU countries gain access to EU programmes and activities and/or to the EU's internal market.

II A significant amount of information on EU's agreements with non-EU countries and related contributions already exists, but it is fragmented and incomplete. We thus carried out this review from our perspective as the EU's external auditor, with the aim to provide a comprehensive overview of the contributions and the rules governing them.

III This is not an audit, but a review of information gathered specifically for this purpose from EU and European Free Trade Association bodies, as well as from studies, reports, articles, academic publications and other public information.

IV The contributions paid by non-EU countries to the EU general budget amounted to €1.5 billion in 2019, representing 1 % of the total EU revenue. They were provided by 18 countries and split among nearly 30 programmes and activities. In addition to this, certain non-EU countries also provide contributions directly to some EU agencies.

V The Commission and the agencies manage contributions in a decentralised way and there is no central point in the Commission that has a detailed overview of these contributions. The management process is complex, particularly in the case of contributions provided within the framework of the European Economic Area agreement. The starting point for the calculation of the contribution amounts is, in most cases, the relative size of the country's gross domestic product compared to that of the EU. Subsequently, the contribution amounts are often adjusted on a case-by-case basis.

VI The United Kingdom's withdrawal from the EU will lead to an overall increase in the contributions provided by non-EU countries, due to its impact on the individual contribution calculations (as the EU's gross domestic product will be lower) and the fact that the United Kingdom will participate in some EU programmes as a non-EU country.

VII Aside from their contributions to EU programmes and activities, the states that are part of the European Free Trade Association (Iceland, Liechtenstein, Norway and Switzerland) also provide funds directly to EU Member States, which in total amount to an average of €0.5 billion each year. These funds are provided through two contribution schemes (European Economic Area/Norway grants and Switzerland's contribution) which aim to complement the EU cohesion policy. These contributions can be seen as a counterpart to the participation of the European Free Trade Association states in the EU's internal market. The EU institutions are not directly involved in the management and oversight of these funds.

VIII We highlight the following key challenges related to the management of the contributions from non-EU countries:

- dealing with the withdrawal of the United Kingdom from the EU and the impact on the contributions paid by non-EU countries;
- achieving a balance between promoting consistency of procedures and allowing for specific circumstances of programmes or countries to be taken into account in the calculation and the management of the contributions;
- promoting transparency and accountability through detailed reporting on the contributions to the EU and agencies budgets;
- for the contributions provided outside the EU budget directly to Member States, leveraging the benefits of the internal market in the negotiation of the contribution amounts and ensuring effective coordination with EU policies.

Introduction

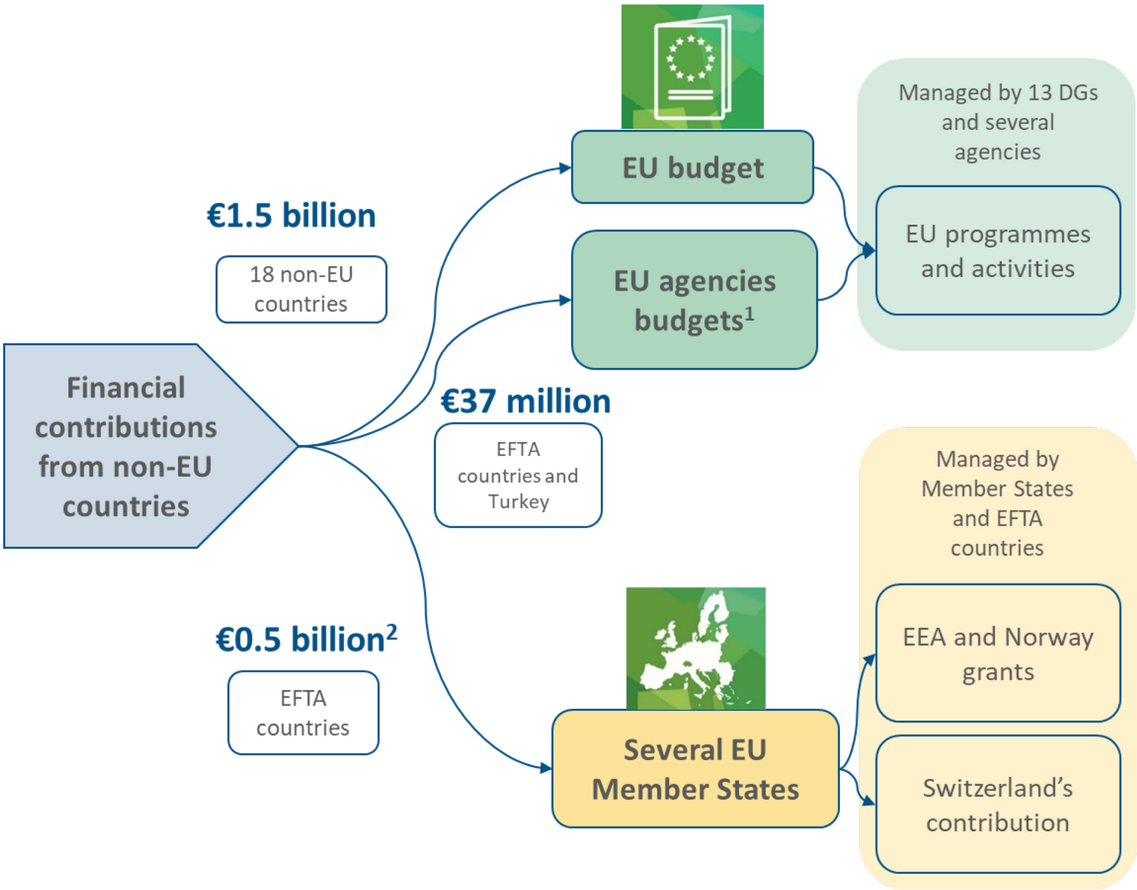
01 The EU receives about 1 % of its revenue as contributions from non-EU countries. In 2019, this represented €1.5 billion received from 18 countries (European neighbourhood countries, candidate and potential candidate countries and members of the European Free Trade Association – EFTA). These contributions allow non-EU countries to benefit from the EU programmes such as Horizon 2020 or Erasmus+, as well as to participate in the activities of some EU agencies. The EU opens many of its internal programmes and activities to non-EU countries as a part of its wider foreign policy strategy. The involvement of non-EU countries in EU programmes can also enable important collaborations in strategic areas for the EU (e.g. space or research and development).

02 In addition, the EFTA states – Iceland, Liechtenstein, Norway and Switzerland – provide funds directly to several EU Member States, in total amounting to an average of €0.5 billion each year. These funds aim to contribute to the reduction of social and economic disparities within the European Economic Area (EEA) and the EU. These contributions can be seen as a counterpart to the participation in the EU's internal market.

03 The contributions typically have a financial form but non-EU countries may also provide in-kind contributions. This type of contribution is less common, and it usually refers to the secondment of experts to the Commission or to EU agencies.

04 The process for agreeing on the level of the contributions, calculating and collecting them from non-EU countries is complex. It is guided by a few common principles and managed in a decentralised way, mainly by Commission Directorates-General (DGs) and agencies. In addition, Member States share the responsibility for managing the funds allocated directly to them with the EFTA countries providing these funds. ***Figure 1*** illustrates the different financial contributions provided by non-EU countries.

Figure 1 – Overview of financial contributions provided by non-EU countries in 2019



[1] EU decentralised agencies (see paragraphs ***21***-***23***).

[2] Amount estimated as annual average, based on total allocations for the respective funding periods (see paragraph ***02***).

Source: ECA.

05 The conditions for participation in a specific EU programme, including the financial contributions, are set up in international agreements concluded between the EU and each non-EU country. There are currently around 100 such agreements in force, while overall, the EU is party to over 1 000 agreements with more than 100 non-EU countries and several international organisations[1].

[1] Publications Office of the EU: EUR-Lex – Directory of international agreements.

06 Public interest in the EU's relations with non-EU countries has recently increased following the entry into force of trade agreements with Canada and Japan[2], as well as the decision by the United Kingdom (UK) to leave the EU and the discussion about the future form of relation between the EU and the UK, including the participation of the UK in EU funding programmes.

07 As the external auditor of the EU, the European Court of Auditors (ECA) has a unique perspective on EU policies, initiatives and finances. With this review, we aim to respond to the public interest and provide a comprehensive picture of contributions provided to the EU and its Member States by non-EU countries, including details on the way the contributions are established, managed, reported and audited.

[2] OJ L 11, 14.1.2017, p. 23; OJ L 330, 27.12.2018, p. 3.

Scope and approach of the review

08 The review covers the financial contributions from non-EU countries to the EU budget, budgets of EU agencies, as well as the funds provided directly by non-EU countries to some Member States, and thus managed outside the EU budget. In-kind contributions provided to the EU in the framework of the European Economic Area (EEA) Agreement are also covered. Due to the variation in the arrangements applied by agencies, the review will describe the calculation principles for the contributions to these entities but will not cover management, reporting, internal control and audit.

09 All these contributions stem from international agreements (or, exceptionally, memoranda of understanding) concluded between non-EU countries and the EU. Other types of receivables from non-EU countries not resulting from these agreements (such as unused project financing, fees, fines and penalties) do not form part of the review scope.

10 Information on EU's agreements with non-EU countries and related contributions is generally available, but it is fragmented and incomplete. Given the current public interest (see paragraph ***06***), the review intends to present this information in a comprehensive way, to fill in the existing gaps and provide in a single place a financial overview of the contributions, together with a description of the main rules and principles that govern them. This is the first time that ECA analyses this area in depth.

11 The period we have analysed for this financial overview is 2014-2019. As regards the analytical description of the contribution mechanisms, we have taken stock of the situation at the time of the review, unless otherwise specified.

12 This is not an audit report; it is a review based on public information gathered specifically for this purpose up to December 2020. We collected this information from the European Commission, EU agencies, the European External Action Service (EEAS) and EFTA bodies. The review was also informed by studies, reports, articles, academic publications and other publicly available information about this topic.

13 To provide more insight into the way the contribution mechanisms work in practice, we have selected several examples:

- Contributions to EU programmes and activities:
  - Horizon 2020 and Erasmus+, which represent the largest programme contributions;
  - Contributions from EFTA countries, which represent significant amounts and are governed by distinctive mechanisms;
- Contributions provided directly to Member States:
  - EEA/Norway grants and Switzerland's contribution, which represent all contributions provided outside the EU budget.

Overview of the contributions

Legal basis

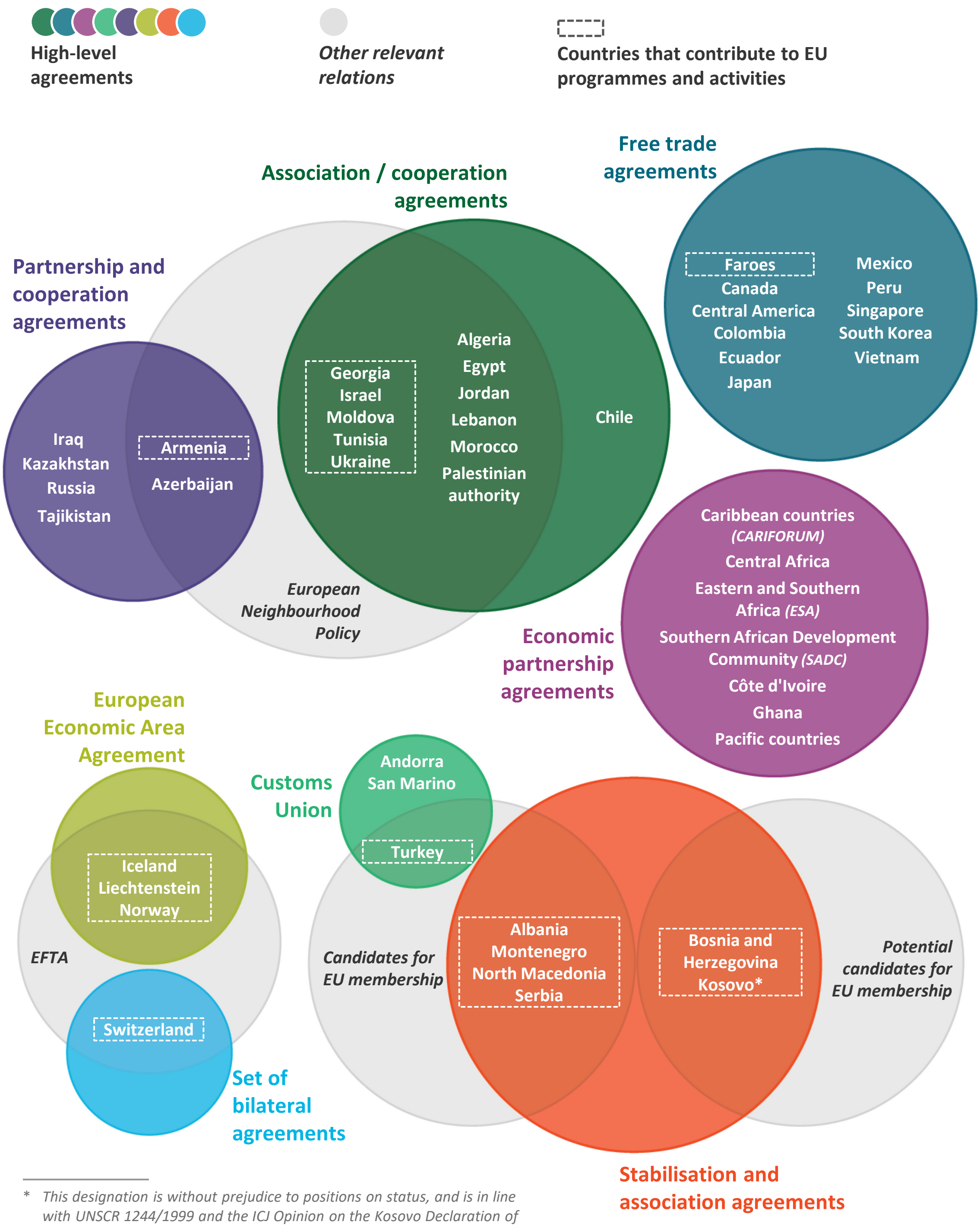
14 When defining its relationship with a non-EU country, the EU typically uses high-level international agreements to set the general framework of relations. The EU concludes these agreements following the standard procedure set out in the Treaty on the Functioning of the European Union (TFEU) (see ***Annex I***). There is a wide variety of such agreements. These high-level international agreements do not usually set out contributions from non-EU countries.

15 In addition to the high-level agreements, the EU often sets up a separate framework agreement on general principles for participation in EU programmes with each non-EU country. Following that, the parties conclude individual agreements for specific programmes, which can be adopted by a Commission Decision, using a simplified procedure set out in the TFEU[3]. These individual agreements define the financial contributions that each country pays to the EU and other specific conditions of the participation.

16 ***Figure 2*** groups non-EU countries based on the type of high-level agreement they have concluded with the EU. The EU has the closest relationship with the EFTA countries, candidate and potential candidate countries for EU membership, and with the European Neighbourhood Policy (ENP) countries. The figure also shows the 18 non-EU countries that contribute to EU programmes and activities.

[3] Article 218(7) of the TFEU.

Figure 2 – The EU's relations with non-EU countries



* *This designation is without prejudice to positions on status, and is in line with UNSCR 1244/1999 and the ICJ Opinion on the Kosovo Declaration of Independence.*

Source: ECA, based on information from the Commission (DG TRADE for high-level agreements and DG BUDG for the contributing countries).

