Financial contributions from non-EU countries to the EU and Member States
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Glossary
List of abbreviations

ECA team
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.
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.

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

Source: ECA.

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.

\[\text{EU decentralised agencies (see paragraphs 21-23).}\]

\[\text{Amount estimated as annual average, based on total allocations for the respective funding periods (see paragraph 02).}\]

\[\text{Source: ECA.}\]

\[\text{Publications Office of the EU: EUR-Lex – Directory of international agreements.}\]
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.

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.

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.
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

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

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

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.
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.

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\(^4\) 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.
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

The European Enlargement and Neighbourhood strategies highlight the importance of non-EU countries’ participation in EU programmes and activities of EU agencies. 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

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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.
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

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

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).

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).

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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
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.

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.

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).

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).
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.

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**

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.

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.

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 due⁹.

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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

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.

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.  

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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.
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

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

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

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

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

Contributions to Horizon 2020

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

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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.

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**

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.

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.
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.

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.

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

<table>
<thead>
<tr>
<th>H2020 associated country / territory</th>
<th>Proportionality factor</th>
<th>Correction factor</th>
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<tbody>
<tr>
<td>Albania</td>
<td>Formula B</td>
<td>0.15</td>
</tr>
<tr>
<td>Armenia</td>
<td>Formula A</td>
<td>0.25</td>
</tr>
<tr>
<td>Bosnia and Herzegovina</td>
<td>Formula B</td>
<td>0.15</td>
</tr>
<tr>
<td>Switzerland</td>
<td>Formula A</td>
<td>Not applicable</td>
</tr>
<tr>
<td>Faroes</td>
<td>Formula A</td>
<td>Not applicable</td>
</tr>
<tr>
<td>Georgia</td>
<td>Formula A</td>
<td>0.15</td>
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</tr>
<tr>
<td>Moldova</td>
<td>Formula A</td>
<td>0.25</td>
</tr>
<tr>
<td>Montenegro</td>
<td>Formula B</td>
<td>0.50</td>
</tr>
<tr>
<td>North Macedonia</td>
<td>Formula B</td>
<td>0.50 -&gt; 0.15</td>
</tr>
<tr>
<td>Norway</td>
<td>Formula B</td>
<td>Not applicable</td>
</tr>
<tr>
<td>Serbia</td>
<td>Formula B</td>
<td>0.50</td>
</tr>
<tr>
<td>Tunisia</td>
<td>Formula A</td>
<td>0.05</td>
</tr>
<tr>
<td>Turkey</td>
<td>Formula B</td>
<td>0.14 -&gt; 0.00</td>
</tr>
<tr>
<td>Ukraine</td>
<td>Formula A</td>
<td>0.05</td>
</tr>
</tbody>
</table>

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. 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. Part of these contributions was also covered by the IPA II funds (90 % in 2014, gradually decreasing to 40 % in 2020).

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+

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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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\(^\text{18}\), and their participation was subject to specific criteria. Four partner countries provided contributions: Albania, Bosnia and Herzegovina, Kosovo\(^*\) and Montenegro.

**Establishing the contribution amounts**

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.

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.

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.

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 implementation20.

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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. 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. 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 of the IFA with Swiss stakeholders. Following the consultation, further clarifications were asked by the Swiss side and correspondence between the two parties continued. 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.

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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.


### Table 2 – Swiss contributions to the EU budget for 2019

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

**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 Agreement25 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 Fund26. 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.

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.
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.

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

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\textsuperscript{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\textsuperscript{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

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\textsuperscript{29} and they also concluded with each beneficiary state a Memorandum of Understanding (MoU)\textsuperscript{30}.

\textsuperscript{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).


\textsuperscript{29} Regulation on the implementation of the EEA Grants 2014-2021; Regulation on the implementation of the Norwegian Financial Mechanism 2014-2021.

