2020 Discharge to the Commission

WRITTEN QUESTIONS TO COMMISSIONER SCHMIT

Hearing on 15 November 2021

Questions concerning general issues

1. in AAR, it is indicated that under the 2014-2020 ESI funds, 184,000 new jobs have been created. Do you think that is enough given the money spent? Do we have any idea whether these jobs have been perpetuated? A gender policy has been develop for this fund ?

Commission's answer:

The 184 000 new jobs created referred to by the Honourable Member refer solely to ERDF support. Under the European Social Fund (ESF), the indicators reflect the support provided to people rather than the number of jobs created since a person can secure a job and a professional future through an existing vacancy or by safeguarding its job. Thus, by end 2020, 45.4 million participants were supported by the ESF and the Youth Employment Initiative (YEI) and 5.4 million people found a job (including self-employed) thanks to ESF and YEI support (the figures at end 2020 are reported in DG EMPL's 2020 AAR, page 42).

In relation to Gender Policy: The ESF has traditionally put a strong emphasis on gender equality and non-discrimination. In the period 2014-2020, a twofold approach is being pursued (i) by applying gender mainstreaming throughout the preparation, implementation, monitoring and evaluation of the ESD and (ii) by supporting dedicated gender equality actions. In addition, other requirements of the legal framework, such as a dedicated investment priority on gender equality and relevant general ex ante conditionalities, further promote gender equality in implementing the ESF. Member States have earmarked EUR 1.6 billion for 2014-2020 (EU share) under this dedicated investment priority. However, other specific targeted actions for gender equality are programmed across all investment priorities. The indicative amount for these targeted actions is EUR 5.6 billion (EU share) for the programming period.

Going forward, the ESF+ for 2021-2027 includes a specific objective: "promoting a gender-balanced labour market participation, equal working conditions, and a better work/life balance including through access to affordable childcare and care for dependent persons" (Art. 4(1)(iii) ESF+ Regulation). All Member States will continue to have the obligation to follow the twofold approach to gender mainstreaming under the ESF+ (Art.6 ESF+ Regulation). Finally, all personal data under the ESF+ are to be broken down by gender (female, male, 'non binary').

2. SURE programme has been developed with a 100 millions budget to help MS to fight against unemployment. what is your assessment of this fund? And how will the controls be organized?

Commission's answer:

SURE is a new temporary emergency instrument based on Article 122 TFEU that has been offering loans to Member States to maintain employment during the COVID-19 pandemic. The total envelope of SURE is EUR 100 billion. The Commission has been issuing bonds on the financial markets, guaranteed by a system of bilateral guarantees provided by all Member States (of EUR 25 billion) and is on-lending to the Member States requesting financial assistance.

The SURE instrument is a true European success story, helping protect people's jobs and incomes during the COVID-19 pandemic, and corresponding to strong needs identified by both Member States and the Commission. This new instrument was put in place and operationalised quickly avoiding administrative burden. All Member States - even those that did not directly benefit from it like Germany - supported the instrument, via the provision of voluntarily, irrevocable, unconditional and on-call guarantees. By now, the firepower of the instrument has been used almost to the full, covering 19 Member States and 95% of its maximum amount of EUR 100 billion. This success shows that the Union is capable of acting very quickly and timely and delivering on protecting our citizens in a spirit of solidarity. SURE is also the first instance where the EU issues social bonds to finance EU financial assistance to Member States, building on its commitment to sustainable finance.

Under the SURE Regulation, the Commission must prepare every six months a report to the European Parliament, the Council, the Economic and Financial Committee and the Employment Committee on the use of financial assistance, including outstanding amounts and the applicable repayment schedule under the Instrument, and on the continuation of the exceptional occurrences that justify the application of this Regulation. The first Commission report was published on 22 March 2021 and the second Commission report on 22 September 2021, based on reporting by the beneficiary Member States. The reports went beyond the minimum requirements, providing a preliminary assessment of the impact of SURE.

According to the second bi-annual report on SURE, published on 22 September 2021, the instrument (indirectly) supported approximately 31 million people in 2020. This represents more than one quarter of the total number of people employed in the 19 beneficiary Member States.

National labour market measures supported by SURE have contributed to reducing unemployment by almost 1,5 million people in 2020. The retention of employees together with the preservation of self-employed activity is also one of the factors behind the strong economic rebound currently witnessed (and forecast) in 2021. It is also estimated that around 2.5 million firms affected by the COVID-19 pandemic have benefited from SURE, allowing them to retain workers. As of September 2021, Member States have saved an estimated EUR 8.2 billion in interest payments by making use of SURE financial assistance, compared to what would have happened if they had issued sovereign debt themselves, thanks to the EU's high credit rating. Future disbursements will likely generate further substantial savings. Feedback from beneficiary Member States shows that SURE support played an important role in the creation of their short-time work schemes, and in increasing their coverage and volume.

Monitoring the proper implementation of SURE is important. In line with the SURE regulation, the loan agreements contain the necessary provisions regarding controls and audits. The beneficiary Member States are obliged to properly implement the financial assistance in line with the requirements of the SURE Regulation, the Council Implementing Decision granting them support and the loan agreement that they have concluded with the Commission. Where a request for financial assistance is, fully or in part, based on planned public expenditure, the beneficiary Member State informs the Commission every six months about the implementation of such planned public expenditure.

The Commission also engages with Member States when they face absorption issues with the financial assistance granted under SURE. If required, the Commission services (namely DG ECFIN), OLAF and the European Court of Auditors can also conduct investigations in Member States to protect the financial interests of the Union.

3. The employment rate required by the EU is 75% and there are structurally strong disparities between the Member States to reach this rate. Are complementary policies implemented towards countries with a lower rate to help them raise this rate, particularly policies targeting foreigners or people of foreign origin, women, disabled people and keeping people over 50 in the labor market?

Commission's answer:

The Europe 2020 strategy included the target of 75% employment rate (average across the EU) as one of 5 headline targets. Since 2013, the general employment rate for the age group 20-64 increased constantly from 67.5% to 73.3% in 2019. However, impacted by the outbreak of the COVID-19 pandemic, the employment rate decreased to 72.5% in 2020.

In 2021 and as part of the European Pillar of Social Rights Action Plan, the Commission proposed a target of 78% for the employment rate as one of the three EU headline targets for 2030. At the Social Summit in Porto, EU leaders welcomed the three new headline targets. At the 24 and 25 June European Council, EU leaders formalised the outcome of the Porto statements and welcomed the 2030 headline targets at the highest level.