Financial overview

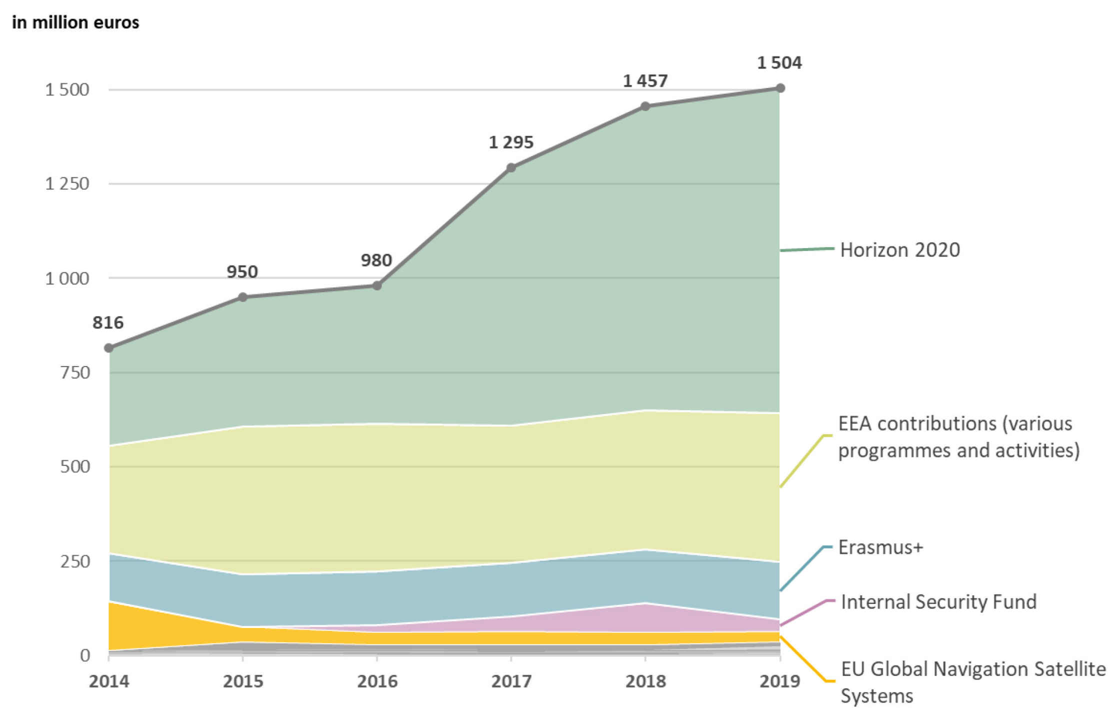
17 The contributions paid to the EU general budget are the largest ones. They are currently provided by 18 non-EU countries and split among nearly 30 programmes and activities (see *Annex II* and *Annex III* for a full overview).

Contributions to EU programmes and activities

Contributions to the EU general budget

18 *Figure 3* shows the overall amount of non-EU country contributions to the EU budget over the 2014-2019 period, and the five largest components of the total. The contributions made in the framework of the EEA Agreement are collected in one large batch for all programmes (and presented as such in the figure). The overall increase of the contributions between 2016 and 2017 mainly resulted from the change of Switzerland's participation in the Horizon 2020 programme from partial to full (for more details, see paragraph *77*).

Figure 3 – Total contributions to the EU budget in 2014-2019



Note: Horizon 2020 includes also the contributions of Switzerland and Ukraine to the Euratom Research and Training Programme and Switzerland's contribution to activities under the project of International Thermonuclear Experimental Reactor (ITER).

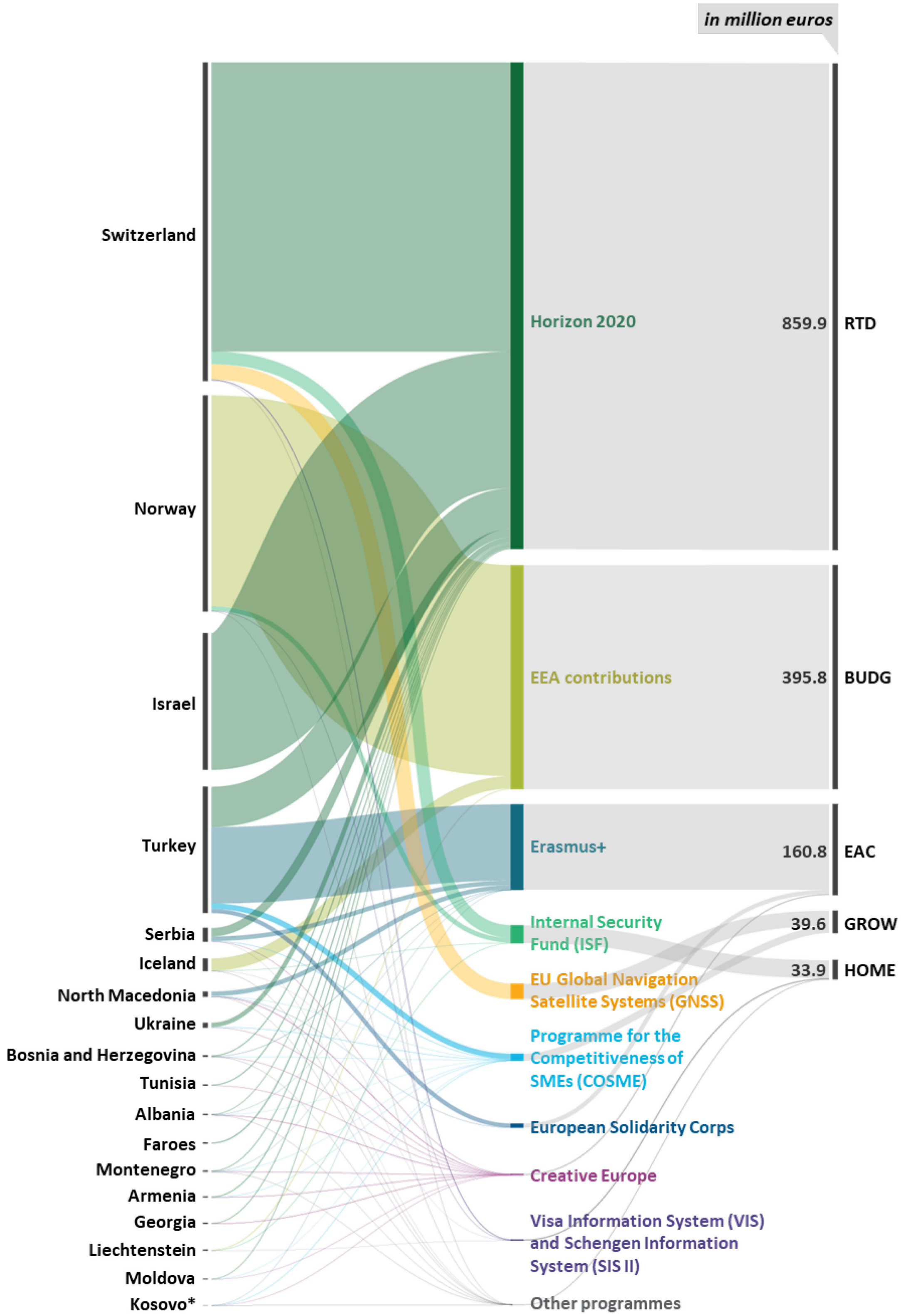
Source: ECA, based on Commission and Council data.

19 In absolute numbers, the largest contributors are Switzerland, Norway, Israel and Turkey, whose combined contributions represent around 95 % of all annual contributions by non-EU countries. Five DGs collect 99 % of the contributions: the DGs for Research and Innovation (RTD), Budget (BUDG), Education, Youth, Sport and Culture (EAC), Internal Market, Industry, Entrepreneurship and SMEs[4] (GROW)[5] and Migration and Home Affairs (HOME). ***Figure 4*** provides further details on the split of the contributions to the 2019 EU budget between non-EU countries, and specific EU programmes and activities managed by these DGs (see ***Annex II*** for a full overview of the period 2014-2019). DG BUDG centrally collects the EEA contributions and subsequently redistributes them among the DGs responsible for managing the respective programmes and activities.

[4] Small and medium-sized enterprises.

[5] As of 01.01.2020, the responsibility for EU space and defence activities has moved from DG GROW to the new DG DEFIS.

Figure 4 – Overview of main contributions to the EU budget in 2019 by country, programme and responsible DG

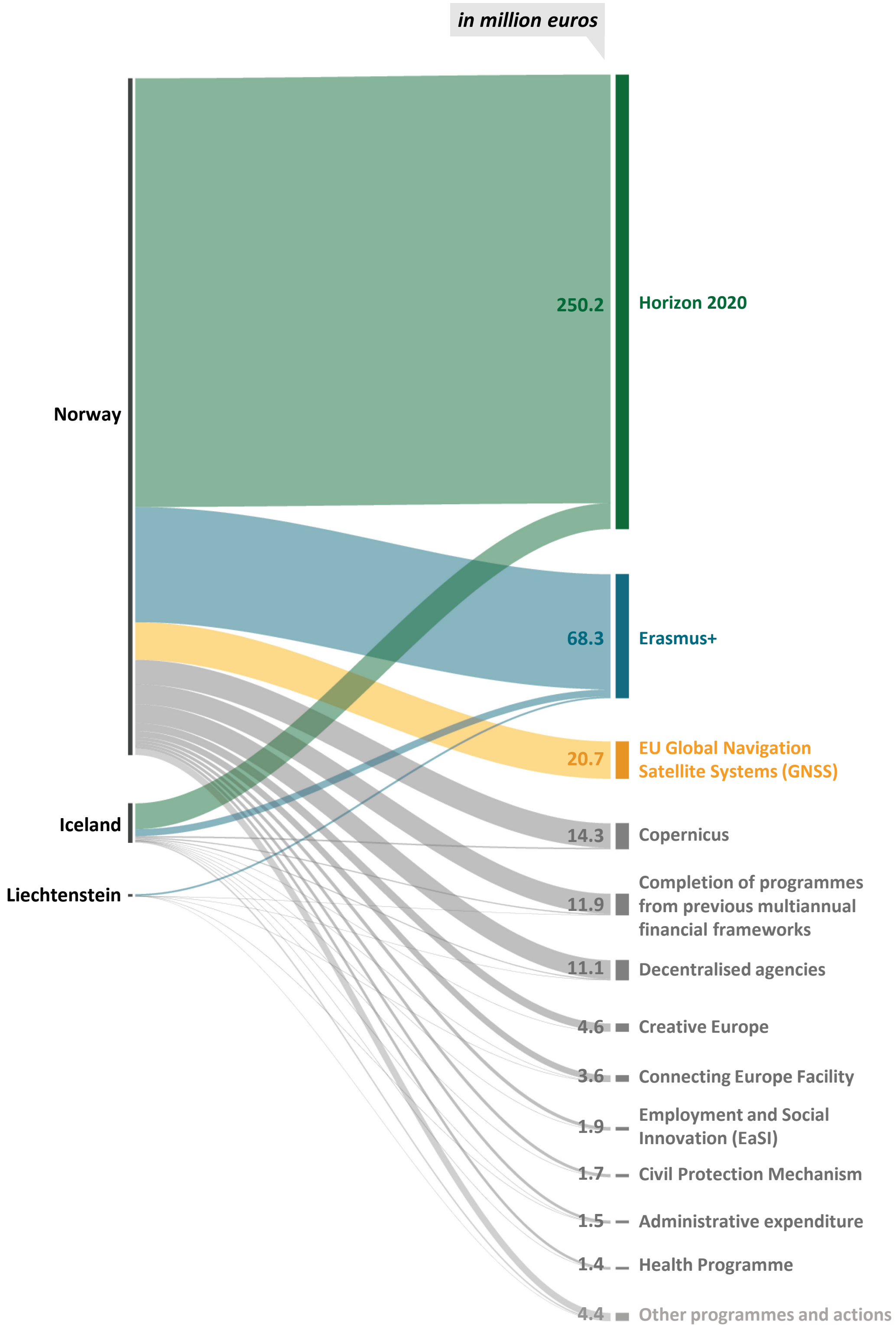


Note: The figure refers to the contributions as they were requested by the Commission (entitlements). The amounts actually paid by non-EU countries in 2019 may marginally differ due to cut-off procedures or delays in payments.

Source: ECA, based on data provided by the Commission.

20 The breakdown of the EEA contributions by country and programme or activity is presented in ***Figure 5*** (see ***Annex III*** for further details).

Figure 5 – 2019 EEA contributions by country and programme or activity



Source: ECA, based on Commission documents.

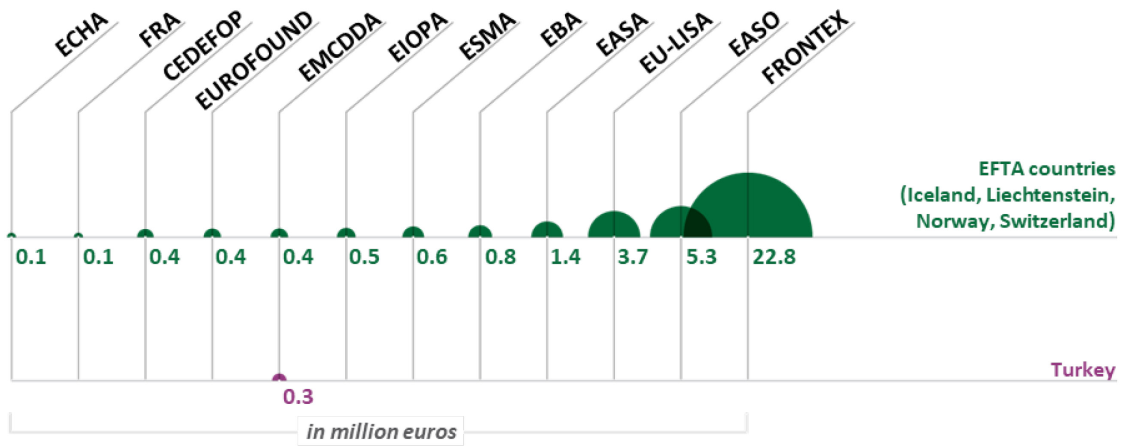
Contributions to EU agencies

21 Besides the Commission, agencies also manage certain EU programmes and activities. There are three types of EU agencies: Commission executive agencies, decentralised agencies and other bodies with specific mandates, out of which only the European Institute of Innovation and Technology receives contributions from non-EU countries.

22 Executive agencies are fully financed by the Commission through the EU budget, which means that any contributions from non-EU countries are already included in the overview of general budget contributions presented in ***Figure 4***. The European Institute of Innovation and Technology also receives non-EU countries contributions through the EU budget.

23 Decentralised agencies receive contributions from non-EU countries either through the EU general budget or directly to their own budgets. These direct contributions amounted to €37 million in 2019 (see ***Figure 6***).

Figure 6 – Contributions received directly by EU decentralised agencies in 2019



Agencies:
European Chemicals Agency **(ECHA)**
European Union Agency for Fundamental Rights **(FRA)**
European Centre for the Development of Vocational Training **(Cedefop)**
European Foundation for the Improvement of Living and Working Conditions **(Eurofound)**
European Monitoring Centre for Drugs and Drug Addiction **(EMCDDA)**
European Insurance and Occupational Pensions Authority **(EIOPA)**
European Securities and Markets Authority **(ESMA)**
European Banking Authority **(EBA)**
European Union Aviation Safety Agency **(EASA)**
European Union Agency for the Operational Management of Large-Scale IT Systems in the Area of Freedom, Security and Justice **(eu-LISA)**
European Asylum Support Office **(EASO)**
European Border and Coast Guard Agency **(Frontex)**

Note: As these contributions do not form part of the EU general budget, they are not included in the overview presented in ***Figure 4***. The figures are based on entitlements for 2019. In-kind contributions to agencies are not covered by the review.

Source: ECA, based on agencies' replies to the ECA questionnaire.