\textsuperscript{30} All Memoranda of Understanding concluded for the current funding period are available on the EEA grants website: https://eeagratings.org/resources?title=&field_resource_type_target_id=185
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.

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

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.

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.

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\(^{31}\) Article 8 of protocol 38c and the corresponding provision from the agreement with Norway.

Switzerland’s contribution to Member States

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\(^{35}\).

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.

\(^{33}\) Memorandum of Understanding between the President of the Council of the European Union and the Swiss Federal Council, 27 February 2006.


\(^{35}\) 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.
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.

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. 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. 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. In December 2020, discussions between the two parties on a MoU for the second contribution were still ongoing.

Establishing the contribution amounts

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.

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

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).

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

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.

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. It performed a general screening of the projects and programmes, based on a list provided by Switzerland.

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\(^\text{42}\). 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\(^\text{43}\). 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\(^\text{44}\). 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.

\(^{42}\) 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

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.

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).

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.

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).
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).

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)

<table>
<thead>
<tr>
<th>DG / institution</th>
<th>Programme / Country</th>
<th>Candidate countries</th>
<th>Potential candidate countries</th>
<th>European Free Trade Association (EFTA)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Albania</td>
<td>Montenegro</td>
<td>North Macedonia</td>
</tr>
<tr>
<td>BUDG</td>
<td>EEA contributions</td>
<td>84 311 292</td>
<td>10 338 370</td>
<td>2 107 264 274</td>
</tr>
<tr>
<td>RTD</td>
<td>Horizon 2020</td>
<td>6 619 405</td>
<td>7 467 503</td>
<td>14 526 266</td>
</tr>
<tr>
<td>EAC</td>
<td>Erasmus+</td>
<td>540 000</td>
<td>300 000</td>
<td>34 250 000</td>
</tr>
<tr>
<td>EAC</td>
<td>Creative Europe</td>
<td>805 000</td>
<td>325 000</td>
<td>570 000</td>
</tr>
<tr>
<td>EAC</td>
<td>European Solidarity Corps</td>
<td>100 000</td>
<td>7 300 000</td>
<td></td>
</tr>
<tr>
<td>HOME</td>
<td>Visa Information System (VIS)</td>
<td>2 498 529</td>
<td>70 725</td>
<td>32 058</td>
</tr>
<tr>
<td>HOME</td>
<td>Schengen Information System (SIS II)</td>
<td>2 174 988</td>
<td>58 999</td>
<td>29 360</td>
</tr>
<tr>
<td>HOME</td>
<td>Eurodac</td>
<td>27 897</td>
<td>263</td>
<td>272</td>
</tr>
<tr>
<td>HOME</td>
<td>Internal Security Fund (ISF)</td>
<td>97 741 841</td>
<td>2 539 436</td>
<td>888 919</td>
</tr>
<tr>
<td>HOME</td>
<td>Schengen administrative costs</td>
<td>113 149</td>
<td>3 171</td>
<td>1 004</td>
</tr>
<tr>
<td>HOME</td>
<td>Europe for Citizens</td>
<td>100 000</td>
<td>90 000</td>
<td>90 000</td>
</tr>
<tr>
<td>HOME</td>
<td>Drugs chapter</td>
<td>12 000</td>
<td>12 000</td>
<td></td>
</tr>
<tr>
<td>GROW</td>
<td>EU Global Navigation Satellite Systems</td>
<td>299 091 663</td>
<td></td>
<td></td>
</tr>
<tr>
<td>GROW</td>
<td>COSME</td>
<td>1 409 122</td>
<td>479 634</td>
<td>1 156 848</td>
</tr>
<tr>
<td>ESTAT</td>
<td>Statistical cooperation</td>
<td>25 472 386</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ENV</td>
<td>European Environment Agency</td>
<td>18 762 000</td>
<td>7 769 542</td>
<td></td>
</tr>
<tr>
<td>TAXUD</td>
<td>Customs 2020</td>
<td>345 000</td>
<td>285 000</td>
<td>915 000</td>
</tr>
<tr>
<td>TAXUD</td>
<td>Fiscalis 2020</td>
<td>175 000</td>
<td>150 000</td>
<td>255 000</td>
</tr>
<tr>
<td>TAXUD</td>
<td>CCN/CSI</td>
<td>578 053</td>
<td>592 553</td>
<td></td>
</tr>
<tr>
<td>TAXUD</td>
<td>VAT cooperation</td>
<td>40 000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>EMPL</td>
<td>Employment and Social Innovation (EaSI)</td>
<td>400 000</td>
<td>400 000</td>
<td>1 000 000</td>
</tr>
<tr>
<td>ECHO</td>
<td>Civil Protection Mechanism</td>
<td>82 236</td>
<td>199 428</td>
<td>778 752</td>
</tr>
<tr>
<td>JUST</td>
<td>Justice Programme</td>
<td>111 908</td>
<td>27 085</td>
<td></td>
</tr>
<tr>
<td>JUST</td>
<td>Rights, Equality and Citizenship</td>
<td>227 570</td>
<td></td>
<td></td>
</tr>
<tr>
<td>JUST</td>
<td>Agency for Fundamental Rights</td>
<td>386 250</td>
<td>228 000</td>
<td></td>
</tr>
<tr>
<td>SANTE</td>
<td>Health Programme</td>
<td>500 860</td>
<td>164 829</td>
<td></td>
</tr>
<tr>
<td>DIGIT</td>
<td>ISA2 Programme</td>
<td>10 373</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Totals per country</td>
<td>10 517 435</td>
<td>9 628 831</td>
<td>53 448 792</td>
<td>93 892 097</td>
</tr>
</tbody>
</table>
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)