The Commission remains committed to increasing women's participation in the labour market. The European Pillar of Social Rights Action Plan plays a key role in this context. The Action Plan reaffirms the commitment to an inclusive high employment rate of 78% by 2030. In order to achieve this overall goal, Europe must strive to at least halve the gender employment gap compared to 2019 (11.8 percentage points). This will be paramount to progress on gender equality and achieve the employment target for the entire working age population. It is also important to increase the provision of early childhood education and care (ECEC), thus contributing to better reconciliation between professional and private life and supporting stronger female labour market participation. The availability of long-term care (LTC) of good quality also has a strong positive impact on the employment situation of women. In 2022, the Commission will propose a Care Package addressing both the ECEC and LTC. The EU Work-Life Balance Directive was adopted in August 2019 and is a key deliverable of the Pillar. The Directive introduces a set of minimum standards to help reconcile work and family responsibilities and to promote equality between men and women with regard to labour market opportunities.

In spite of strong increases across the board in recent years, large differences among Member States point to the continuing need for upward convergence. In addition, employment rates differ significantly across different groups on the labour market with older workers, women and migrants representing the largest potential for increases. For example, there is a considerable gap in the employment rate of persons with and without disabilities, up to 24.5% in 2020 (compared to 24.2% - 50.8% vs. 75% in 2018).

As part of the European Semester, the Employment Guidelines include policy advice to Member States to increase the employment rate of these groups, by boosting both labour demand and supply and improving the functioning of labour markets. Based on the Guidelines, policy advice is also given to Member States through country-specific recommendations where this is deemed a priority.

Over the years, active ageing policies have been introduced to increase the employment rate of older workers notably by providing specific labour market support and by reforming early retirement schemes. Member States have also taken action to promote labour market integration of persons with disabilities. As stated in the Strategy for the Rights of Persons with Disabilities, in 2022, the Commission will present a package to improve labour market outcomes of persons with disabilities seeking cooperation with the European Network of Public Employment Services, social partners and organisations of persons with disabilities.

Specific policies have also been implemented to integrate migrants in the labour market notably through language training, upskilling and reskilling as well as through provision of social services to help integration. The European Social Fund has been instrumental in implementing such policies and services. By the end of 2019, around 5.6 million people (among which almost 3.4 million (i.e. 65%) were reported in France, Italy, Germany and Spain alone) belonging to the group of 'migrants, participants with a foreign background, minorities' had received ESF support, out of a total of more than 36.4 million participants supported by the ESF and YEI. ESF-funded measures range from language classes to mentorship, apprenticeship, work placement, education, training and social inclusion measures.

4. How do you see the evolution of digitalization in your DG?

<u>Commission's answer:</u>

To support the modernisation of the service, DG EMPL will continue to participate actively in the European Commission's Digital Strategy. The principles of the strategy are set out in the Digital Solutions Modernisation Plan, the purpose of which is to provide direction for the further development of the Commission's digital landscape, in support of business requirements and improved processes. The plan represents a collective effort by all DGs to reflect on ways to modernise the systems that support their business functions, this being the main input for the basis of the plan. DG EMPL nominated a leader for this initiative.

The main examples of initiatives on digital transformation inside DG EMPL are:

- the Front-Office of the System for Fund Management facilitating the electronic exchange of information concerning funds in shared management between the Member States and the Commission;

- the Electronic workflow systems for effective implementation of the European Social Fund and the European Social Fund Plus (shared and direct management);

- the audit support tool MAPAR and data-mining tool ARACHNE.

As regards records and archives management policy and the Digital Preservation Strategy's action plan, DG EMPL will implement the following actions in 2022:

- inventory of DG EMPL's current and legacy information systems following the procedures set up by the Secretariat General;

- continuing to improve the paperless policy implementation in DG EMPL (treatment and elimination of digitalised paper documents)

- promoting the use of Qualified Electronic Signature and support to units (maintaining and updating procedures including all procedures for online working, set-up during the COVID-19 crisis);

- supporting the implementation of electronic contract financial workflows;

As regards data, information and knowledge management, DG EMPL will implement the first steps for setting up a basic knowledge management strategy, with the support of the Directorate-General for Human Resources, the One-Stop Shop, a multi-disciplinary team of internal consultants and the Commission knowledge management network, in line with the Commission rolling plan and objectives.

5. What measures have been taken to develop the digitalization in some MS ? How is the performance calculated when we see the difference between the MS?

Commission's answer:

In her 2021 State of the Union, President von der Leyen described digital as the “make-or-break issue” and mentioned the primary importance of investment in digital skills, which requires a structured dialogue at top level. According to the Commission President, digital spending in the NextGenerationEU package will even overshoot the 20% target set by the Commission.

Not surprisingly, Digital skills and jobs are more than ever a key priority in our EU strategy documents, such as the European Digital Strategy, the Digital decade and compass and the European Pillar of Social Rights and its Action Plan. With the Skills Agenda and the Digital Education Action Plan, the Commission sets concrete measures to support the development of digital skills. The Commission has also set common and ambitious objectives on digital performance in Member States. Extending the digital upskilling target already presented in the Skills Agenda, the European Social Pillar Action Plan and the Digital Compass initiatives have two ambitious targets to be reached by 2030: 80% of adults should have at least basic digital skills and the EU should reach 20 million employed ICT specialists, with gender convergence (both targets are monitored at Member State level).

To reach these targets, the Commission can rely on significant EU funding:

- Through the Recovery and Resilience Facility (#NextGenerationEU), EUR 20 billion have been allocated to digital skills and education measures in Member States’ National Recovery Plans;

- Funding is also available under the European Structural and Investment Funds, in particular the European Social Fund Plus.

- Erasmus, Horizon and the Digital Europe Programme will also invest in digital skills development.

With the support of Member States, the Commission also engages with stakeholders and companies that are key in contributing to this effort:

- The Digital Skills and Jobs Coalition now gathers 600 members, that have implemented more than 200 initiatives, contributing to train around 20 million people in digital skills over the last five years;

- The Digital Skills and Jobs Platform, which unites digital skills stakeholders, both on EU and national level. It is a one-stop-shop providing information and best practices as well as training on digital skills at all levels;

- CodeWeek is a grassroots initiative supported by the European Commission that brings computational thinking and coding in schools and trains thousands of teachers every year.

The Commission has monitored Member States' progress on digital and published annual Digital Economy and Society Index (DESI) reports since 2014. Each year, the reports include country profiles, which help Member States identify areas for priority action, and thematic chapters providing an EU-level analysis in the key digital policy areas.