EU support to finance contributions

24 The European Enlargement and Neighbourhood strategies highlight the importance of non-EU countries' participation in EU programmes and activities of EU agencies[6]. To support collaboration with non-EU countries in this area, the EU can partially reimburse their contributions from two of its external action instruments: the Instrument for Pre-Accession Assistance (IPA II) and the European Neighbourhood

6 Communication from the Commission to the Council and the European Parliament on strengthening the European Neighbourhood Policy (COM(2006)726 final); Communication from the Commission to the Council and the European Parliament "Enlargement strategy and main challenges 2008-2009" (COM(2008) 674 final).

Instrument (ENI). Participation of IPA beneficiaries in EU programmes and agencies has the objective of preparing the countries for full EU membership.

25 The non-EU country first has to pay the contribution in full and then apply for partial reimbursement of the paid amount. IPA II typically provides reimbursement of up to 90 % of a country's contribution in the first year of participation, with a gradual decrease in subsequent years. The ENI usually provides support of up to 50 % of the contributions.

26 Before providing IPA II support for participation in EU programmes, the Commission assesses the country's specific situation and establishes the intervention logic. The Commission uses several indicators to assess the effectiveness of the support provided for each country. These indicators can differ significantly between countries, the reasons for which were not available, and the number of indicators used is not linked to the amounts to be reimbursed (see example in ***Box 1***).

Box 1

Indicators used to assess IPA II support for Montenegro and Serbia's contributions

The Commission provides around €1 million per year to partially reimburse Montenegro's contributions. It uses the following six indicators to assess the country's participation in EU programmes:

- number of programmes for which an agreement has been concluded;
- number of entities fully benefiting from EU programmes and initiatives;
- reimbursement of contributions in a timely manner;
- Montenegro's level of ownership of and commitment to participation in EU programmes, including in financial terms;
- level of awareness of EU programmes in the country;
- level of engagement and outreach with minority communities.

For Serbia, the Commission provides support of around €16 million per year. It considers the following two indicators:

- number of programmes for which an agreement has been concluded; and
- Serbia's participation rates for the different EU programmes.

27 The Commission presents country-specific data, including information on contributions and amounts reimbursed under IPA II, in programming documents for each country. There is no comprehensive overview of all reimbursements provided each year from the two above-mentioned EU financing instruments, by country and EU programme or activity.

Contributions provided directly to Member States

28 The EFTA states (Iceland, Liechtenstein, Norway and Switzerland) contribute with additional funds for projects and programmes implemented, for the most part, directly by some EU Member States, separately from the EU budget and with different implementation rules (see paragraphs ***78***-***107***). These contributions, which amount to an average of €0.5 billion per year, are provided directly to Member States, based on agreements concluded between the EFTA states and the EU, and are intended to complement the EU's cohesion policy by reducing social and economic disparities.

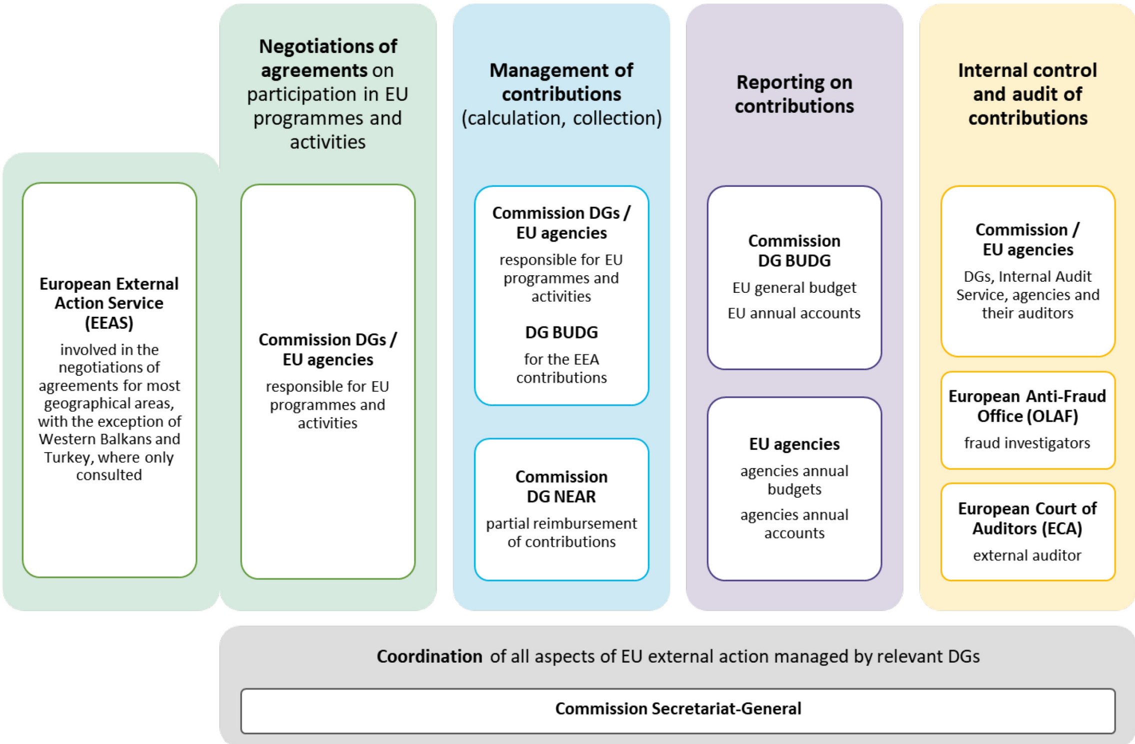
Contributions to EU programmes and activities

Establishing, managing, reporting and auditing contributions

Division of responsibilities

29 The Commission plays the largest role in managing the contributions on the EU's side. ***Figure 7*** describes the key responsibilities of the different EU entities dealing with contributions from non-EU countries.

Figure 7 – Division of responsibilities for contributions from non-EU countries



Source: ECA, based on information from public sources and provided by the Commission and EEAS.

Establishing the contribution amounts

30 The starting point for setting the contributions is a calculation that involves multiplying the amounts allocated each year to the EU programme or activity concerned by a ratio that is referred to as a "proportionality factor". The amounts allocated to the EU programme or activity concerned are determined based on either budgeted amounts or actual expenditure.

31 The proportionality factor is defined in the agreement between the non-EU country and the EU. It aims to reflect the relative size of the non-EU country's economy compared to that of the EU (or all countries participating in a programme), based on their Gross Domestic Product (GDP)[7].

32 To calculate the proportionality factor, one of the three following formulas is typically used:

- **Formula A** (also referred to as the "GDP formula"):

$$\frac{\text{GDP non-EU country}}{\text{GDP EU}}$$

- **Formula B** (also referred to as the "EEA formula", as it is used in the EEA Agreement):

$$\frac{\text{GDP non-EU country}}{\text{GDP EU + GDP non-EU country}}$$

- **Formula C** (used only for specific cases):

$$\frac{\text{GDP non-EU country}}{\text{GDP all countries participating in the programme or activity}}$$

33 Formulas A and B are the most widely used. **Formula A** is the standard formula applied for non-EU countries' contributions. As it has a higher denominator than **Formula A**, **Formula B** is more advantageous for non-EU countries and is applied for the countries with which the EU has a closer relationship (typically, the EEA EFTA states, and candidate and potential candidate countries).

[7] Using GDP data at market prices from Eurostat statistics. GDP data is available on Eurostat's website: https://ec.europa.eu/eurostat/databrowser/view/tec00001/default/table?lang=en

34 **Formula C** is less commonly used. It is applied to calculate for instance the contributions of Schengen associated countries[8] (Iceland, Liechtenstein, Norway and Switzerland) for the operation of large-scale IT systems instrumental for the smooth functioning of the Schengen area, such as the Schengen Information System (SIS) or Visa Information System (VIS). The specific denominator of the formula reflects the fact that all participating countries should pay their share of the costs of operating the system. In contrast to the calculation of contributions to other EU programmes, which uses budgeted amounts, the calculation of SIS and VIS contributions is based on the amount of payments executed for the functioning of each IT system in a particular year.

35 In some cases, notably for EFTA states, the contribution amounts result directly from the calculation based on one of the three formulas as described above. However, in other cases, the calculated amounts are rather a basis for negotiation. The Commission may agree with a non-EU country on adjustments that can significantly change the theoretical amounts obtained by the formulas.

36 For example, the Commission agreed with two non-EU countries on a symbolic amount of €1 as their first contributions to the Creative Europe programme, in order to give them time to build up their capacity to benefit from it. In another case, a non-EU country offered to pay a higher contribution than the one resulting from the application of **Formula B**, reflecting the success of its participation in the respective EU programme (see ***Box 3***).

37 There are no standardised methods or procedures for these adjustments, and the Commission's approach varies depending on the programme and the non-EU country concerned. To establish the final contribution amounts, the Commission takes into account a number of aspects, such as the benefits obtained by the non-EU country through its participation in the programme, the particular political and economic context of the negotiations and the EU's wider foreign policy objectives.

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[8] See Schengen Association Agreements: Norway and Iceland are parties to the same Agreement concluded with the Council (OJ L 176, 10.7.1999, p. 36), whereas Liechtenstein acceded to the Agreement between the EU and Switzerland, based on a separate Protocol (OJ L 53, 27.2.2008, p. 52 and OJ L 160, 18.6.2011, p. 21).

38 Most of the contributions provided directly to decentralised EU agencies are calculated by applying either **Formula A** or **Formula B**. For the European Banking Authority, the European Insurance and Occupational Pensions Authority and the European Securities and Markets Authority, the contribution of EFTA states participating in their activities is calculated using a different formula, where the proportionality factor is based on the voting weight of the non-EU country compared to that of the EU Member States. The voting weight of each country is based on the size of its population.

39 In some cases, non-EU country contributions are determined based on the operational costs of the agency's activities in which the non-EU country is participating. This is the case, for instance, for the contributions of Norway and Switzerland to a specific survey carried out by Eurofound, or for Norway's contribution to the budget of the European Securities and Markets Authority in connection with a specific IT project.

Managing the contributions

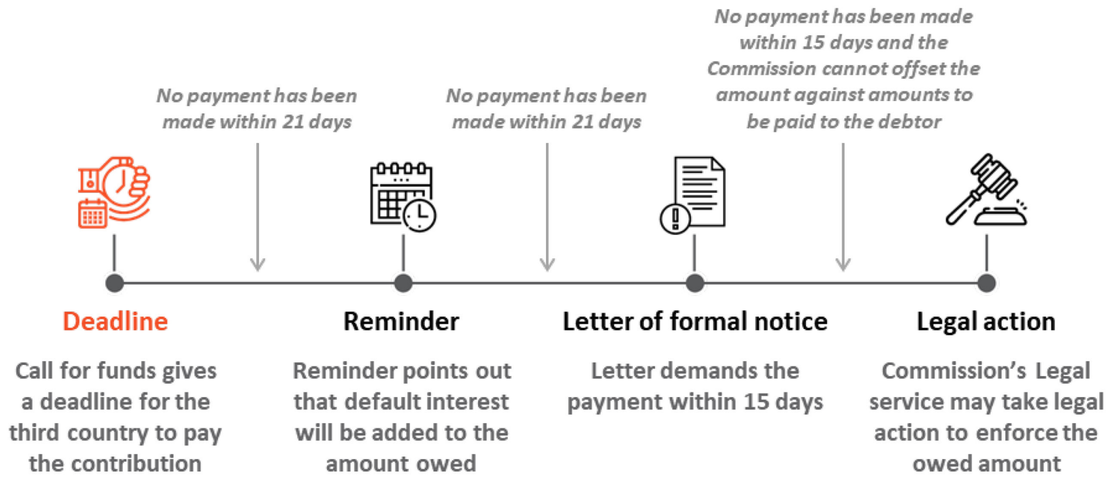
40 After the amounts are agreed, the responsible Commission DGs request the contributions for each programme. This takes generally the form of one call for funds per year for each programme and each non-EU country. Exceptions exist, for example for the contributions to Horizon 2020, which are divided into two calls per year, and for the EEA contributions, which are collected through one call for funds for all programmes.

41 All programme-related contributions from non-EU countries can be used for that programme exclusively. However, unused contributions from the last year of a programme can be carried over to the successive programme.

42 In cases where the non-EU countries do not make the payment before the deadline, the Commission is entitled to collect interest on overdue amounts, as specified in the respective agreements. ***Figure 8*** shows the standard procedure followed by the Commission in recovering the amounts due[9].

[9] Commission Decision of 3.8.2018 on the internal procedure provisions for the recovery of amounts receivable arising from direct management and the recovery of fines, lump sums and penalty payments under the Treaties, C(2018) 5119 final; Commission Accounting Manual.

Figure 8 – Procedure for collecting overdue contributions



Source: ECA, based on C(2018) 5119 final and the Commission's Accounting Manual.

43 In 2019, around one quarter of contributions were paid after the deadline, with an average delay of 51 days. Out of these, around one third were paid with a delay of more than 21 days, that is after the reminder sent by the Commission pointing out that interest will be added to the amount owed. The Commission collected late payment interest amounting to €110 180 for these contributions.

Reporting arrangements

44 There are no specific reporting arrangements for the contributions collected. Each Commission DG keeps track of the contributions it manages through an internal dashboard or other similar tools, which are used to prepare the calculations for the calls for funds. Some DGs also report on the participation of non-EU countries in the EU programmes and activities they manage.

45 The Commission presents the total amount of contributions from non-EU countries in the EU general budget and in the annual accounts. Some additional information, such as the contributions provided by each EEA EFTA state and the contributions by programme and groups of non-EU countries, can be found in the related annexes and Commission working documents[10].

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[10] Annexes "European Economic Area", "List of budget headings open to candidate countries and, if applicable, the Western Balkan potential candidates and certain partner countries" to the general budget, Working Document V accompanying the draft budget and Annex A Revenue to the annual accounts.

46 The Commission does not regularly publish a detailed overview of the contributions, to show the amounts received from each non-EU country for each EU programme or activity in which it participates. It has nonetheless provided such an overview of contributions to the EU budget in its reply to two questions submitted by Members of the European Parliament in 2017[11].

Internal control and audit

47 Internal control and audit arrangements for non-EU country contributions are those applied to all EU revenue, in accordance with the Financial Regulation[12]. Up to the date of the review, the Commission's Internal Audit Service had not performed any specific audit on this topic.

48 The ECA audits these contributions for the statement of assurance on the consolidated accounts of the EU. The findings resulting from this work are published in ECA's annual reports. For example, in 2015 and 2016 the ECA identified a few minor errors related to the calculation of EEA contributions[13].

Selected examples of contributions to EU programmes: Horizon 2020 and Erasmus+

49 In the following paragraphs, we present the specific arrangements in place for the selected examples of contributions.

Contributions to Horizon 2020

50 Horizon 2020 was the EU funding programme for research and innovation[14] over the 2014-2020 period, with a budget of €77 billion.

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[11] Questions 1199/2017 and 7891/2017.

[12] Regulation (EU, Euratom) 2018/1046 of the European Parliament and of the Council of 18 July 2018 on the financial rules applicable to the general budget of the Union (OJ L 193, 30.7.2018, pp. 1-222).

[13] See paragraphs 4.20 of the 2015 annual report and 4.19 of the 2016 annual report (OJ C 375, 13.10.2016, p. 136 and OJ C 322, 28.9.2017, p. 142).

[14] Regulation (EU) No 1291/2013 of the European Parliament and of the Council of 11 December 2013 establishing Horizon 2020 - the Framework Programme for Research and Innovation (2014-2020) and repealing Decision No 1982/2006/EC (OJ L 347, 20.12.2013, pp. 104–173).

51 Horizon 2020 was generally open to participation by non-EU countries, although they were not always entitled to receive EU funding. In this sense, Horizon 2020 distinguishes between associated and non-associated countries.

- Entities from associated countries benefited from the same terms and conditions as those from the EU Member States. Associated countries had to pay financial contributions to the programme, defined in specific agreements on participation in Horizon 2020 concluded with the EU.