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

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

<table>
<thead>
<tr>
<th>Programmes</th>
<th>Description</th>
<th>Lead DG</th>
<th>Budget 2014-2020 (in billion euros)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Horizon 2020</strong></td>
<td>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.</td>
<td>RTD</td>
<td>77.0</td>
</tr>
<tr>
<td><strong>Euratom Research and Training Programme</strong></td>
<td>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.</td>
<td>RTD</td>
<td>2.1</td>
</tr>
<tr>
<td><strong>International Thermonuclear Experimental Reactor (ITER)</strong></td>
<td>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.</td>
<td>RTD/ENER</td>
<td>2.7</td>
</tr>
<tr>
<td><strong>Connecting Europe Facility (CEF)</strong></td>
<td>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.</td>
<td>MOVE</td>
<td>30.4</td>
</tr>
<tr>
<td><strong>Erasmus+</strong></td>
<td>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.</td>
<td>EAC</td>
<td>14.7</td>
</tr>
<tr>
<td><strong>Creative Europe</strong></td>
<td>Creative Europe is the EU’s framework programme for support to the culture and audio-visual sectors.</td>
<td>EAC</td>
<td>1.5</td>
</tr>
<tr>
<td><strong>European Solidarity Corps</strong></td>
<td>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.</td>
<td>EAC</td>
<td>0.4</td>
</tr>
<tr>
<td><strong>EU Global Navigation Satellite Systems (GNSS)</strong></td>
<td>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.</td>
<td>GROW</td>
<td>6.3</td>
</tr>
<tr>
<td><strong>Galileo and EGNOS</strong></td>
<td>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.</td>
<td>GROW</td>
<td></td>
</tr>
<tr>
<td><strong>Copernicus</strong></td>
<td>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.</td>
<td>GROW</td>
<td>3.8</td>
</tr>
<tr>
<td><strong>Programme for the Competitiveness of SMEs (COSME)</strong></td>
<td>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.</td>
<td>GROW</td>
<td>2.3</td>
</tr>
<tr>
<td>Programmes</td>
<td>Description</td>
<td>Lead DG</td>
<td>Budget 2014-2020 (in billion euros)</td>
</tr>
<tr>
<td>------------------------------------</td>
<td>------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
<td>--------------</td>
<td>------------------------------------</td>
</tr>
<tr>
<td>Internal Security Fund (ISF)</td>
<td>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.</td>
<td>HOME</td>
<td>3.8</td>
</tr>
<tr>
<td>Europe for Citizens</td>
<td>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.</td>
<td>HOME / JUST</td>
<td>0.2</td>
</tr>
<tr>
<td>Statistical cooperation</td>
<td>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.</td>
<td>ESTAT</td>
<td>0.5</td>
</tr>
<tr>
<td>Customs 2020</td>
<td>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.</td>
<td>TAXUD</td>
<td>0.5</td>
</tr>
<tr>
<td>Fiscalis 2020</td>
<td>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.</td>
<td>TAXUD</td>
<td>0.2</td>
</tr>
<tr>
<td>Employment and Social Innovation (EaSI)</td>
<td>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.</td>
<td>EMPL</td>
<td>0.9</td>
</tr>
<tr>
<td>Civil Protection Mechanism</td>
<td>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.</td>
<td>ECHO</td>
<td>0.6</td>
</tr>
<tr>
<td>Consumer Programme</td>
<td>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.</td>
<td>JUST</td>
<td>0.2</td>
</tr>
<tr>
<td>Rights, Equality and Citizenship Programme</td>
<td>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.</td>
<td>JUST</td>
<td>0.4</td>
</tr>
<tr>
<td>Justice Programme and Drugs chapter</td>
<td>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.</td>
<td>JUST / HOME</td>
<td>0.4</td>
</tr>
<tr>
<td>Health Programme</td>
<td>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.</td>
<td>SANTE</td>
<td>0.4</td>
</tr>
<tr>
<td>ISA² Programme</td>
<td>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.</td>
<td>DIGIT</td>
<td>0.1</td>
</tr>
</tbody>
</table>
## Other activities