In the 2021 edition (publication planned for November), the Commission adjusted DESI to reflect the two major policy initiatives that will have an impact on digital transformation in the EU over the coming years: the Recovery and Resilience Facility and the Digital Decade Compass. DESI 2021 is aligned with the four cardinal points (infrastructure, digital skills, digitising businesses and public services) and the targets under the Digital Compass. DESI is based mainly on Eurostat data, complemented by specialised studies.

As digital technologies continue to change the nature of our jobs, many people will be faced with labour market transitions (a process which has been reinforced by the pandemic). To support these transitions, the EU needs to adapt its labour market and skill policies. This need is clearly reflected in the EU Skills Agenda, and in particular in the Pact for Skills, launched in November 2020, which brings together all relevant stakeholders (employers, social partners, regional authorities, training providers) to come up with concrete commitments for re- and upskilling.

6. In terms of employment, what is the return on investment per euro spent?

Commission's answer:

Under the ESF, the indicators reflect the support provided to people rather than the number of jobs created since a person can secure a job and a professional future through an existing vacancy or by safeguarding its job (see also reply to question 1 above). Improvements in the employability of participants, a primary objective of the ESF, are difficult to measure because of their mostly intangible nature that can be particularly difficult to capture through the indicators of the ESF monitoring framework.

Result indicators focus on measurable labour market outcomes and cannot be easily attributable to the specific operations implemented through the ESF, nor can they capture 'soft results' in terms for example of increased self-confidence or increased cooperation among labour market stakeholders. Soft results are particularly important for programmes targeted at the most disadvantaged where the objective is often to bring people a step closer to the labour market and where finding a job is a longer-term goal.'

Although increased employability should result, eventually, in increased employment chances and eventually employment, there is a time lag and current monitoring arrangements might underestimate the actual benefits of participating.

Bearing in mind the methodological issues outlined above, in macroeconomic terms ESF investment in employment and mobility up to 2018 would translate into the creation of 47 000 net jobs in the long term and an increase in GDP of 0.06% (by 2030), based on the latest evaluation of ESF investments in employment measures and exploratory work carried out together with the Joint Research Centre (JRC) through the general equilibrium model RHOMOLO. The Commission with the support of JRC will fine-tune and update these estimations for the whole programming period during the ex-post evaluation (due in December 2024).

However, the broader impact of the ESF and YEI on the jobs market is in reality much larger than this, as these macroeconomic and employment effects do not include the direct positive impacts on employment for ESF participants (e.g. result indicators). For example, by end-2020, 45.4 million participants were supported under the European Social Fund and the Youth Employment Initiative. Furthermore, 5.4 million people found a job following ESF and YEI support. The full impact of the ESF and YEI on the jobs market must therefore be estimated on this scale.

In terms of share of participants, the ESF 2014-2020 aimed at placing 24% of unemployed and inactive participants into a job within the employment thematic objective (TO8). By end 2018, the cumulative placement rate was 24.2% (cf. Programme Statement DB 2021); by end 2020, based on the latest AIR, 29.1% (3.8

million participants in employment upon leaving ESF out of 12.9 million unemployed and inactive participants in TO8).

In addition, thanks to the Coronavirus Response Investment Initiative (CRII) and the Coronavirus Response Investment Initiative Plus (CRII+), the European Social Fund has been the primary Fund used during the crisis to support retention of employment, vulnerable groups and others, e.g. through support to short-time work arrangements or supplementary wage for health care personnel. Therefore, the assessment of the ESF investments on employment needs to be looked at in terms of retained jobs, better jobs and employability of people beyond new jobs created.

7. How has employment in rural areas evolved in 2020?

Commission's answer:

The ESF contributes to fostering employment in rural areas, as well as supporting education, training, and social inclusion measures in rural communities and hard-to-reach areas.

In general, employment rates (age 20-64) have been less affected by the crisis in 2020 in rural areas than in cities, towns or suburbs. While changes in methods for Italy and Germany hamper the comparability of trend data for the EU27, in the remaining 25 EU Member States and among the population living in rural areas of the EU25 (minus Germany and Italy), the employment rate (age 20-64) decreased by 0.5 percentage points in 2020 compared to 2019 (from 72.9% to 72.4%). This decrease was smaller than that recorded in cities (from 73.0 to 72.3%) and towns and suburbs (from 72.6 to 71.7%).

Looking beyond the EU average, the levels and trends are quite diverse across Member States. Whereas in several Central and Eastern European Member States, rural areas have markedly lower employment rates compared to the country average (including Bulgaria and Lithuania), the opposite applies in other countries (including Belgium and Austria).

The gender gap in employment rates is generally higher in rural areas, and on average in the EU25 it widened slightly between 2019 and 2020 (from 12.7 to 13.0%). The gap further deteriorated in the rural areas of several countries that already had comparatively large gaps in 2019 (including Romania, Malta, Greece and Poland).

The Common Agricultural Policy fosters employment in rural areas by maintaining jobs on farms and in the industries depending on it and by supporting local rural development.

By end 2020, more than 54 000 new jobs have been created through projects supported by the rural development programs. According to the targets defined by Member States, 120 000 new jobs are expected to be created in EU as a result of the entire programming period 2014–2020.

For the period 2014-2020, the business start up support for young farmers is expected to support more than 175 000 young farmers, securing the transfer of farms from the older to the younger generation and maintaining on-farm jobs. According to latest available information, 131 000 young farmers (75% of the target) have already benefited from this support. Significant progress towards the achievement of this target was noted in 2020.

8. How is the use of Arachne program evolving for your programs and funds by the MS? How many countries are not using it? For what reasons? And what are the consequences for your ability to work and to verify the use of the money?

Commission's answer:

In view of the 2021-2027 programming period, ARACHNE is being further developed, also to take into account the new requirements of the Common Provisions Regulation. One of the main ongoing development will be the inclusion in ARACHNE of data on final beneficial owners, contractors and final recipients of funds that will be collected by Member States on beneficiaries of EU funding.

This additional set of data will allow ARACHNE to calculate new risk indicators, for instance the risk of concentration of EU resources under specific natural persons as ultimate beneficiaries.

The development of new functionalities is also connected with the adaptations of ARACHNE for other/new Directorates General and Funds (e.g. DG ECFIN with RRF, DGs MARE and HOME now under the CPR).

The Commission will seek to continue modernising the tool, using the most recent technological developments (including artificial intelligence) and will continue to strongly promote the use of ARACHNE, and its new functionalities, by the Member States.