- Non-associated countries could participate in nearly all parts of the programme, but did not normally receive EU funding[15] and did not pay contributions. Overall, over 100 non-associated countries participated in the programme, with the United States being the most active partner.

52 Association to the programme was limited to candidate and potential candidate countries, ENP countries and EFTA countries, as well as the countries associated to its predecessor, the Seventh Framework Programme. In 2020, there were 16 non-EU countries associated to the programme. The most active among them in terms of the number of successful applications for funding were Switzerland, Norway and Israel.

Establishing the contribution amounts

53 The Commission calculated Horizon 2020 contributions based on either **Formula A** or **Formula B** for the proportionality factor (see paragraph ***32***). **Formula B** applies to the EEA EFTA states, candidate and potential candidate countries. **Formula A** applies to the rest of the associated countries.

54 The proportionality factor was applied to the amounts budgeted for the programme. In the case of candidate and potential candidate countries, and some ENP countries, the amount thus obtained was adjusted downwards by correction factors. Correction factors were not applied for associated countries with strong scientific and technological capacity, such as EFTA countries or Israel.

[15] For more information, see: European Commission, *From Horizon 2020 to Horizon Europe*, Monitoring flash no. 3 – International cooperation, February 2019.

55 The correction factors were defined in individual agreements on the participation in Horizon 2020. The Commission determined them based on the past performance of each associated country and its estimated capacity to benefit from the programme, taking into account the EU's wider policy objectives of the enlargement and ENP policies. There was no standardised method or procedure for calculating a specific correction factor for each country. The mechanism thus allowed the Commission to establish correction factors on a case-by-case basis in the negotiations with each non-EU country.

56 Correction factors ranged from 0 to 1 and they indicated the portion of the amount calculated based on the proportionality factor that the non-EU country would actually pay. For example if the correction factor is 0.15, it means that the non-EU country concerned will pay only 15 % of the amount calculated on the basis of the proportionality factor. The lower the correction factor is, the lower the final contribution amount will be as well.

57 The Commission granted exceptionally low correction factors of 0.05 to Ukraine and Tunisia (contribution of only 5 % of the calculated amount), to show the EU's support for the countries at the particular time – following Russia's annexation of Crimea and the terrorist attacks in Tunisia. ***Table 1*** gives an overview of all proportionality factors and correction factors for Horizon 2020 contributions (as of October 2020).

Table 1 – Horizon 2020 proportionality factor formulas and correction factors

H2020 associated country / territory	Proportionality factor	Correction factor
Albania	Formula B	0.15
Armenia	Formula A	0.25
Bosnia and Herzegovina	Formula B	0.15
Switzerland	Formula A	Not applicable
Faroes	Formula A	Not applicable
Georgia	Formula A	0.15
Israel	Formula A	Not applicable
Iceland	Formula B	Not applicable
Moldova	Formula A	0.25
Montenegro	Formula B	0.50
North Macedonia	Formula B	0.50 -> 0.15
Norway	Formula B	Not applicable
Serbia	Formula B	0.50
Tunisia	Formula A	0.05
Turkey	Formula B	0.14 -> 0.00
Ukraine	Formula A	0.05

Note: The correction factor for North Macedonia was amended from 0.5 to 0.15 from 2018 and the correction factor for Turkey was amended from 0.14 to 0 for 2020 (see ***Box 2***).

Source: ECA, based on Commission data.

58 The agreements on the participation in Horizon 2020 generally envisaged a mid-term review of correction factors and contribution amounts in the fourth year of the programme. The Commission performed the reviews for the 2014-2020 programming period in 2017.

59 These reviews did not imply an automatic revision of the contribution amount but the Commission would consider it based on an explicit request from an associated country. Following the reviews from 2017, two countries submitted such requests and the Commission decided to accept them (for more details see ***Box 2***).

Box 2

Revision of correction factors following the mid-term review

Turkey

For Turkey, the review showed that Turkish researchers submitted a relatively low number of proposals for funding and the success rate of these proposals was in many areas below the programme's average. The Commission estimated that Turkey would receive around €240 million in Horizon 2020 funding for the whole duration of the programme, compared to the €436 million estimated at that time as Turkey's overall contributions to the programme (around 28 % of these contributions were reimbursed from IPA II).

Following the review, Turkey requested that the correction factor be amended from 0.14 to zero for 2020, waiving the financial contribution for that year, and the Commission accepted the request[16]. Taking into account this amendment, Turkey paid €359.5 million for their participation in Horizon 2020 in the period 2014-2020.

North Macedonia

Similar reasons led the Commission to accept North Macedonia's request to amend the correction factor from 0.50 to 0.15 for the years 2018-2020. The Commission estimated that North Macedonia would receive funding of around €8 million for the whole duration of the programme, while paying contributions of around €22 million[17]. Part of these contributions was also covered by the IPA II funds (90 % in 2014, gradually decreasing to 40 % in 2020).

60 For the programming period 2021-2027, the Commission proposed to carry out automatic corrections for any significant imbalance between the contributions paid and the funds received by non-EU countries. This will remove the need for amendments to the agreements on participation in the programme.

Contributions to Erasmus+

61 Erasmus+ is an EU programme offering opportunities for mobility and cooperation across the education, training, youth and sport sectors, with a budget of €14.7 billion for the period 2014-2020.

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[16] C(2019) 7623 final of 28.10.2019.

[17] C(2018) 3719 final of 13.6.2018.

62 Similarly to Horizon 2020, the programme differentiated between two groups of participating countries.

- Programme countries: these could take part in all Erasmus+ actions, and they contributed financially to the programme. They included all EU Member States and six non-EU countries: Iceland, Liechtenstein, Norway, North Macedonia, Serbia and Turkey.
- Partner countries, including countries neighbouring the EU and from all over the world: these could only take part in certain actions under the programme[18], and their participation was subject to specific criteria. Four partner countries provided contributions: Albania, Bosnia and Herzegovina, Kosovo* and Montenegro.

Establishing the contribution amounts

63 Contributions were calculated based on **Formula B** (see paragraph ***32***). However, for candidate and potential candidate countries, which could participate fully or partially in the programme, the contributions resulting from the application of the formula were adjusted on a case-by-case basis.

64 To provide more details about how the contribution amounts are established, we have selected the examples of Turkey and Montenegro (see ***Box 3***). Turkey was a programme country and provided the largest contribution of all non-EU countries participating in the programme, while Montenegro was a partner country that only participated in some activities and provided the smallest contribution.

[18] For further information, see: European Commission, *Erasmus+ programme guide*, August 2020, pp. 8-9.

Box 3

Turkey’s contribution to Erasmus+

Turkey has been participating in several EU education programmes since 2003. The country's financial contribution to these programmes has increased significantly since then, reaching €134 million towards the end of the 2007-2013 programming period. This corresponds to approximately 10.8 % of the EU budget for the two programmes in which it participated and which are now part of the Erasmus+ programme. The Commission thus proposed to keep the same ratio (instead of a GDP-based proportionality factor) to calculate the country's financial contribution to Erasmus+ in the subsequent programming period (2014-2020).

As the Erasmus+ budget was substantially higher than that of its predecessor programmes, applying the ratio of 10.8 % would have led to a financial contribution of nearly €1.6 billion (10.8 % * €14.7 billion). After negotiations with Turkey, the Commission agreed that the contribution would be reduced to half of that amount (€800 million). This represents 5.4 % of the total programme budget, which is above the theoretical proportionality factor that would result from applying **Formula B** (4.51 %). Hence, the Commission considered the contribution amount satisfactory. In addition to this, Turkey paid a yearly contribution of €9 million for the international dimension of the programme, which funds mobility and higher education cooperation with partner countries outside Europe.

The initial agreement did not include a review clause. However, given the success of the programme, in 2014 Turkey expressed its readiness to increase the financial contribution. The agreement was therefore amended and the financial contribution was updated to €870 million (€126 million per year from 2015). In 2018, 44 930 participants in 1 417 Turkish projects benefited from Erasmus+ activities for a total grant amount of €84 million[19].

Montenegro’s contribution to Erasmus+

Montenegro participates on an equal footing with the EU Member States only in certain actions: IT support platforms and support for policy reform.

Montenegro’s contribution was fixed at €50 000, which represents approximately 40 % more than the amount calculated based on **Formula B**. The Commission proposed this higher amount to reflect the fact that costs of participation in IT platforms are not proportional to a country’s GDP.

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[19] European Commission, *Erasmus+ 2018 in numbers - Turkey*, 2019.

EFTA contributions to the EU budget

65 The four EFTA states provide contributions to the EU budget based on two different types of legal arrangements: Iceland, Liechtenstein and Norway contribute based on the EEA Agreement, whereas Switzerland does not participate in the EEA and has separate bilateral agreements with the EU.

EEA contributions (Iceland, Liechtenstein and Norway)

66 The EEA Agreement provides one single basis for participation by the three EEA EFTA states (Iceland, Liechtenstein and Norway) in EU activities. One or more EEA EFTA states participated in 15 of the 60 EU programmes for the 2014-2020 period, providing an annual contribution of around €400 million.

Establishing the contribution amounts

67 There are two types of EU expenditure that the EEA EFTA states contribute to: operational expenditure (which represents the main part of the EEA EFTA contribution) and expenditure for EU public administration.

Contribution to operational expenditure

68 The operational expenditure refers to the amounts spent on specific actions that are part of EU programmes and activities. The annual EEA EFTA financial contribution to operational expenditure is calculated by multiplying the proportionality factor (**Formula B**) of each EEA EFTA state by the amount of the relevant EU budget line. The amount to be paid is determined based on the funds reserved in the EU budget for the annual expenses of projects running under EU programmes (payment appropriations). Other non-EU countries contribute based on the funds reserved for all future expenses of new projects approved in a given year (commitment appropriations), which are usually higher than the payment appropriations in the first years of programme implementation[20].

[20] EFTA Secretariat, *EFTA Bulletin on activities and financial contributions under the EEA Agreement*, November 2002, pp. 34-36.

69 As the payment appropriations are only an estimate of expected expenditure from running projects, the actual expenditure of each year may show different payment figures. Every year, the Commission communicates to the EEA EFTA states the actual expenditure from the year N-2, which may lead to a correction of the contribution paid for that year.

Contribution to EU public administration

70 The contribution to EU public administration covers salaries, pensions, buildings, equipment and IT costs. It is negotiated with EEA EFTA states based on the budget of each programme and activity.

71 The contribution of EEA EFTA states to the expenditure for EU public administration is around two thirds in-kind, referring to the secondment of national experts to the Commission, and one third financial. The in-kind contribution is established based on the Commission's estimate of the average annual cost per seconded expert, irrespective of the salary costs actually incurred by the EEA EFTA states. It amounted to €125 000 per expert in 2020 (except for Eurostat temporary staff, where the contribution is based on the actual cost). In 2020, 26 national experts were seconded in the framework of the EEA Agreement, mostly from Norway. This represents an in-kind contribution of €3.25 million.

72 The financial contribution is based on estimated overhead costs and additional related costs for the activity of each seconded expert (for office space, travel, meetings, committees, conferences and publications directly linked to EEA EFTA participation in a given activity). The financial contribution for 2020 amounts to approximately €1.6 million.

Managing the contributions

73 While the EEAS bears overall responsibility for the EU's relationship with the EFTA states, the Commission (DG BUDG) is responsible for managing the budgetary matters related to the EEA contributions: the preparation of the EEA Annex to the EU budget (which contains the EEA relevant appropriations) and issuing the call for funds (see ***Figure 9***). The reason why EEA contributions are managed in a centralised way by DG BUDG is that they form part of a single agreement (the EEA Agreement).

Figure 9 – Indicative timeline for the contribution of EEA EFTA states to the EU budget

Source: ECA, based on the EEA Agreement Protocol 32 and Commission internal guidelines.

Switzerland's contributions

74 In contrast to other EU neighbour countries, there is no overarching agreement regulating the relations between the EU and Switzerland. Instead, the parties use a system of numerous bilateral agreements concluded for each specific sector of cooperation. Currently, there are some 20 major agreements, complemented by around 100 other agreements[21]. Most major bilateral agreements are bundled into two large packages, the Bilaterals I (1999) and the Bilaterals II (2004).

75 Since 2008, the Council has repeatedly stated that the current system of bilateral agreements reached its limits due to its complexity and incompleteness[22]. Following that, negotiations for an overarching Institutional Framework Agreement (IFA) with Switzerland started in May 2014. The IFA aims to establish a single institutional framework for all existing and future market access agreements between the EU and Switzerland. In December 2018, the Swiss Federal Council decided to hold a public consultation of the draft text[23] of the IFA with Swiss stakeholders. Following the consultation, further clarifications were asked by the Swiss side and correspondence between the two parties continued[24]. According to the Swiss authorities, in November 2020, the Swiss Federal Council defined its position regarding the necessary clarifications, and discussions have resumed between the two parties.

Establishing the contribution amounts

76 All three formulas (see paragraphs ***31***-***33***) are used in calculating the proportionality factor, as well as a few others, which are tailored to specific activities. No correction factors or similar adjustments are applied. ***Table 2*** shows the programmes and activities with contributions received in 2019.

[21] European Commission (DG TRADE), Countries and regions: Switzerland.

[22] Council conclusions on EU relations with the Swiss Confederation, Press release 116/19 of 19.2.2019, paragraph 8.

[23] Accord facilitant les relations bilatérales entre l'Union Européenne et la Confédération Suisse dans les parties du marché intérieur auxquelles la Suisse participe, 23.11.2018.

[24] Letter from the Swiss Federal Council to the President of the European Commission, 7 June 2019; Letter from the President of the European Commission to the Swiss Federal Council, 11 June 2019, Ares(2019)4158773.

Table 2 – Swiss contributions to the EU budget for 2019

Programme / activity	Contribution (in million euros)	Proportionality factor
Horizon 2020 (incl. Euratom and ITER)	511.0	Formula A and Formula B
EU Global Navigation Satellite Systems	27.1	Formula A
Internal Security Fund (ISF)	22.4	Formula C
Visa Information System (VIS)	0.7	Formula C
Schengen Information System (SIS)	0.5	Formula C
Schengen administrative costs (committees)	0.02	Formula C
Schengen administrative costs (Schengen secretariat)	0.7	specific
Statistical cooperation	4.8	specific
European Environmental Agency	1.4	specific
CCN/CSI	0.1	specific
Total	**568.7**	

Notes: Formula B is used only for the calculation of the contributions to a part of Euratom Research and Training Programme and for the activities under the ITER project. CCN/CSI refers to the Common Communication Network & Common System Interface used in the area of customs. For SIS, VIS and Eurodac, Switzerland provides additional contributions directly to the agency eu-LISA (see ***Figure 6***).

Source: ECA, based on Commission and Council accounting data.

77 Switzerland's largest contribution goes to Horizon 2020. Switzerland has historically been one of the first countries associated to the EU research programmes, however its association to Horizon 2020 between years 2014-2016 was partial, which meant that Swiss entities were eligible for EU funding only in a reduced number of programme actions. To cover the drop in Horizon 2020 funding available, the Swiss government established an alternative national funding scheme. At the same time, the partial association caused a temporary drop in the contributions paid by Switzerland to the EU.

Contributions provided directly to Member States

78 The funds provided by EFTA states outside the EU budget directly to EU Member States have specific calculation mechanisms and different management, reporting, internal control and audit arrangements from those that apply to the contributions to the EU general budget. These specific arrangements are described in the following paragraphs.

EEA and Norway grants for Member States

79 The EEA EFTA states provide grants for EU Member States with the aim to reduce social and economic disparities in the EEA and strengthen relations with the beneficiary states. These contributions can be seen as a counterpart for the participation of Iceland, Liechtenstein and Norway in the EU's internal market (see paragraph *84*). The basis for these grants is established in the EEA Agreement[25] and in the Agreement between Norway and the European Union on the Norwegian Financial Mechanism.