<table>
<thead>
<tr>
<th>Description</th>
<th>Lead DG / institution</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Schengen Information System (SIS II)</strong></td>
<td>eu-LISA/ HOME</td>
</tr>
<tr>
<td>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.</td>
<td></td>
</tr>
<tr>
<td><strong>Visa Information System (VIS)</strong></td>
<td>eu-LISA/ HOME</td>
</tr>
<tr>
<td>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.</td>
<td></td>
</tr>
<tr>
<td><strong>Eurodac</strong></td>
<td>eu-LISA/ HOME</td>
</tr>
<tr>
<td>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.</td>
<td></td>
</tr>
<tr>
<td><strong>Schengen administrative costs</strong></td>
<td>HOME / Council</td>
</tr>
<tr>
<td>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.</td>
<td></td>
</tr>
<tr>
<td><strong>CCN/CSI</strong></td>
<td>TAXUD</td>
</tr>
<tr>
<td>Common Communication Network &amp; Common System Interface (CCN/CSI) is the means of communication between DG TAXUD’s IT systems and those of the relevant participating countries’ administrations.</td>
<td></td>
</tr>
<tr>
<td><strong>Value added tax (VAT) cooperation</strong></td>
<td>TAXUD</td>
</tr>
<tr>
<td>The activities in the field of VAT concern administrative cooperation, combating fraud and recovery of claims.</td>
<td></td>
</tr>
<tr>
<td><strong>Actions financed under the prerogatives of the Commission</strong></td>
<td>across DGs</td>
</tr>
<tr>
<td>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.</td>
<td></td>
</tr>
<tr>
<td><strong>Pilot projects and Preparatory actions</strong></td>
<td>across DGs</td>
</tr>
</tbody>
</table>

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

**Source:** ECA based on:
- Regulations establishing each programme/activity;
- 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**


**EU budget**


**Contributions of non-EU countries**


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*.


**Other websites**


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


**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

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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.