Currently 19 Member States plus the UK are using ARACHNE for one or more programme (data from 143 ESF and FEAD programmes are presently being regularly updated in the tool). Member States who are not currently using ARACHE include CY, DK, DE, EE, FI, PL, SE, while EL is in a ‘pilot’ phase.

The reasons invoked by these Member States for not using ARACHNE are diverse, but are usually linked to e.g., concerns about data protection, subsidiarity, proportionality and effectiveness of the tool.

The Commission takes the necessary steps to improve the uptake of ARACHNE , by providing presentations, workshops and on-the spot trainings to the programme authorities. The ARACHNE tool has furthermore undergone important improvements over the past years (including full translation of all menus and on-line availability) to respond to the feedback received from the users.

Moreover, to address some Member States' concerns, and to align ARACHE to the security standards, a rollout of a security development is planned in the coming months, namely a two-factor authentication that will ensure the protection of sensitive data managed in ARACHNE.

The Commission services are carrying out audits on the effective and compliant use of the funding based on access to the full set of data to be kept by the Member States in the programmes management information systems (independently from the use or not by the Member State of ARACHNE). The preparation for such Commission audits includes a consultation of the red flag indicators provided by ARACHNE for the sampled operations.

ARACHNE can also be used by Commission auditors (or OLAF fraud investigators /ECA auditors) for ad hoc requests concerning individual operations or beneficiaries. If programme authorities are not using ARACHNE (or are not inserting data for all programmes) it is not possible to evaluate, in a simple, straightforward and exhaustive manner, the potential risks linked to an operation. However, in such cases Commission auditors can still use other features included in ARACHNE such as the ORBIS database or World Compliance, to check e.g. the presence of conflicts of interest, the size of a company or reputational issues. In any event, a deeper analysis of the file is always carried out in the context of the audit but, of course, the possibility to use the full potential of ARACHNE eases the work required for the audit assessment.

Last, the Commission has made the tool available to Member States and programme authorities to ease their own management verifications (eg. before they select operations or to verify the compliant implementation of operations). Therefore the more up to date data are available in the tool, the better for the accuracy and exhaustiveness of indicators generated by the tool and available to programme managing authorities.

9. ECA found that the application of Article 14(1) of the ESF Regulation led to an excessive imbalance in favour of a Member State in the first year of implementation. In 5.24-26 of its annual report the Court describes a case in Italy where the amounts certified to the

Commission and paid by the EU budget in the 2018/2019 accounting period for each operation concerned were more than 20 % higher than those agreed and paid to the beneficiaries. This arrangement has generated an imbalance in favour of the Member State of more than €43 million in the 2014-2020 period so far. How can the Commission guarantee that the amount of EU funding received by a Member State and then paid on to beneficiaries is not fundamentally different? Have the rates of the simplified cost options (standard scales of unit costs and lump sums) been adjusted, so that such imbalance does not recur in subsequent accounting years?

Commission's answer:

During its 2020 State of Assurance audit, the European Court of Auditors (ECA) audited five operations co-financed under Axis I (Education) and thematic objective 10 (Investing in education, training and vocational training for skills and lifelong learning) of the operational programme PON 2014IT05M2OP001 – "Per la Scuola competenze e ambienti per l'apprendimento". These operations support classes to primary and secondary education students outside normal school hours.

In line with Article 67 of Regulation (EU) 1303/2013 (the Common Provisions Regulation), beneficiaries had to declare eligible costs using scales of unit costs based on the simplified cost option method (SCO) determined by the managing authority on 2 November 2015. The beneficiaries claimed expenditure based on the national SCOs and the managing authority paid the beneficiaries for the expenditure claimed accordingly. The Italian authorities selected a method that was already approved for similar type of operations and beneficiaries under a scheme for grants funded by the Member State before the calls' publication (National SCOs).

For each of the five operations audited by the ECA, the managing authority declared to the Commission a different amount calculated on the basis of the simplified cost method (EU SCOs) defined by the Commission Delegated Regulation 2017/2016 dated 29 August 2017, implementing Article 14.1 of the Regulation (EU) 1304/2013 (the ESF Regulation). This method is based on the number of participants gaining a certificate in classroom training, multiplied by the standard scales of unit costs defined in the Commission Delegated Regulation, according to the length of module, additional specific support and meal allowance.

The Commission had already carried out a compliance audit and also identified a difference between the amounts paid to beneficiaries and the amounts claimed to the EU budget, based on the two different SCO methods. Under the CPR there is no direct link between the contribution from the Funds to an operational programme and the financing to a specific operation. Accordingly, the Member State may apply its accounting practices to support operations, therefore the difference identified by the Commission (and confirmed by ECA) is legal under the regulation. However the Commission still requested the Member State to reduce the difference between the two amounts for future declarations to the EU budget.

As a result of the Commission's audit, the following measures have been adopted:

1) The Commission has requested the national authorities to apply the adjustment method indicated in the Delegated Regulation 2017/2016. Thanks to this adjustment, the SCO value has been reduced and applied to the operations certified in the subsequent year. This will lead to a reduced amount reimbursed to the Member State of EUR 12.5 million for the operations certified in the subsequent accounting period.

2) In its reply to the Commission's audit, the Member State has also committed to use the difference identified by the Commission (and confirmed by ECA) for similar types of operations under the same programme addressed to the same type of beneficiaries (i.e. schools). Hence, the EU amounts reimbursed to the Member State above what was paid at national level to beneficiaries will be used to support additional operations for the same policy area.

10. What steps has the Commission taken, and would still want to take, to help the SMEs to recover from the negative effects of the pandemic?

Commission's answer:

When the COVID-19 crisis hit, the Commission authorised national authorities to grant state aid under very flexible conditions. This allowed deploying measures to support companies and thus avoid further layoffs and bankruptcies. Swift EU support to SMEs during the crisis significantly complemented national support measures.

In spring 2020, Member States were given the possibility to re-allocate unspent Cohesion policy funds under the Coronavirus Response Investment Initiative package (CRII and CRII+). In addition, with an allocation of EUR 50.6 billion, REACT-EU - the Recovery Assistance for Cohesion and the Territories of Europe – supports crisis repair measures under the 2014-2020 Cohesion Policy Funds, continuing CRII-type of support to healthcare, workers and businesses, including SMEs, and at the same time, focusing on green and digital regional investments.