80 The funds are managed independently through two funding schemes. The EEA grants are jointly funded by Iceland, Liechtenstein and Norway (donor countries), whereas the Norway grants are funded by Norway alone. The EEA grants have been running since 1994, and a substantial increase of the contributions took place with the enlargement of the EU in 2004, when the Norway grants were established as an additional funding mechanism.

81 The EEA grants provide support to 15 EU Member States (referred to as beneficiary countries) which are also the beneficiaries of the EU Cohesion Fund[26]. The Norway grants provide funds to the 13 Member States which joined the EU since 2004. Under both types of grants, funds are set aside for regional cooperation and for promotion of youth employment. This may also support projects with the participation of other EU Member States.

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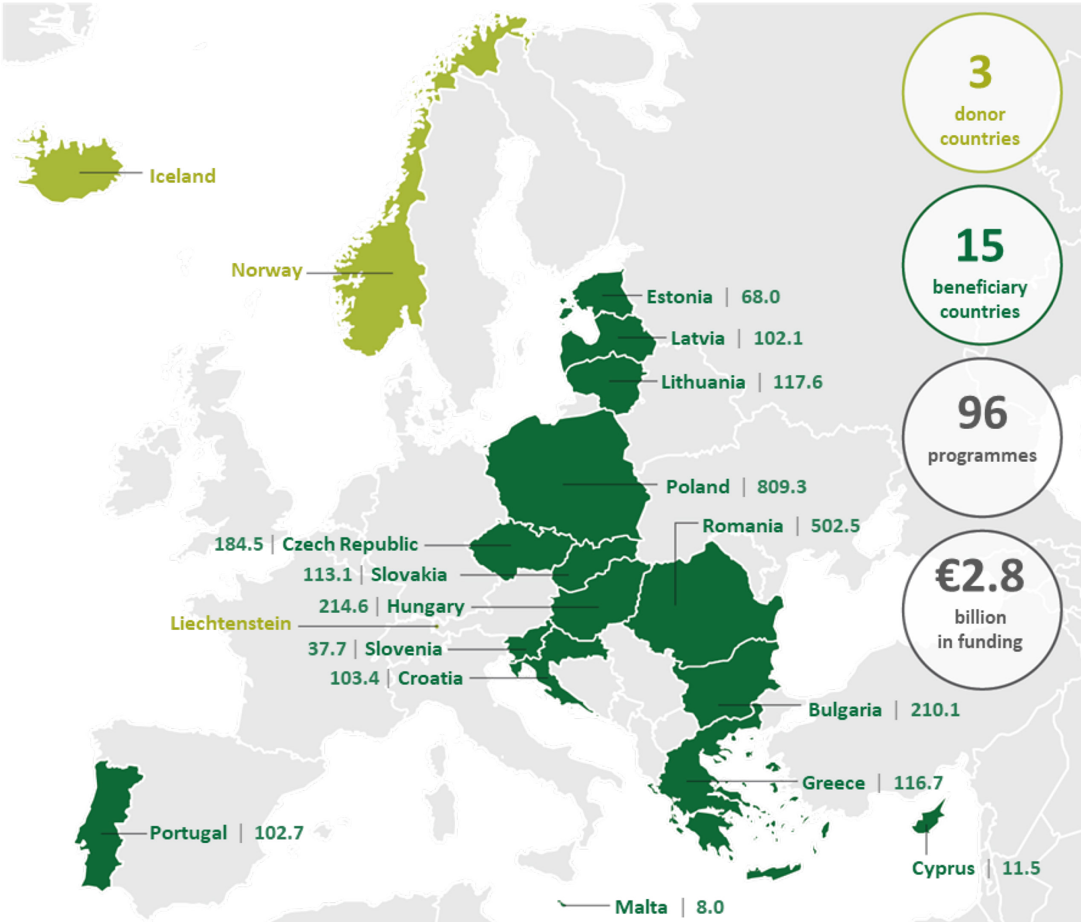
[25] EEA financial mechanisms are provided for in Part VIII of the EEA Agreement (Articles 115-117), together with Protocols 38, 38a, 38b and 38c.

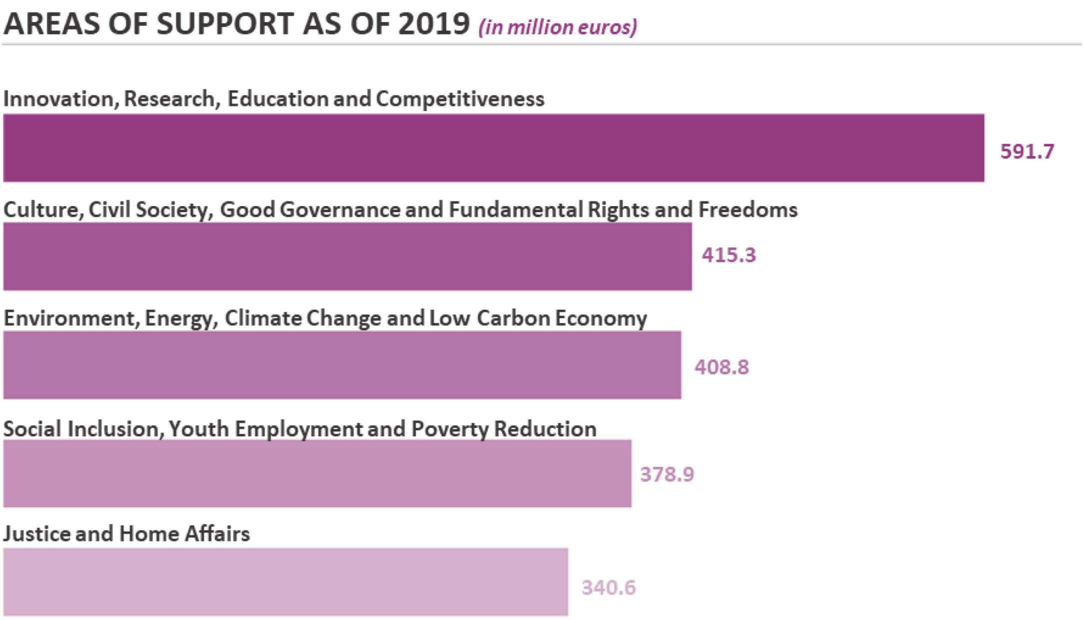
[26] Bulgaria, Czechia, Estonia, Greece, Croatia, Cyprus, Latvia, Lithuania, Hungary, Malta, Poland, Portugal, Romania, Slovenia and Slovakia.

82 The total contribution amounts to €2.8 billion in the period 1 May 2014 – 30 April 2021. Key areas of support include research and education, poverty reduction and environmental protection (see ***Figure 10***). Grants are available for non-governmental organisations, research and academic institutions and the public and private sectors.

83 By the end of 2020, there were 96 programmes and two regional funds formally agreed between the donor countries and beneficiary countries for the 2014-2021 funding period. Around 8 more programmes were due to be signed in 2021.

Figure 10 – Allocation of EEA and Norway grants for 2014-2021 (in million euros)





Note: The allocation to the areas of support was not yet finalised at the end of 2019.

Source: ECA, based on information from the EEA and Norway Grants Status Report 2019 and the EEA Agreement.

Establishing the contribution amounts

84 The contribution amounts were the result of a political agreement between the EU and the donor countries and there was no specific methodology used to calculate them. According to the Commission[27], the EU point of departure for the negotiations was that the EEA EFTA states, as part of the internal market, would benefit as much as Member States from the enlarged internal market. They should therefore also participate to a sustainable and equitable development of the internal market by contributing to the alleviation of social and economic disparities in the EU/EEA. In 2016, the EU and the donor countries agreed on an increase of the funds compared to the period 2009-2014, when €1.8 billion was provided. The amount agreed for the period May 2014 to April 2021 was €2.8 billion (€1.55 billion for the EEA grants and €1.25 billion for the Norway grants). These amounts are made available for commitment in equal annual instalments. The country-specific allocations were established by the Commission based on the distribution key used for the EU Cohesion Fund[28]. The breakdown of the contributions for the EEA grants between the three donor countries is based on the ratio between their GDPs: Norway provides 95.8 %, Iceland 3 % and Liechtenstein 1.2 %.

Managing the contributions

85 The EEA EFTA states are responsible for ensuring that the implementation arrangements are essentially the same for both of these financial mechanisms. They issued two regulations for the implementation of the EEA and Norway grants respectively[29] and they also concluded with each beneficiary state a Memorandum of Understanding (MoU)[30].

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[27] Recommendation for a Council Decision authorising the opening of negotiations for the adaptation of the following agreements in view of the enlargement of the EU to Croatia: the Agreement on the European Economic Area, the Agreement between the Kingdom of Norway and the European Union on a Norwegian Financial Mechanism for the period 2009-2014, (…) (COM(2012) 255 final).

[28] Point 5 of Annex VII of Regulation (EU) No 1303/2013 (OJ L 347, 20.12.2013, pp. 320-469).

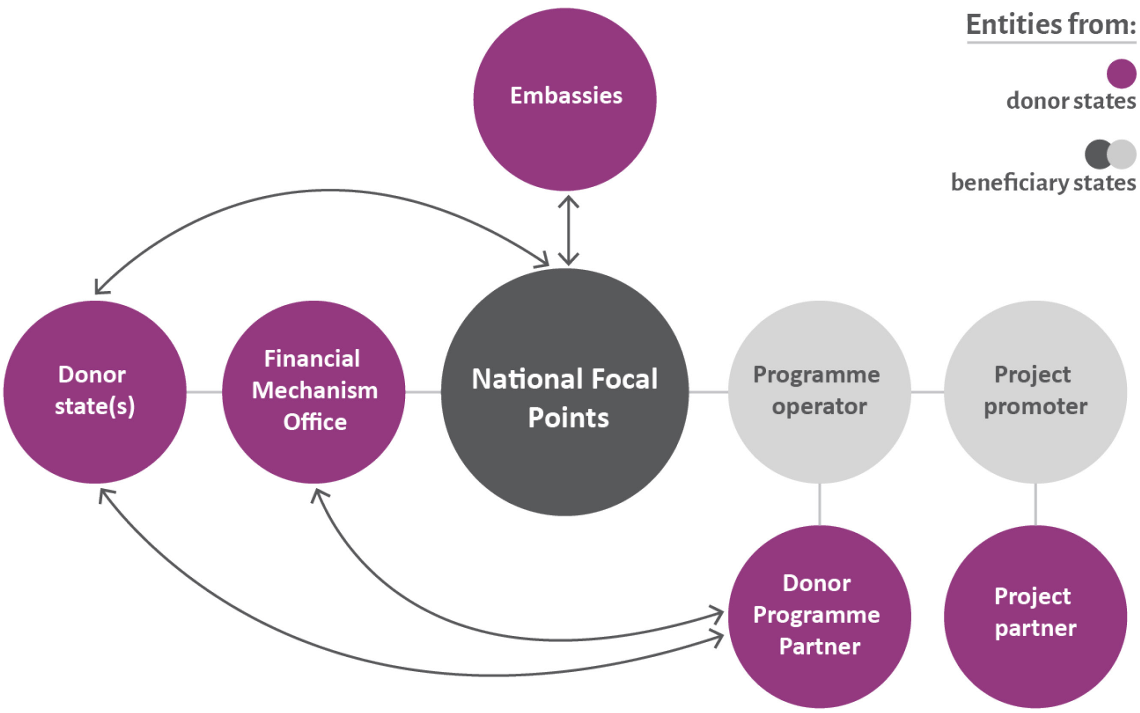
[29] Regulation on the implementation of the EEA Grants 2014-2021; Regulation on the implementation of the Norwegian Financial Mechanism 2014-2021.

[30] All Memoranda of Understanding concluded for the current funding period are available on the EEA grants website: https://eeagrants.org/resources?title=&field_resource_type_target_id=185

86 The MoUs set out the framework provisions concerning the respective country-specific allocation (including the breakdown of the allocation by programmes) and establish structures for managing and controlling the funds. The National Focal Points designated by each beneficiary state bear the overall responsibility for implementing the MoUs.

87 The responsibility of managing the grants is shared between the EEA EFTA states and the beneficiary countries (see *Figure 11*).

Figure 11 – Management of the EEA and Norway Grants



Source: ECA, based on EEA and Norway Grants annual report 2015-2016.

88 The Financial Mechanism Office (FMO), which is a part of the EFTA Secretariat, is responsible for managing and implementing these financial mechanisms. It serves as a contact point between the donor and beneficiary countries. The management costs on the EEA EFTA side are covered by the agreed financial contribution at a fixed rate of 7.5 % of the total amount of the grants.

89 The role of the Commission in implementing the grants is consultative. In the 2004-2009 period, the Commission screened all project proposals, whereas in 2009-2014 the screening was done at programme level. In the current funding period (2014-2021), the Commission (DG REGIO) provides its feedback at a strategic level on the content of the MoUs. For example, the Commission indicated that, in its comments provided for the MoU concluded with Slovenia, it identified ways to increase synergies and the complementarity of certain programmes with the European Structural and Investment Funds. The Commission also recommended that the national managing authorities of these funds be contacted in order to avoid overlaps in certain funding areas.

Reporting arrangements

90 The responsibility for reporting on the grants lies primarily with the beneficiary countries. The specific arrangements for this purpose are laid down in the relevant regulations (see paragraph ***85***) and include various reporting requirements, such as annual strategic implementation reports, programme reports and financial reports, including information on progress towards achieving outcomes.

91 For the current funding period, the EEA EFTA states should carry out a mid-term review by the end of 2020 with a view to redistributing any non-committed available funds within the allocations to the individual beneficiary countries concerned[31]. As regards the 2009-2014 funding period, the FMO estimated that approximately 15 % of the budget allocation will not be spent by the beneficiary countries, which in practice would result in a reduction of the EEA/Norway grants for that period.

Internal control and audit

92 The audit authorities in each beneficiary state issue annual reports on the effectiveness of the management and control system, and legality and regularity of the expenditure incurred under the grants. The FMO has its own audit strategy, which supplements the assurance it receives from the national audit authorities. A report[32] issued by the FMO on irregularities in the 2009-2014 period shows that most of the 1010 irregularities identified related to errors, while 29 of them related to fraud. Up to 30 September 2020, the reduction of project grants due to the irregularities identified amounted to €14.6 million.

93 In addition, the EFTA Board of Auditors (for EEA grants) and the Norwegian National Audit Office (for the Norway grants) may perform specific reviews or assurance engagements on the EEA and Norway grants. EU institutions do not have control or audit rights for these grants.

[31] Article 8 of protocol 38c and the corresponding provision from the agreement with Norway.

[32] https://eeagrants.org/resources/eea-and-norway-grants-2009-2014-report-fraud-and-irregularities

Switzerland's contribution to Member States

94 Similarly to the EEA EFTA states, Switzerland pays a financial contribution directly to EU Member States, intended to reduce economic and social disparities in the EU. It is based on a non-binding MoU[33] between the EU and the Swiss authorities from February 2006 and its addenda. The Swiss authorities indicated that Switzerland provides the funding autonomously, following its tradition of supporting the democratic transition of Central and Eastern Europe[34]. As stated by the High Representative of the European Union for Foreign Affairs and Security Policy and Vice-President of the European Commission, this contribution is a legitimate counterpart to the country's access to the internal market[35].

95 From 2007, Switzerland allocated 1.3 billion Swiss francs (approximately €1.2 billion) as its first contribution to the enlarged EU (see ***Figure 12***). The beneficiaries of this contribution are the 13 EU Member States that joined the EU since 2004. Similarly to the EEA and Norway grants, these funds are not channelled through the EU budget. Switzerland manages them directly in cooperation with the beneficiary countries.

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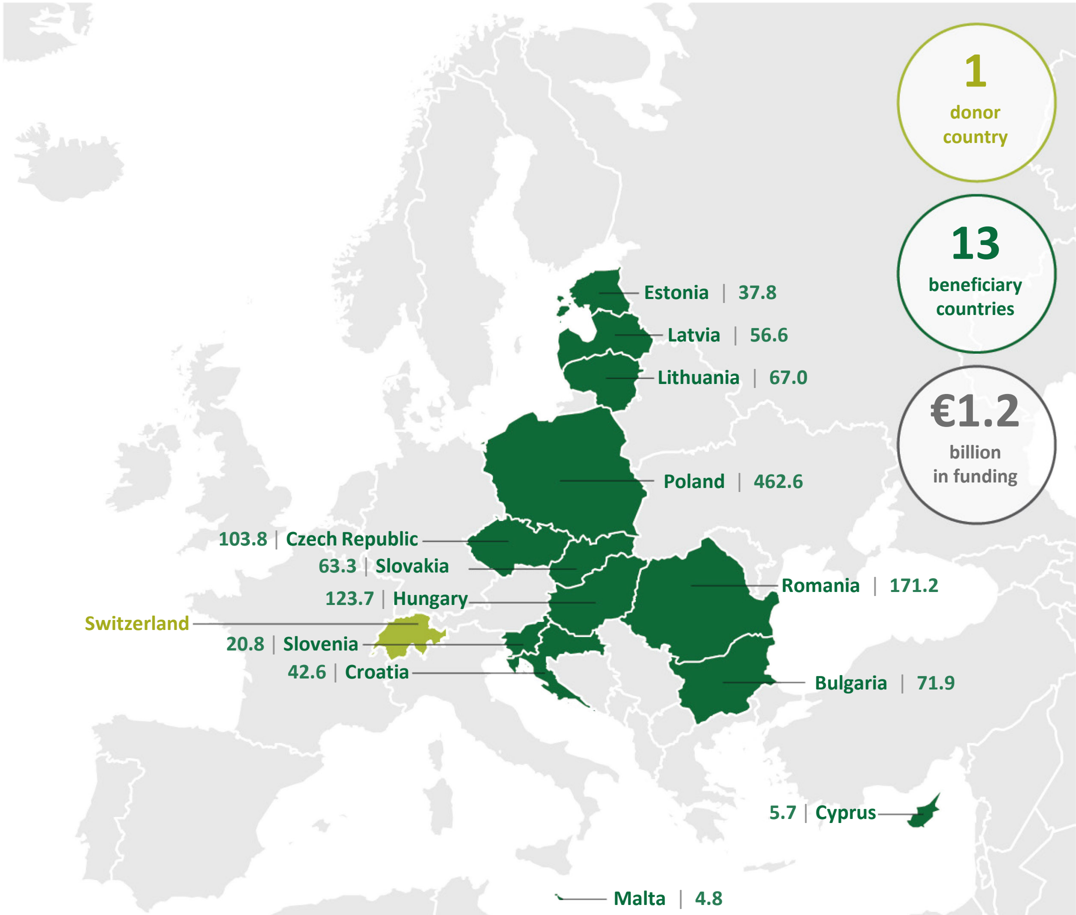
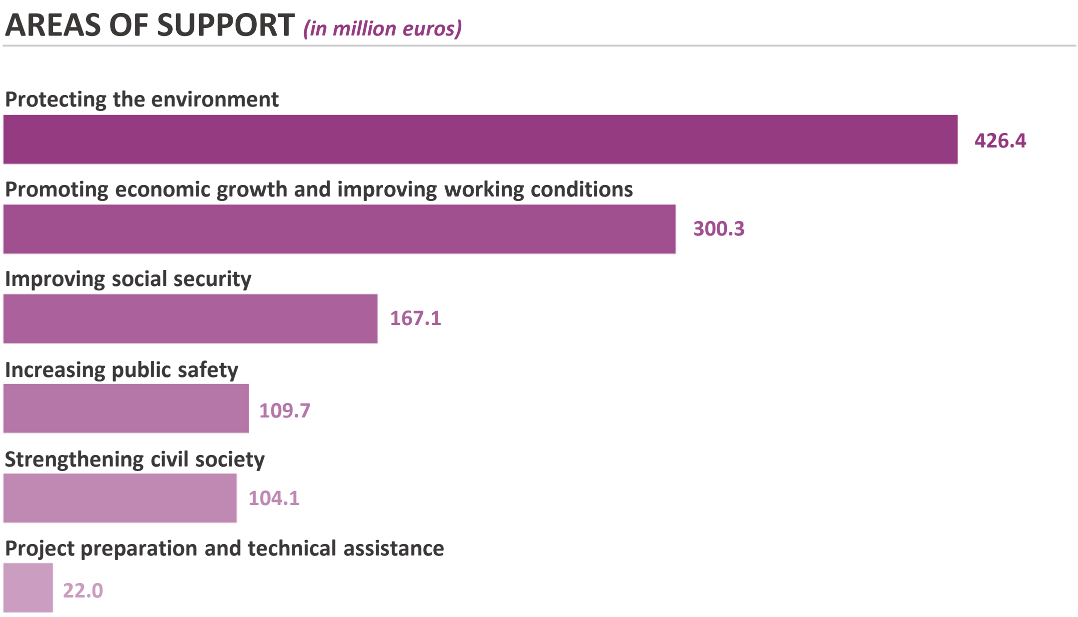
[33] Memorandum of Understanding between the President of the Council of the European Union and the Swiss Federal Council, 27 February 2006.

[34] https://www.eda.admin.ch/erweiterungsbeitrag/en/home/the-swiss-contribution/kurzportraet-erweiterungsbeitrag.html

[35] Parliamentary questions, Answer given by High Representative/Vice-President Borrell on behalf of the European Commission, 17.6.2020.

Figure 12 – Allocation of Switzerland's contribution from 2007 (in million euros)





Note: Allocations by area of support are based on finished projects. Amounts in euros in the figure are approximate as the allocations are denominated in Swiss francs.

Source: ECA, based on SDC – SECO: *Switzerland's contribution to the enlarged EU: Results of country programmes completed in the EU-12 countries*, May 2020, p. 4.

96 The MoU between the EU and the Swiss authorities determines the general principles of the contribution and its financial allocation. Further specific conditions are set out in the framework agreements concluded between Switzerland and each beneficiary country.

97 In 2018, the Swiss Federal Council proposed to the Swiss Parliament to continue this cooperation in the future in the form of a second contribution, earmarking the same amount as for the previous one. In 2019, the European Parliament recalled that Switzerland draws significant benefits from the participation in the single market and stressed that the future Swiss contribution to EU cohesion should be stepped up considerably[36]. The Council of the EU stated that the contribution should be proportionate to the significant benefits Switzerland draws from the participation in the single market[37]. The Swiss Parliament approved the proposal for the second contribution in December 2019, but decided to link it to a specific condition, which mainly refers to the renewal of the Commission's decision on equivalence of the Swiss stock exchanges to regulated EU markets[38]. In December 2020, discussions between the two parties on a MoU for the second contribution were still ongoing.

Establishing the contribution amounts

98 The overall allocation of the first Swiss contribution was the result of a political agreement between the EU and Switzerland, and there was no specific methodology used to calculate it. The country allocations were defined in a similar way to the distribution key used for the EU Cohesion Fund.

[36] European Parliament recommendation of 26 March 2019 to the Council, the Commission and the Vice-President of the Commission / High Representative of the Union for Foreign Affairs and Security Policy concerning the Institutional Framework Agreement between the European Union and the Swiss Confederation (2018/2262(INI)), P8_TA(2019)0241, article 1(o).

[37] Council conclusions on EU relations with the Swiss Confederation, Press release 116/19 of 19.2.2019, paragraph 11.

[38] https://www.fedlex.admin.ch/eli/fga/2020/74/fr; https://www.fedlex.admin.ch/eli/fga/2020/75/fr

99 Within the total duration of 10 years, the disbursement of the contribution was organised in two phases: a commitment period of 5 years for Switzerland and the beneficiary countries to agree on which projects are to be carried out and how, and an overlapping implementation period of up to 10 years, to implement the projects. The two periods were adjusted accordingly for Romania and Bulgaria, which joined the EU in 2007 (implementation until 2019), and Croatia, which joined the EU in 2013 (implementation until 2024)[39].

100 As of December 2020, 92 % of the funds allocated to the 12 Member States (EU-12) where implementation finished in 2017 and 2019 were used up, with the projects in Croatia still ongoing.

Managing the contributions

101 The Swiss contribution is managed by Switzerland in cooperation with the beneficiary countries, with Swiss authorities approving the projects and programmes and beneficiary countries being in charge of project identification, implementation, internal control and audit. Both sides should coordinate to avoid duplication with projects financed under the EU cohesion policy[40].

102 The Commission (DG REGIO) is responsible for assessing the compatibility of the projects and programmes proposed with the EU's objectives, such as those of the cohesion policy[41]. It performed a general screening of the projects and programmes, based on a list provided by Switzerland.

103 ***Figure 13*** illustrates the organisational structure established to manage the implementation of the contribution and its main processes. To cover its management costs, Switzerland can retain 5 % of its overall contribution.

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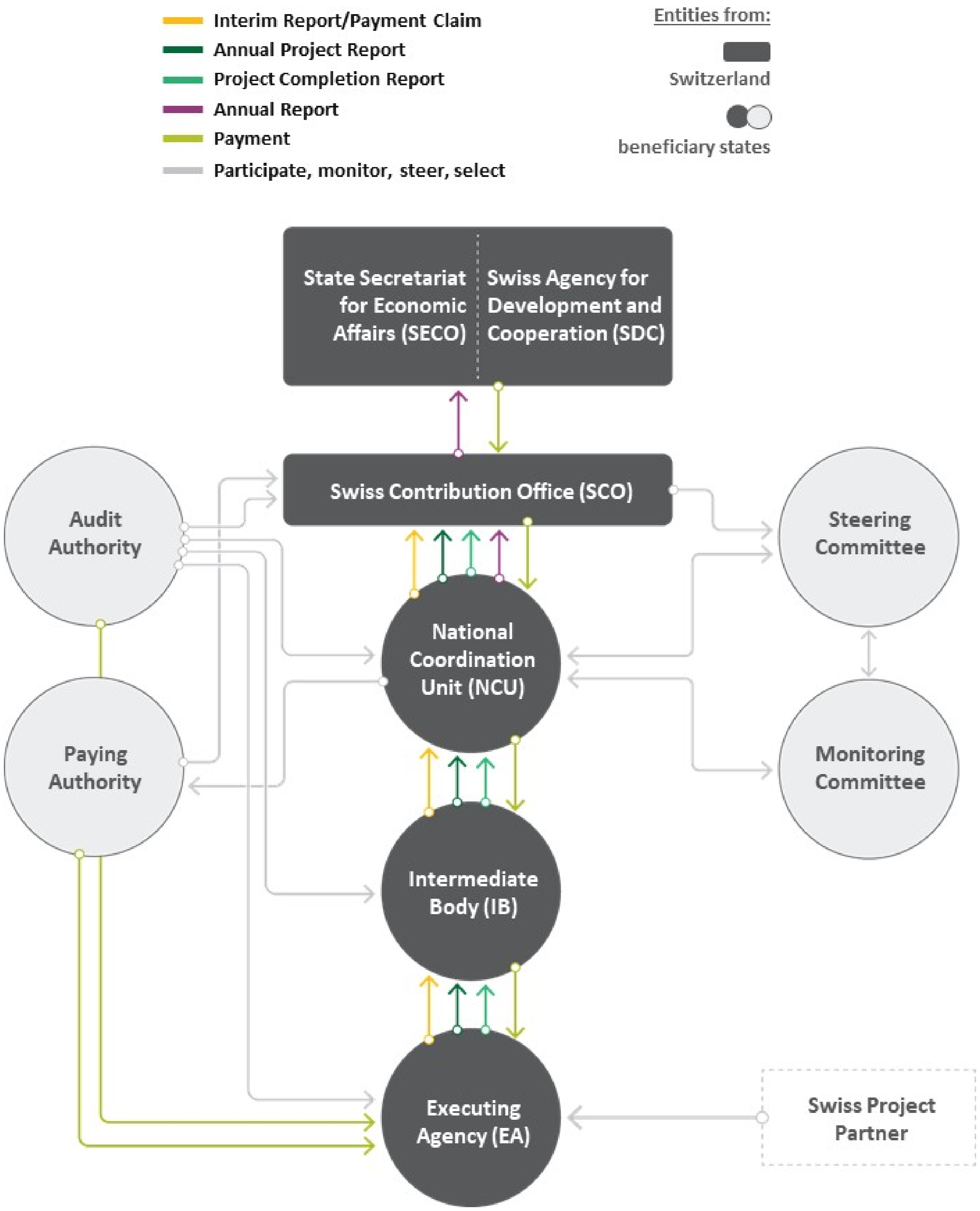
39 For further information see: SDC – SECO, *Evaluation Report on the Swiss Contribution 2015, Key points in brief*, March 2016; Swiss Federal Audit Office (SFAO), *Switzerland's enlargement contribution – does the division of tasks with EU partner countries allow efficient implementation?*, audit report of 20.3.2015.

40 Article 6 of the Framework agreements with beneficiary countries.

41 Article 5 of the Memorandum of Understanding.

Figure 13 – Management of Switzerland's contribution



Source: ECA, based on SFAO, *Switzerland's enlargement contributions – does the division of tasks with EU partner countries allow efficient implementation?*, audit report of 20.3.2015, p. 27.

Reporting arrangements

104 The responsibility for monitoring and supervision lies with the national authorities in the beneficiary countries, although the decentralised Swiss Contribution Offices contribute to monitoring the implementation on the ground on behalf of Switzerland.

105 Switzerland regularly publishes annual reports on the results achieved at programme level, in addition to the country reports prepared at the national level. At the end of the 10-year implementation period for EU-10 in 2017, as well as for the EU-12 in 2020, Switzerland published reports on the overall results achieved in the beneficiary countries.

Internal control and audit

106 Switzerland delegated most of the internal control and audit responsibilities to the national authorities in beneficiary countries. At the latest at the end of each project, a financial audit had to be carried out[42]. Switzerland retained the right to visit, monitor, review, audit and evaluate all activities and procedures related to the implementation of the projects financed by the contribution[43]. Similarly to the EEA and Norway grants paid directly to Member States, EU institutions do not have control or audit rights for this contribution.

107 The Swiss contribution has been subject to several audits of the Swiss Federal Audit Office (SFAO) and audits of the supreme audit institutions of beneficiary countries, as well as joint audits[44]. The audits of recent years identified some inefficiencies in the use of funds. Some of their observations were, for instance, that:

- the complex multi-level organisational structure increased the time and number of personnel needed;
- the project selection procedures take a long time, which brings uncertainty and high administrative and financial burdens.

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[42] Annex II of Framework Agreements.

[43] Article 6(5) of Framework Agreements.

[44] See for instance:
- SFAO, *Switzerland's enlargement contributions – does the division of tasks with EU partner countries allow efficient implementation?*, audit report of 20.3.2015;
- SFAO/SAI Czech Republic, *Joint report: Funds earmarked for the implementation of the Swiss-Czech Cooperation Programme (SCCP) to reduce economic and social disparities within the enlarged European Union*, audit report of April 2015.

Closing remarks and challenges

108 This section presents closing remarks on our review and highlights some key challenges in the management of non-EU country contributions, which we have noted in the course of our review work. We discussed these with the Commission services responsible and, where necessary, have included references to their views.

109 Contributions from non-EU countries currently represent around 1 % of revenue in the EU budget. The involvement of non-EU countries in EU programmes can also enable important collaborations in strategic areas for the EU (e.g. space or research and development). Furthermore, contributions from non-EU countries are important sources of direct funding for some Member States, aiming to complement the EU cohesion policy (see paragraphs ***01***, ***02*** and ***28***).