These measures allowed EUR 11.5 billion to be used in direct support to SMEs, including – on an exceptional basis – to cover also working capital to keep SMEs afloat. Grants and low-interest rate loans were provided through ERDF, with special attention to affected regions and sectors (such as tourism) and ESF provided support for social services, retention of employment, support to vulnerable groups and others, e.g. through support to short-time work arrangements, supplementary wage for health care personnel, IT equipment, protective equipment and services for vulnerable groups. Moreover, a significant amount of the REACT-EU funding is being used to further assist SMEs – EUR 6.7 billion have so far been allocated for business support through ERDF, in particular for productive investments in SMEs, business development, sustainable production of goods while EUR 7.5 billion have so far been allocated for labour market measures through ESF. The Member States will be able to use this funding until the end of 2023.

In order to allow full transparency and accountability of the use of Cohesion Policy resources during the COVID-19 crisis, the Commission's Coronavirus Dashboard on the Open Data Platform provides up-to-date information on the use of the CRII and CRII+ measures by Member State and programme. As for the use of REACT-EU resources, data is available at this link.

In 2020, the COSME and InnovFin financial instruments for SMEs were also reinforced with additional EUR 1 billion, in order to help 100 000 European businesses.

The EIB Group in cooperation with the Member States put forward a COVID-19 guarantee fund worth up to EUR 25 billion. The fund is expected to provide European companies, especially SMEs, with up to EUR 200 billion – with a broad mix of debt and equity products.

The European instrument for temporary Support to mitigate Unemployment Risks in an Emergency (SURE) provided EUR 100 billion in loans to Member States to finance short-time work schemes.

Moreover, as part of the ERAvsCorona action plan, the Commission increased the support to innovative companies through the Horizon 2020 European Innovation Council (EIC) Accelerator pilot. In June 2020, nearly EUR 166 million have been awarded to 36 companies to combat the COVID-19 pandemic. Some 139 companies fighting COVID-19 that could not receive funding due to budget limitations have received the newly introduced COVID-19 Seal of Excellence, in recognition of the value of their proposal and in order to help them attract support from other funding sources.

In addition, the European Institute of Innovation and Technology (EIT) mobilised EUR 60 million for an 'EIT Crisis Response Initiative'. This initiative aims at backing new innovation projects addressing directly the COVID-19 crisis, as well as provide support to high growth and high impact start-ups and SMEs that will be crucial for the fast recovery of the economy. By September 2020, 207 innovation projects and ventures from 32 countries have been awarded the EIT funding.

The recently published Commission's report on national solvency measures for SMEs, based on inputs gathered from the SME Envoys Network's financial experts, highlights a broad variety of national measures implemented by Member States from the wake of the COVID-19 pandemic. The measures highlighted include debt moratoria, safeguards for employees or fiscal measures, which are helping to prevent a liquidity crisis from turning into broader solvency crisis for European businesses.

For the long-term recovery, the SME strategy adopted in March 2020 sets out an ambitious set of measures to support the digitalisation, sustainability, and resilience of European SMEs. SMEs and start-ups will also benefit from the measures included in the Industrial Strategy Update adopted in April 2021 to increase resilience across all industrial ecosystems, reduce supply dependencies and accelerate green and digital transitions.

The SME strategy includes a number of measures to help SMEs fully benefit from Europe’s main asset, its Single Market, and to create the right framework conditions where SMEs can prosper and grow, including cutting red tape and enhancing fairness in B2B relations. For example, the Commission will reinforce the screening of new legislative initiatives to identify those ones with significant impact on SMEs and to ensure that the impacts on SMEs are fully assessed (the ‘SME test’). The one-in one-out principle set out in the recent Better Regulation Communication allows to better addressing cumulative burden.

The Commission is also improving the effectiveness of the Late Payment Directive to increase the resilience of supply chains. To enhance fairness in business-to-business (B2B) relations, the late payment observatory will monitor businesses’ payment performance and identify unfair payment practices, which affect in particular SMEs.

The Enterprise Europe Network (EEN), active in over 60 countries, facilitates the access of European SMEs to the Single Market and third country markets and provides growth-oriented, integrated business and innovation support services to help them compete. Funded under the Single Market Programme (SMP), the EEN will play a crucial role in helping all types of SMEs in their transition to more sustainable business models through dedicated Sustainability Advisors and other sustainability services. It will also facilitate SMEs’ digitalisation by helping them to adapt their processes, to use digital technologies and to develop new products and services using digital means. Above all, it will support SMEs to become more resilient, to recover fully from the COVID-19 crisis and emerge stronger.

In the financial framework 2021-2027, the Commission established debt and equity support under its flagship programme InvestEU. A dedicated SME window will improve access to finance, with a budgetary guarantee of EUR 6.9 billion. InvestEU will be able to support companies affected by the crisis. In particular, there will be a possibility to provide capital support to SMEs that were not in difficulty in State aid terms already at the end of 2019, but since then face significant risks due to the crisis caused by the COVID-19 pandemic.

In addition, with a combined budget of EUR 393 billion over the course of the next programming period 2021-2027, cohesion policy will be one of the cornerstones of the EU socio-economic recovery from the COVID-19 pandemic. It will do so through ERDF with the overall budget of EUR 226 billion (and complemented by CF and JTF of EUR 48 billion and EUR 19 billion respectively) to stimulate private and public investments helping SMEs directly and indirectly via business support (in particular to ensure resilient, green and digital transition of SMEs) and improvement of their business environment (also including better infrastructure and better public services). The ESF+ with a budget of EUR 99 billion will be supporting SMEs to develop, managing and fully utilising the human capital available in their firms, including adoption of new work-organisation practices, HR tools and systems for managing human capital, and workforce upskilling and reskilling.

Finally, the Recovery and Resilience Facility makes available funds for SME digitalisation, upskilling and vocational training. SMEs will also benefit from reforms in public administrations and modernisation of procedures. Implementation of the National Recovery and Resilience Plans will be key to ensure support measures effectively reach SMEs on the ground.

Questions concerning reporting, risk and control systems

11. The Commission's examination of the management and control systems of the Member States highlighted the following elements:
   - There are deficiencies of key elements of the management and control systems set up in relation to the requirements of Regulations 1303/2013 and 223/2014 (2014-2020 programming period) for identified ESF/YEI and FEAD programmes in Belgium, Croatia, France, Germany, Italy, Poland, Slovakia, Slovenia, Spain and United Kingdom.
   - There are deficiencies of key elements of the management and control systems set up in relation to the requirements of Regulation 1083/2006 (2007-2013 programming period) for identified ESF programmes in Italy and Romania which have not been subject to sufficient control and corrective measures by the national authorities for the closure.

   Have the required corrective actions been implemented? Which specific actions has the Commission undertaken?

Commission's answer:

Reservations made in the Annual Activity Reports (AARs) are linked to the reporting year of expenditure with a view of protecting the EU budget if risks are identified. Such risks are based on: all available audit information (either by a Member State itself or by the Commission or any other EU audit); previous year's confirmed error rates with a possible impact on the adjustment of error rates reported in the latest annual control report where deemed necessary; as well as latest available assessments of management and control systems taking account of possible improvements carried out or, on the contrary, new weaknesses identified and Commission audit opinions at the time of the AAR.

Reservations issued in the DG EMPL 2020 Annual Activity Report relate mainly to weaknesses in the management and control systems, namely insufficient quality of management verifications (by managing authorities or their intermediate bodies) in areas such as selection of operations or expenditure declared by beneficiaries, for the concerned programmes or parts of programmes. Weaknesses related to the audit work carried out (insufficient or inadequate audits of operations leading to unreliable reported error rates) are also a reason for reservations in three cases (DE(2), ES).

Reservations are only lifted once sufficient corrective measures are taken by the national/local authorities and assessed as effective by the Commission services, therefore the EU budget is protected as long as the reservation remains in place. DG EMPL is giving systematic follow up to all reservations. The Commission notes that over the last years the majority of deficiencies reported could be corrected and the reservations lifted within one year for 62% of the reservations expressed in the past AARs.

DG EMPL's 2020 Annual Activity Report provides the underlying reasons behind each operational programme in reservation (23 for the 2014-2020 programming period and two for the 2007-2013 programming period) on pages 49, 50 and 60 as well as to pages 113-116 of the Annexes.

Based on the remedial actions implemented so far, reservations expressed in April 2021 have been lifted to date for 2 programmes (1 FR (Guadeloupe Conseil Régional) and 1 DE (ESF, Thüringen) while it is about to be lifted for another seven programmes (BE, DE (2), ES, PL(3)).

DG EMPL in its 2020 AAR has requested the following remedial actions to address its 23 reservations which concern the programming period 2014/2020:

• Belgium (Brussels-Capital Region): The implementation of the remedial action plan to address the high Total Error Rate (above 10%) is assessed positively by DG EMPL and therefore the reservation will be lifted end November 2021.

• Germany (Sachsen): The 2018/2019 accounts (audited by the Commission) have not been accepted yet. The Member State replied to the Commission final audit report on 14/10/2021 that following additional verifications it accepts to carry out the corrections requested in the Commission audit. The 2018-2019 assurance package (including the accounts) was therefore sent back to Sachsen for correction. This will allow addressing the recommendation.

• Germany (Thüringen): The reservation was due to incomplete audit work carried out by the audit authority by the regulatory deadline of 15 February, leading to an unreliable reported error rate. The audit authority has now reported that it has finalised the last audit of operations and resubmitted the annual control report and audit opinion based on a complete, re-calculated error rate. This will allow the Commission to lift the reservation shortly.

• Germany (FEAD OP): There was a risk of misstatement of the accounts due to insufficient sample selection, which rendered the audit opinion unreliable and a risk that the reported error rate and residual error rate was understated when concluding on the AAR. In addition the reportable error rate was above 10%, pointing to serious deficiencies in the effective functioning of management verifications by the managing authority. The action plan is under development by the managing authority, for review by the audit authority. DG EMPL has planned a fact-finding mission (Nov 2021) to assess whether it can now accept the accounts and confirm the revised error rate and residual error rate.

• Spain (ESF Cataluña): This reservation was maintained from last year, as the 2018/2019 accounts had not yet been accepted due to unfinished audit work (leading to an incomplete basis to estimate the error rate). The audit work has now been completed and the accounts were revised by the national authorities and submitted to the Commission on 08/10/2021. The Commission is currently analysing the file to assess whether the reported error rate / residual error rate can now be accepted and the reservation lifted.

• France (Guadeloupe Conseil Regional): Based on the high (above 10%) error rate identified by the audit authority, pointing to serious deficiencies in the management and control system, the managing authority implemented all requested corrective measures to improve the functioning of the control system and applied the required financial corrections, including extrapolated ones. DG EMPL assessed the results positively and was able to lift the interruption / reservation in August 2021.

• France (Mayotte): The Commission (DG REGIO) identified serious deficiencies in the management and control system of Mayotte at various levels (managing authority, audit authority) following a compliance audit. As a result the programme decided to withdraw all expenditure (zero accounts submitted) and to re-launch verification procedures. Pending the required deep improvements in the management and control system, the programme remains under reservation.

• Croatia: The reservation was based on the absence of completion of the action plan required already last year (re-conducted reservation from the 2019 AAR). DG

EMPL auditors carried out a fact finding mission in October 2021 that confirmed that the necessary preventive and corrective measures are not yet in place. The reservation is therefore maintained until all remedial actions are fully implemented.

• Italy: the main reason for the reservations is the limitation of subcontracting to 30% which wrongly transposes the public procurement directive into the national law. Following case law by the Court of Justice in 2019, the Italian authorities accepted to amend their national law on public procurement (not yet completed) and to apply financial corrections as from the date of the case-law, but contest the legitimacy of applying financial corrections for contracts signed and expenditure incurred before the case law. Since the required financial corrections are not yet applied, the issue still impacts the residual error rates re-calculated by the Commission which remain above 2%. In the absence of agreement the Commission will launch the required financial correction procedure.

• Poland (3 programmes): The Commission recalculated a residual error rate above 2% for a number of Polish programmes due to the identified systemic risk of ineligible participants. As a result the Commission requested additional financial corrections to bring the residual error below 2%. The Polish authorities acknowledged the weakness in the verification of the eligibility of participants and the resulting risks, and accepted to apply the required corrections for all programmes. For example for programme Warminsko-Mazurski Voivodeship this correction was implemented in the payment claim sent on 21 July 2021 for the ESF and on 30 July 2021 for the ERDF. The letter lifting the reservation is about to be issued.

• Poland (Wielkopolskie Voivodeship): The reservation was maintained from the 2019 AAR when the Commission had re-calculated the residual error above 2% based on identified additional errors. The required corrections were not carried out yet at the time of the 2020 AAR, while a more recent compliance audit also showed evidence of additional errors leading to a residual error above 2% in the 2020 AAR as well. As long as the necessary corrections are not implemented DG EMPL will maintain the reservations.

The following two reservations concern the programming period 2007/2013:

• Italy-Calabria and Romania-Human Resources Development: To date, additional audit work is still ongoing and/or an agreement on the additional financial corrections has not yet been reached (complex legal issues under litigation at closure).