110 Most of the calculation formulas for contributions for EU programmes and activities use a proportionality factor based on the ratio between the non-EU country's GDP and the EU's GDP (see paragraphs ***30***-***39***). Consequently, if the current formulas continue to apply, **the UK's withdrawal from the EU will lead to an increase of the proportionality factors** because the EU's GDP (denominator in the formula) will be smaller without the UK. At the same time, **the UK will participate as a non-EU country in some of the future EU programmes and activities** and hence provide related contributions. The EU-UK Trade and Cooperation Agreement, provisionally applicable since 1 January 2021, provides for the UK's participation in several EU programmes. These developments will lead to an **overall increase of the contributions provided by non-EU countries**.

111 When setting up the framework for the future participation of non-EU countries in EU programmes and activities, the Commission may face new challenges as a result of the UK's withdrawal from the EU:

- Establishing the rules and principles for the potential future participation of the UK in additional EU programmes and activities.
- Negotiating new participation agreements with the other non-EU countries, which may seek ways to mitigate the impact of the higher contributions they may have to pay as a result of the application of revised proportionality factors (without the GDP of the UK). In the particular case of candidate and potential candidate countries, participation in EU programmes is a learning tool preparing them for future membership, which may require a specific approach in the

negotiations concerning the level of the contributions that will be paid by these countries.

112 **The management of contributions from non-EU countries to the EU is decentralised**, split among the Commission's DGs and agencies responsible for the EU programmes and activities to which the contributions are assigned. The only exception are the contributions from the EEA EFTA states (Iceland, Liechtenstein and Norway), which are managed in a centralised way for all programmes by DG BUDG (see paragraphs ***04*** and ***29***). The latter is a complex process, which concerns many EU programmes and activities with the participation of one or more EEA EFTA states, different calculation methods (for the contributions to operational expenditure and EU public administration) and adjustments due to differences between budgeted and actual expenditure (see paragraphs ***66***-***73***).

113 **There is no single automatic formula for setting the contributions to the EU and agencies budgets or standardised methods for adjusting them**. The final contribution amount is in most cases agreed following negotiations with the non-EU country, which are based on many factors including political interests and an assessment of the country's participation in that programme or activity. This creates **a diverse system of arrangements for establishing the contributions** (see paragraphs ***32***-***39***).

114 While a decentralised management allows for a more tailored approach depending on the EU programme and the non-EU country involved, it also makes it more difficult for the Commission and EU agencies to ensure consistency between similar cases and efficiency in dealing with the calculation and collection of the contributions. **The challenge is to find the right balance between, on the one hand, consistency in procedures and efficiency in dealing with non-EU country contributions and, on the other, allowing for the consideration of specific circumstances of programmes and countries.**

115 For the next multiannual financial framework, the Commission is seeking to increase consistency. Consequently, it agreed on horizontal guidance on contributions of non-EU countries to Union programmes, covering some basic parameters. The Commission emphasised that the new guidance can only be applied to new international agreements, and will therefore not apply to contributions under the existing EEA Agreement or Schengen acquis-related agreements.

116 The Commission regularly publishes general information on the contributions provided by non-EU countries to the EU budget, as well as some country-specific information on the reimbursement of contributions from IPA II. It provided a detailed overview of contributions to the EU budget, when asked by Members of the European Parliament in 2017. However, **a detailed breakdown showing the contributions of each non-EU country to each EU programme or activity is not presented regularly and there is no overview of all EU financial support provided for the reimbursement of these contributions** (see paragraphs ***27*** and ***44***-***46***).

117 Considering the need to **promote transparency and accountability** for the benefit of the interested public and the budgetary authorities, it is a challenge for the Commission to present on a regular basis a detailed overview of the contributions provided by non-EU countries to the EU budget.

118 The contributions of EFTA states provided directly to EU Member States (Norway/EEA grants and Switzerland's contribution to the enlarged EU) are part of the overall arrangement between the EU and the EFTA states on governing the access of these countries to the EU's internal market. These contributions can be seen as a counterpart to the participation in the EU's internal market. While the underlying negotiations consider to some extent the benefits that the EFTA states draw from their participation in the internal market, the overall contribution amounts are the result of a political agreement and there is no particular methodology underpinning their calculation (see paragraphs ***79***, ***84***, ***94*** and ***98***). Obtaining and using refined data to assess the benefits that EFTA states draw from their participation in the internal market may be difficult but it can be useful to guide negotiations. **The challenge for the EU is to leverage the benefits of the internal market to the financial contributions in future negotiations with these countries.**

119 As regards the implementation of the contributions provided outside the EU budget directly to Member States, two separate legislative frameworks and management, reporting, internal control and audit arrangements exist (Norway/EEA grants and Switzerland's contribution to the enlarged EU). These contributions are meant to complement the EU cohesion policy, which is based on a third, different set of regulations and procedures. Thus, three different management arrangements exist in some Member States to address similar policy objectives (see paragraphs ***78***-***107***).

120 The Commission carried out a screening at strategic level to assess the compatibility of actions to be supported by these contributions outside the EU budget with the EU objectives. **However, despite the links with the cohesion policy, the EU institutions are not directly involved in overseeing these contributions** (see paragraphs ***89***, ***93***, ***102*** and ***106***).

121 The main challenge for the complex coexistence of three management arrangements is **to address the need for effective coordination, to maximise complementarity and limit the risk of double funding of actions**.

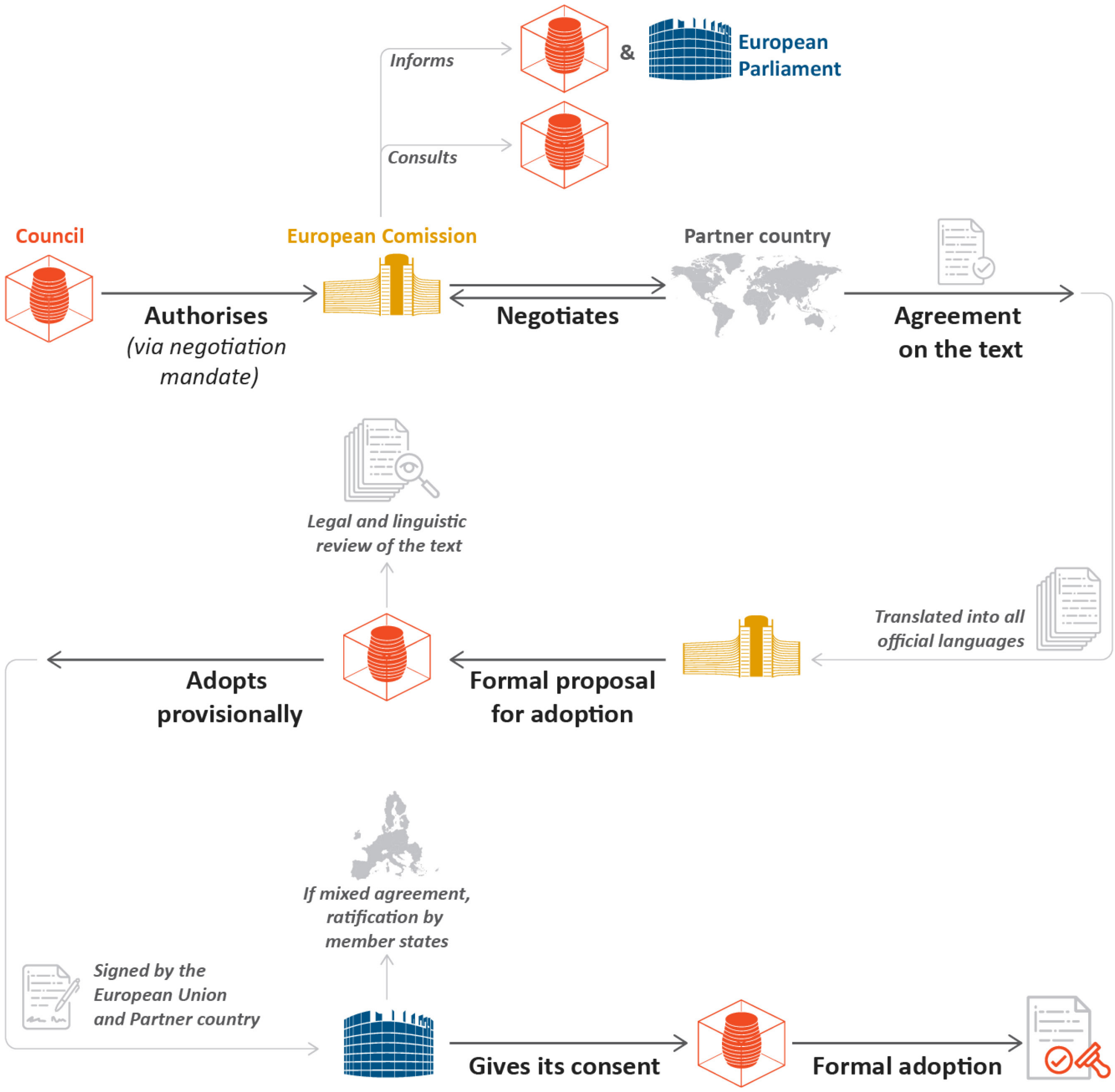
This Review was adopted by Chamber V, headed by Mr Tony Murphy, Member of the Court of Auditors, in Luxembourg on 23 March 2021.

For the Court of Auditors

Klaus-Heiner Lehne
President

Annexes

Annex I – Standard legal procedure for adopting international agreements



Source: ECA, based on Article 218 of TFEU.

Annex II – Overview of non-EU countries' contributions to the EU budget 2014-2019 (in euros)

		Candidate countries					Potential candidate countries		European Free Trade Association (EFTA)			
DG / institution	**Programme / Country**	**Albania**	**Montenegro**	**North Macedonia**	**Serbia**	**Turkey**	**Bosnia and Herzegovina**	**Kosovo***	**Switzerland**	**Iceland**	**Liechtenstein**	**Norway**
BUDG	EEA contributions									84 311 292	10 338 370	2 107 264 274
RTD	Horizon 2020	6 619 405	7 467 503	14 526 266	75 103 583	359 821 505	9 439 158		1 757 373 350			
EAC	Erasmus+	540 000	300 000	34 250 000	8 925 000	798 000 000	690 000	100 000				
EAC	Creative Europe	805 000	325 000	570 000	2 100 000	5 130 000	1 230 000	70 000				
EAC	European Solidarity Corps			100 000		7 300 000						
HOME	Visa Information System (VIS)								2 498 529	70 725	32 058	1 605 426
HOME	Schengen Information System (SIS II)								2 174 988	58 999	29 360	1 463 963
HOME	Eurodac								27 897	263	272	19 125
HOME	Internal Security Fund (ISF)								97 741 841	2 539 436	888 919	67 654 787
HOME	Schengen administrative costs								113 149	3 171	1 004	72 028
Council									4 023 385	59 697	36 769	3 050 094
HOME	Europe for Citizens	100 000	90 000	90 000	330 000		60 000	30 000				
HOME	Drugs chapter	12 000	12 000									
GROW	EU Global Navigation Satellite Systems								299 091 663			
GROW	COSME	1 409 122	479 634	1 156 848	3 143 332	59 097 678	1 314 408	257 592				
ESTAT	Statistical cooperation								25 472 386			
ENV	European Environment Agency					18 762 000			7 769 542			
TAXUD	Customs 2020	345 000	285 000	915 000	1 155 000	1 410 000	225 000					
TAXUD	Fiscalis 2020	175 000	150 000	255 000	400 000	675 000	175 000					
TAXUD	CCN/CSI								578 053			592 553
TAXUD	VAT cooperation											40 000
EMPL	Employment and Social Innovation (EaSI)	400 000	400 000	1 000 000	1 000 000	1 000 000						
ECHO	Civil Protection Mechanism		82 236	199 428	778 752	750 000						
JUST	Justice Programme	111 908	27 085									
JUST	Rights, Equality and Citizenship				227 570							
JUST	Agency for Fundamental Rights			386 250	228 000							
SANTE	Health Programme				500 860		164 829					
DIGIT	ISA2 Programme		10 373									
	Totals per country	**10 517 435**	**9 628 831**	**53 448 792**	**93 892 097**	**1 251 946 183**	**13 298 395**	**457 592**	**2 196 864 781**	**87 043 582**	**11 326 752**	**2 181 762 249**

		European Neighbourhood Policy						Others	
DG / institution	**Programme / Country**	**Armenia**	**Georgia**	**Israel**	**Moldova**	**Tunisia**	**Ukraine**	**Faroes**	**Totals per programme**
BUDG	EEA contributions								**2 201 913 936**
RTD	Horizon 2020	6 307 155	5 855 463	1 026 077 572	6 107 880	5 285 012	27 380 093	9 454 305	**3 316 818 250**
EAC	Erasmus+								**842 805 000**
EAC	Creative Europe	104 000	370 000		220 000	243 001	1 030 002		**12 197 003**
EAC	European Solidarity Corps								**7 400 000**
HOME	Visa Information System (VIS)								**4 206 737**
HOME	Schengen Information System (SIS II)								**3 727 309**
HOME	Eurodac								**47 557**
HOME	Internal Security Fund (ISF)								**168 824 983**
HOME	Schengen administrative costs								**189 351**
Council									**7 169 945**
HOME	Europe for Citizens								**700 000**
HOME	Drugs chapter								**24 000**
GROW	EU Global Navigation Satellite Systems								**299 091 663**
GROW	COSME	325 978			311 918		2 532 126		**70 028 636**
ESTAT	Statistical cooperation								**25 472 386**
ENV	European Environment Agency								**26 531 542**
TAXUD	Customs 2020								**4 335 000**
TAXUD	Fiscalis 2020								**1 830 000**
TAXUD	CCN/CSI								**1 170 606**
TAXUD	VAT cooperation								**40 000**
EMPL	Employment and Social Innovation (EaSI)								**3 800 000**
ECHO	Civil Protection Mechanism								**1 810 416**
JUST	Justice Programme								**138 993**
JUST	Rights, Equality and Citizenship								**227 570**
JUST	Agency for Fundamental Rights								**614 250**
SANTE	Health Programme				94 648				**760 337**
DIGIT	ISA2 Programme								**10 373**
	Totals per country	**6 737 133**	**6 225 463**	**1 026 077 572**	**6 734 446**	**5 528 013**	**30 942 221**	**9 454 305**	**7 001 885 843**

Notes: The table is based on the entitlements for the particular years. Switzerland's contribution to Horizon 2020 includes also the contributions to the Euratom Research and Training Programme and to the activities related to ITER. Ukraine's contribution to Horizon 2020 also includes the contribution to the Euratom Research and Training Programme. For SIS, VIS and Eurodac, additional contributions from the Schengen associated countries are collected directly by the agency eu-LISA (see also ***Figure 6***).

Source: ECA, based on Commission and Council accounting data.

Annex III – Detailed split of the EEA contributions in 2019 (in euros)

Programme / EEA Country	Iceland	Liechtenstein	Norway	Totals per programme
Horizon 2020	14 212 734		236 011 457	**250 224 191**
Erasmus+	3 827 116	1 011 452	63 502 794	**68 341 362**
EU Global Navigation Satellite Systems (GNSS)			20 675 200	**20 675 200**
Copernicus	814 348		13 522 772	**14 337 120**
Decentralised Agencies	579 900	125 467	10 354 417	**11 059 784**
Creative Europe	263 311		4 372 453	**4 635 764**
Connecting Europe Facility (CEF)	206 034	276	3 421 311	**3 627 621**
Employment and Social Innovation (EaSI)	161 984		1 759 936	**1 921 920**
Other actions and programmes	101 316	18 476	1 681 528	**1 801 320**
Civil Protection Mechanism	99 814		1 610 982	**1 710 796**
Administrative expenditure	79 202	13 216	1 450 554	**1 542 972**
Health Programme	81 178		1 348 012	**1 429 190**
COSME	307 329			**307 329**
Actions financed under the prerogatives of the Commission	44 247	11 694	734 189	**790 130**
Pilot projects and preparatory actions			649 600	**649 600**
Consumer Programme	31 914		529 956	**561 870**
European Solidarity Corps	169 471			**169 471**
Rights, Equality and Citizenship	81 938	12 772		**94 710**
Completion of programmes from previous multiannual financial frameworks	666 471	176 139	11 058 650	**11 901 259**
Totals per country	**21 728 309**	**1 369 490**	**372 683 810**	**395 781 609**

Notes: Erasmus+ includes the contributions to the EU's external financing instruments (ENI, IPA II etc.) dedicated consequently to this programme.
The amount for CEF includes the contribution from CEF – Transport to Innovation and Networks Executive Agency (INEA) of €18 637.
The amount for European Solidarity Corps includes the contribution for this action from the LIFE sub-programme for environment and for climate action (€2 100).