12. Do these reservations cover all material risks? ECA's analysis this year of the 2018/2019 accounts confirmed that 36 operational programmes at DG EMPL were affected by material errors. However, in the 2019 AAR the Commission did not issue reservations

for 28 OPs at DG EMPL. Last year, the DG took the same approach to reservations as in the 2019 AAR. It is therefore possible that the 2020 AAR again did not cover all material risks. Could you comment on that, please.

Commission's answer:

The reservation issued in each Annual Activity Report (AAR) are the result of an implementation and audit cycle and are issued "in relation to the relevant expenditure in the year, in line with the Financial Regulation and corporate instructions, as explained in the Commission reply to paragraph 5.62 of the European Court of Auditors' 2019 Annual Report and 5.60 of the ECA 2020 Annual Report." (see Commission reply to paragraph 5.60 of the ECA Annual Report).

The criteria used to reach its opinions cover the accounts, the effective functioning of management and control systems and the legality and regularity of expenditure, based on all information cumulated since the previous AAR, including the latest audit information contained in the assurance package received mid February / 1st March just before drafting the AAR (to be signed mid April). The Commission therefore considers its criteria to issue reservations to be comprehensive and based on all and most updated audit information available, as fully and transparently disclosed in the AAR (see annex 5 of the AAR). Reservations are maintained until all remedial actions have been applied (including financial corrections if necessary) and the issue has been addressed.

Based on all national and EU audit results, DG EMPL can conclude at the end of 2020 that the management and control systems function (sufficiently) well (category 1 and 2) for 181 operational programmes, corresponding to 84% of the 214 ESF/YEI and FEAD programmes in total. For 34 programmes (representing 15.9% of expenditure certified in the accounts), the management and control system was found to present serious deficiencies (see DG EMPL 2020 AAR, page 48). For these programmes, in general,

- either the Total Error Rate (TER) is above 5% (meaning that management verifications were deficient and did not function as expected to filter out in first instance irregularities); DG EMPL enters reservations in the AAR when the programme TER is above the 10%, as the payment retention otherwise protects the EU budget);

- or the Residual Total Error Rate (RTER) is above 2% (meaning that insufficient financial corrections have been implemented as a result of the audits carried out by the audit authority); DG EMPL enters reservations in the AAR.

Reservations made in the AAR are linked to the reporting year of expenditure with a view of protecting the EU budget if risks are identified. Identification of such risks is based on all available audit information (either by a Member State itself or by the

Commission or any other EU audit), previous year's confirmed error rates with a possible impact on the adjustment of error rates reported in the latest annual control report where deemed necessary, as well as latest available assessments of management and control systems taking account of possible improvements carried out or, on the contrary, new weaknesses identified and Commission audit opinions at the time of the AAR.

Of course such reservations cannot take account of audit work to be carried out after issuance of the AAR, and which can lead to additional errors not identified at the time of the AAR. This was the case for 28 programmes (2018/2019 accounts) where ECA or Commission audits, carried out after the 2019 AAR signature, identified further material errors (as reported by ECA in paragraph 5.60 of the 2020 Annual Report). Any potential risk for such additional errors, not yet confirmed by audit evidence at the time of forming the opinion in the AAR, is reflected in the maximum risk calculation (reported maximum level of the AAR KPI5) but cannot give rise to a formal reservation in the absence of formal audit evidence at the time of signing the AAR.

When audits subsequently find material errors in relation to the previous accounting year, the Commission reports in the AARs the financial corrections required and applied, launched or to be launched. Such information on programmes for which additional financial corrections are necessary for the 2018/2019 accounts and the state of play of the situation for programmes concerned in the previous 2017/2018 is disclosed in DG EMPL 2020 AAR on p.57 (such information will be even further detailed e.g. in an annex in future AARs).

Finally, to follow-up the comments made by the ECA in its 2019 and 2020 Annual Reports, both DG EMPL and DG REGIO fully took account of the results of their compliance audits on the previous 2018/2019 accounts for their assessment of the newly submitted 2019/2020 accounts in the 2020 AARs, with an individual assessment carried out for each concerned programme whether previous findings could have an impact on the reportable error rates. In some cases, this has led to additional reservations in the 2020 AARs, as indicated for ex. in DG EMPL 2020 AAR (see pages 113-116 of the annexes to DG EMPL's 2020 AAR). Audits carried out by the Commission services after the signature of the 2020 AAR will show whether additional material errors are found and whether additional financial corrections are required (this information will be disclosed in the 2021 AARs of DG EMPL and DG REGIO).

13. According to the 2020 AAR of DG EMPL, in 2020, 4 interruption decisions as preventive measures were taken by the Authorising Officer by Delegation. Could you comment more on these decisions and to what they were related?

Commission's answer:

Also in 2020, the Commission continued safeguarding the EU budget by preventive and corrective actions, and therefore, four interruption decisions were taken by the Authorising Officer by Delegation (the Director General). In general, it should be noted that these interruptions were lifted once it was established that the management and control systems was fixed and could again provide reasonable assurance about the legality and regularity of declared expenditure and that, where appropriate, financial corrections had been implemented. Further details for the 4 cases are presented hereafter.

France (Ile-de-France et Bassin de la Seine):

The interruption decision was adopted following an audit of DG EMPL, during which deficiencies related to key requirement No 2 “Appropriate selection of operations” (as provided for in Article 72(c) and Article 125(3) of Regulation (EU) 1303/2013) and key requirement No 4 “Adequate management verifications” (as provided for in points (c) and (h) of Article 72 and point (a) of Article 125(4) of Regulation (EU) No1303/2013) were detected. To date, all remedial actions required by this procedure have been successfully addressed by the national authorities, namely:

- Management and control system working properly (cat.2 conveyed by the audit authority and confirmed by Commission auditors),

- Error rate for operations under this new system lower than 10%,

- Commission recommendations from the early preventive system audit EMPG314FR0173 properly addressed, allowing to close them.

Therefore, all the corrective and preventive measures required were addressed and there were no further points justifying the need to proceed to the adoption of a suspension decision.

France (National OP):

The interruption decision was adopted following an audit of DG EMPL, during which deficiencies related to key requirement No 4 “Adequate management verifications”, key requirement No 16 “Adequate audits of operations” and key requirement No 18 “Adequate procedures for providing a reliable audit opinion and for preparing the ACR” were detected.

The national authorities have implemented all the suggested measures set out in the interruption letter of 26/05/2020 (developments in the information system have strengthened the rules relating to the management of State aid; eligibility rules of direct personnel expenditure clarified; update in the managing authority's risk mapping; reinforcement of the audit authority's team and capacity through external service); the audit work has been finalised and a flat rate correction has been made to bring down the RTER to 2%. The procedure was therefore closed.