Source: ECA, based on Commission documents (EEA Annex to the EU budget). Assignment of budget lines to programmes and actions is based on programme codes used by the Commission.

Annex IV – Glossary of EU programmes and activities with contributions from non-EU countries

Programmes	Description	Lead DG	Budget 2014-2020 (in billion euros)
Horizon 2020	Horizon 2020 – the EU Framework Programme for Research and Innovation – is a common strategic framework for the Union's funding of excellent research and innovation.	RTD	77.0
Euratom Research and Training Programme	Euratom Research and Training Programme complements Horizon 2020 and aims to pursue nuclear research and training with an emphasis on continually improving nuclear safety, security and radiation protection.	RTD	2.1
International Thermonuclear Experimental Reactor (ITER)	ITER is major international project to build the world's largest magnetic fusion device to prove the feasibility of fusion based on the same principle that powers our Sun and stars. The EU is one of its major partners.	RTD/ ENER	2.7
Connecting Europe Facility (CEF)	CEF is an EU funding instrument for targeted infrastructure investment at European level. It supports the development of trans-European networks in the fields of transport, energy and digital services.	MOVE	30.4
Erasmus+	Erasmus+ is the EU's programme to support education, training, youth and sport in Europe. It offers opportunities for mobility and cooperation across these sectors.	EAC	14.7
Creative Europe	Creative Europe is the EU's framework programme for support to the culture and audio-visual sectors.	EAC	1.5
European Solidarity Corps	The European Solidarity Corps create opportunities for young people to volunteer or work in projects in their own country or abroad that benefit communities and people around Europe.	EAC	0.4
EU Global Navigation Satellite Systems (GNSS) Galileo and EGNOS	Galileo is the EU's GNSS that provides accurate positioning and timing information. Galileo is a programme under civilian control and its data can be used for a broad range of applications.	GROW	6.3
	The European Geostationary Navigation Overlay Service (EGNOS) is the EU's regional satellite-based augmentation system that is used to improve the performance of GNSS, such as Galileo.	GROW	
Copernicus	Copernicus is the EU's Earth Observation Programme, looking at our planet and its environment. It offers information services based on satellite Earth observation and non-space data.	GROW	3.8
Programme for the Competitiveness of SMEs (COSME)	COSME is the Programme for the Competitiveness of Small and Medium-sized Enterprises (SMEs). It aims to facilitate access to finance and support internationalisation, competitiveness and entrepreneurial culture.	GROW	2.3

Programmes	Description	Lead DG	Budget 2014-2020 (in billion euros)
Internal Security Fund (ISF)	The ISF was set up to promote the implementation of the Internal Security Strategy, law enforcement cooperation and the management of the Union's external borders.	HOME	3.8
Europe for Citizens	The aim of the Europe for Citizens Programme is to contribute to citizens' understanding of the EU, its history and diversity and to encourage the democratic participation of citizens at EU level.	HOME / JUST	0.2
Statistical cooperation	The cooperation in the field of statistics ensures the production and dissemination of coherent and comparable statistical information in all the areas of mutual interest.	ESTAT	0.5
Customs 2020	Customs 2020 is an EU cooperation programme that enables national customs administrations to create and exchange information and expertise. It allows joint developing and operating of trans-European IT systems.	TAXUD	0.5
Fiscalis 2020	Fiscalis 2020 is an EU cooperation programme that enables national tax administrations to create and exchange information and expertise. It allows joint developing and operating of trans-European IT systems.	TAXUD	0.2
Employment and Social Innovation (EaSI)	The EaSI programme promotes a high level of quality and sustainable employment, guaranteeing adequate social protection, combating social exclusion and poverty and improving working conditions.	EMPL	0.9
Civil Protection Mechanism	The overall objective of the EU Civil Protection Mechanism is to strengthen cooperation in the field of civil protection, with a view to improve prevention, preparedness and response to disasters.	ECHO	0.6
Consumer Programme	The Consumer Programme is a funding programme created to support growth and competitiveness within the EU. The general objective of the programme is to ensure a high level of consumer protection.	JUST	0.2
Rights, Equality and Citizenship Programme	The Rights, Equality and Citizenship Programme contributes to the further development of an area where equality and the rights of persons are promoted, protected and effectively implemented.	JUST	0.4
Justice Programme and Drugs chapter	The Justice Programme has been put in place to ensure that EU law is fully and consistently applied. It promotes judicial cooperation in both civil and criminal matters. The programme also supports EU action to tackle drugs.	JUST / HOME	0.4
Health Programme	The EU Health Programme outlines the strategy for ensuring good health and healthcare. It is a funding instrument to support cooperation among EU countries and to underpin and develop EU health activities.	SANTE	0.4
ISA² Programme	ISA² Programme supports the development of digital solutions that enable public administrations, businesses and citizens to benefit from interoperable cross-border and cross-sector public services.	DIGIT	0.1

Other activities	Description	Lead DG / institution
Schengen Information System (SIS II)	The Schengen Information System is the most widely used and largest information sharing system for security and border management in Europe. It allows information exchanges between national border control, police, customs, and immigration authorities ensuring that the free movement of people within the EU can take place in a safe environment.	eu-LISA/ HOME
Visa Information System (VIS)	VIS allows Schengen States to exchange visa data. The system processes data and decisions relating to applications for short-stay visas to visit, or to transit through, the Schengen Area.	eu-LISA/ HOME
Eurodac	Eurodac is the European Asylum Dactyloscopy Database, which assists in the processing of European asylum applications. It is a centralised database that collects and handles digitalised fingerprints.	eu-LISA/ HOME
Schengen administrative costs	The Schengen administrative costs cover the costs related to the Schengen secretariat operated by the Council and the operation of committees assisting the Commission with the implementation, application and development of the Schengen acquis.	HOME / Council
CCN/CSI	Common Communication Network & Common System Interface (CCN/CSI) is the means of communication between DG TAXUD's IT systems and those of the relevant participating countries' administrations.	TAXUD
Value added tax (VAT) cooperation	The activities in the field of VAT concern administrative cooperation, combating fraud and recovery of claims.	TAXUD
Actions financed under the prerogatives of the Commission	Tasks resulting from the Commission's prerogatives at institutional level or performed under the Pilot projects and Preparatory actions, as provided for in Article 58(2) of the Financial Regulation. The funds budgeted for these actions may be implemented without a basic act provided that the actions fall within the competences of the EU.	across DGs
Pilot projects and Preparatory actions		

Note: The budget figures are presented in historical values, based on the establishing regulations of each programme.

Source: ECA based on:

- Council Regulation (EU, EURATOM) No 1311/2013 of 2 December 2013 laying down the multiannual financial framework for the years 2014-2020, Article 16 (OJ L 347, 20.12.2013, p. 884);
- Regulations establishing each programme/activity;
- European Commission: Programmes' Performance Overview - EU budget 2014-2020, European Union 2019;
- Europa website.

Annex V – Further reading

This Annex presents a selection of further reading relevant to the topic of the review. Its purpose is not to provide an exhaustive list of literature but rather a suggestion of further research directions for interested readers.

Books, studies, articles, briefing papers

EU foreign policy

FALKNER, R. – ANHEIER, H. (eds.), 'Europe and the world: Rethinking Europe's external relations in an age of global turmoil', *International Politics*, 54(4), July 2017.

KEUKELEIRE, S. – DELREUX, T., *The Foreign Policy of the European Union*, 2nd ed. Basingstoke: Palgrave Macmillan, 2014.

EU budget

BECKER, S. – BAUER, M. – DE FEO, A. (eds.), *The New Politics of the European Union Budget*, Baden-Baden: Nomos, 2017.

DEGRON, R., *The New European Budgetary Order*, Brussels: Bruylant, 2018.

MATHIS, A., *Assigned Revenue in the European Union Budget*, European Parliament, Policy Department for Budgetary Affairs, PE 603.795, September 2017.

MATHIS, A., *"Other Revenue" In The European Union Budget*, European Parliament, Policy Department for Budgetary Affairs, PE 603.810, November 2017.

Contributions of non-EU countries

ALMÅS, H. et al. (EFTA Secretariat), 'Guide to EU Programmes - New and Updated Edition 2010', *EFTA Bulletin*, Issue 1, December 2010.

BRUEGEL Belgium, *Review of EU-Third Country Cooperation on Policies Falling within the ITRE Domain in Relation to Brexit*, Study for the ITRE Committee, European Parliament, DG for Internal Policies, Policy Department for Economic and Scientific Policy, PE 602.057, 2017.

DAMEN, M., *Balancing Integration and Autonomy: How EFTA countries reconcile EU-approximation and independence*, European Parliament, Policy Department for External Relations, PE 639.315, February 2020.

ARNESEN, F. et al., *Agreement on the European Economic Area: A Commentary*, Nomos/Hart, 2018.

GRØNNINGSÆTER, T. – LEIFSSON, A. – BONDESEN, P. (EFTA Secretariat), 'Activities and Financial Contributions under the EEA Agreement' *EFTA Bulletin*, Issue 2, November 2002.

MILLER, V., *EU Agencies and post-Brexit options*, The House of Commons Library, Briefing Paper Number 7957, 28 April 2017.

MILLER, V. – WEBB, D. - DE MARS, S., *UK-EU relations after Brexit: an Association Agreement?*, The House of Commons Library, Briefing Paper Number 8645, 13 August 2019.

O. JOHNSEN, T. – RIEKER, P., 'The EEA and Norway Grants: A Source of Soft Power?', *Journal of European Integration*, 37(4), December 2014, pp. 417-432.

RIES, C. P. et al. (RAND Europe), *After Brexit: Alternate forms of Brexit and their implications for the United Kingdom, the European Union and the United States*, Santa Monica and Cambridge: RAND Corporation, 2017.

SCHUMANN ASSOCIATES Brussels, *Third countries' participation within Creative Europe, Horizon Europe and Erasmus post-2020*, British Council, September 2019.

SCHUMAN ASSOCIATES Brussels, *The impact of the EU Referendum on the UK's ability to access EU funds*, British Council, December 2016.

Databases of international agreements

European Commission (TRADE): Negotiations and Agreements.

European External Action Service: Treaties Office Database.

Publications Office of the EU: EUR-Lex – Directory of international agreements.

Other websites

European Commission: Annual Accounts (https://ec.europa.eu/info/publications/annual-accounts_en).

European Commission: EU Budget (https://ec.europa.eu/info/strategy/eu-budget_en).

European Commission: European Neighbourhood Policy and Enlargement Negotiations (https://ec.europa.eu/neighbourhood-enlargement/node_en).

European Free Trade Association (EFTA): European Economic Area (EEA) / Relations with the EU (https://www.efta.int/eea).

Federal Council of the Swiss Confederation: Switzerland's Contribution to the Enlarged EU (https://www.erweiterungsbeitrag.admin.ch/erweiterungsbeitrag/en/home.html).

Federal Council of the Swiss Confederation: Switzerland's European Policy (https://www.eda.admin.ch/dea/en/home/europapolitik/ueberblick.html).

Financial Mechanism Office: EEA Grants and Norway Grants (https://eeagrants.org/).

Glossary

Contributions from non-EU countries: Financial or in-kind contributions by non-EU countries to the EU general budget, budgets of EU agencies and to Member States.

Correction factor: An element used by the Commission as part of its calculation of the contributions of non-EU countries to the EU budget, based on a case-by-case assessment.

EEA Agreement: Agreement concluded between the EU, its Member States and three EFTA states (Iceland, Liechtenstein and Norway) with the objective to establish a dynamic and homogeneous European Economic Area, based on common rules and equal conditions of competition.

EEA EFTA states: The three EFTA countries which participate in the EEA Agreement (Iceland, Liechtenstein and Norway).

Enlargement policy: The policy which concerns the EU's relations with countries that are candidates or potential candidates for EU membership.

European Economic Area (EEA): The EU Member States, plus Iceland, Liechtenstein and Norway.

European Free Trade Association (EFTA): An intergovernmental organisation established to promote free trade and economic integration for the benefit of its member countries. Currently it has four members: Iceland, Liechtenstein, Norway and Switzerland.

European Neighbourhood Instrument (ENI): The main channel through which the EU provides financial support under the European neighbourhood policy.

European neighbourhood policy (ENP): EU policy to strengthen stability, security and prosperity in neighbouring countries to the south and east that are not candidates for EU membership.

Gross domestic product (GDP): A standard measure of a country's wealth, based on the total value of goods and services produced there (usually during one year).

Instrument for Pre-Accession Assistance (IPA): The channel through which the EU provides financial and technical support for reforms in countries that are candidates or potential candidates for EU membership.

Memorandum of understanding (MoU): Agreement between two or more parties to cooperate on a specific issue, without entering into a legal commitment.

Proportionality factor: Ratio used in the calculation of contributions by non-EU countries to the EU budget.

List of abbreviations

DG: Directorate-General

DG BUDG: Directorate-General for Budget

DG EAC: Directorate-General for Education and Culture

DG GROW: Directorate-General for Internal Market, Industry, Entrepreneurship and SMEs

DG HOME: Directorate-General for Migration and Home Affairs

DG RTD: Directorate-General for Research and Innovation

EEA: European Economic Area

EEAS: European External Action Service

EFTA: European Free Trade Association

ENI: European Neighbourhood Instrument

ENP: European Neighbourhood Policy

FMO: Financial Mechanism Office

GDP: Gross Domestic Product

ICJ: International Court of Justice

IFA: Institutional Framework Agreement

IPA: Instrument for Pre-Accession Assistance

ITER: International Thermonuclear Experimental Reactor

MoU: Memorandum of Understanding

SDC: Swiss Agency for Development and Cooperation

SECO: State Secretariat for Economic Affairs

SFAO: Swiss Federal Audit Office

SIS: Schengen Information System

TFEU: Treaty on the Functioning of the European Union

UNSCR: United Nations Security Council Resolution

VIS: Visa Information System

ECA team

This review was adopted by Chamber V Financing and administration of the EU, headed by ECA Member Tony Murphy. The task was led by ECA Member François-Roger Cazala, supported by Dirk Pauwels, Head of Private Office and Stéphanie Girard, Private Office Attaché; Alberto Gasperoni, Principal Manager; Diana Voinea, Head of Task; Jitka Benešová, Deputy Head of Task; José Parente and Jesús Nieto Muñoz, auditors; Richard Moore, linguistic support; Alexandra Mazilu, graphical designer.

This review examines the financial contributions from non-EU countries to the EU and its Member States.
Contributions to the EU allow non-EU countries to participate in EU programmes and activities. They are split among nearly 30 programmes. In addition, the European Free Trade Association (EFTA) states provide funds directly to several EU Member States, as part of the overall arrangements between the EFTA states and the EU governing the access of these countries to the EU's internal market.
We highlight some key challenges, one of which concerns the withdrawal of the United Kingdom from the EU and its impact on the contributions paid by non-EU countries. Another challenge for the EU will be to leverage the benefits of the internal market to the financial contributions in future negotiations with EFTA states.

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