Italy – Puglia:

The interruption decision was adopted following an audit from DG EMPL that detected that the technical specifications contained in a regional decree, establishing that the conventions for the secondment of the staff could be signed only with those training centres who had among their staff trainers included in the regional registry of trainers, were discriminatory. For this reason and on the basis of Commission Decision C(2013)9527, a financial correction of 10% was applied to the expenditure generated by the concerned operations as of 19/04/2016 onwards until the transposition of the new public procurement directive 2014/24/EU (i.e. 19/04/2016, entry into force of the D.lgs. n. 50/2016). The region implemented the related financial corrections and adopted measures to avoid the errors from re-occurring. As a result of the implementation of these corrective and preventive measures, the interruption was lifted.

Italy - Bolzano:

The interruption was due to irregularities detected in the framework of a system audit report from the audit authority revealing a lack of evidence (registers, timesheets) accompanying the certified expenditures (breach of the audit trail). The managing authority implemented an action plan quantifying all concerned irregular expenditure, carrying out the related financial corrections in the previously declared expenditure and implementing improvements to the management and control system to prevent the same errors from happening in the future. Following the implementation of this action plan, the interruption was lifted.

14. Beneficiaries and Member State programme authorities are required to maintain systems and procedures that ensure an adequate audit trail. This includes keeping documentary records. The absence of supporting documents and information made up a significant part of all the errors reported by audit authorities. Several cases were related to ESF. While acknowledging the Commission's efforts through the publication of the "Reflection paper on audit documentation" and the promotion of good practises, the situation has not substantially changed over the years, and ECA continues to maintain the same observation concerning the absence of essential supporting documents. Will this finding of ECA stay with us in the future or do you expect that the Court will be able to drop its observation at some point? The same goes for public procurement errors, for

many years it has been a significant source of errors. When can we expect the Commission's public procurement action plan bear fruit?

Commission's answer:

In its 2020 Annual Report, the European Court of Auditors (ECA) provides a break down of the types of errors it identified. The “absence of essential supporting documents” made only 1% of the total errors found by ECA (paragraph 5.16, box 5.2).

The Commission underlines that almost all cases of absence of essential supporting documents concerned ESF-audits regarding the closure of the 2007-2013 programming period and have meanwhile been addressed. The audit authority of the programme concerned was sometimes not able to retrieve all supporting documents regarding project-costs and beneficiaries of more than ten-twelve years before (programme of the previous programming period). Moreover, some supporting documents were stored in offices that could unfortunately not be accessed during the COVID-19 pandemic. It should be noted that eventually and after many efforts the audit authority concerned could retrieve most of the information required from the beneficiaries.

Moreover the Commission considers that its joint "Reflection paper on audit documentation” established with the audit community of the European Structural Investment Funds (ESIF), based on the recommendations issued by ECA in this area, contributed to improve the situation in respect to the documentation of audit files over time, although not in all cases. The Commission audits also continue to detect missing supporting information or documentation as a frequent type of its audit findings (be it at the level of beneficiaries – a breach of audit trail with serious consequences n the eligibility of declared expenditure - or in the audit files reviewed – a frequent formal weakness in audit documentation).

Simplification (and in particular the use of SCOs) should help beneficiaries to improve the audit trail (with less justifications to be provided to controls and audits), while the Commission continues to preach the need to keep complete audit documentation for audit files (while ensuring at the same time proportionate administrative procedures and burden through reliance on the information available electronically in the management and information systems).

Public procurement errors are more typical for ERDF/CF operations than for ESF/YEI ones given the nature of measures supported. This type of error also made just 1% of the total errors found by ECA in 2020 (paragraph 5.16 of the 2020 Annual Report, box 5.2). Although they continue to represent an important share of errors found by audit authorities (32%) and by Commission audits (EMPL 36%, see 2020 AAR page 55), the share of public procurement errors in the ECA overall identified errors, have diminished over time in the ECA Annual Reports. This indicates a gradual impact of the Commission action plan and actions taken with the programme authorities to improve the situation and to better detect, in first instance, such complex errors.

Public procurement errors may be explained by the complex procedural requirements of the underlying rules and continued support and training is needed to ensure a sufficient expertise at the level of all concerned public contracting (for hundreds of thousands of operation and programme authorities. In addition, in 2020 (as it was the case in 2019), specific systemic issues linked to public procurement were identified by the Commission in some countries due to the wrongly transposed national legislation.

The Commission's initiatives aimed at increasing the effectiveness of verifications of programme authorities in the area of public procurement thus continue to be implemented, such as peer-to-peer exchange of expertise and experience between authorities. In particular, within the framework of the Public Procurement Action Plan implemented in cooperation with DG GROW, the other ESIF DGs and the EIB, three actions can be particularly useful for Member States' administrations: the E-library of good practices linked to the management of ESIF; the Guide for practitioners on how to avoid the most common errors in public procurement linked to the management of the ESIF; and the Integrity Pacts to ensure citizens' involvement in the verification of the fair and sound running of public procurement procedures.

As part of their audit results, the Commission also encourages and supports audit authorities to recommend remedial measures to managing authorities and their intermediate bodies. The objective is to better prevent and detect irregularities and to carry out specific sessions with the managing authorities to explain the irregularities detected in their audits (including lack of essential documentation, public procurement errors, but also ineligible projects / expenditure, the first source of errors reported by audits from ECA, audit authorities and the Commission) and to assess jointly the root causes of these errors.

The following measures are taken at the Commission level to address the root causes of errors:

- specific actions (preventive and corrective), including guidance, training, interruptions and suspensions of payments, and financial corrections, when necessary.

- continued work closely with the managing and audit authorities to follow up on the agreed conclusions, and to ensure overtime a residual level of error below 2 % for all programmes.

- pursuance of the simplification agenda encouraging a greater use of simplified cost options (SCOs), to fundamentally improve the situation.

For 2021-2027 programmes, the Commission proposes that managing authorities put in place a genuine simplification of rules by applying systematically simplified cost options in their grants with beneficiaries. To avoid errors managing authorities are required to adopt a more targeted approach, focusing management verifications on due risk-assessments, analysing and carrying out in-depth verifications of risk areas in declared expenditure based on all available verification and audit results.

15. As regards the Commission's assurance work and DG EMPL's reporting of residual error rate in its annual activity report, ECA notes that the overall residual error rate shown as a KPI should be considered a minimum rate. Since it is determined on the basis of the KPI, the risk at closure is also a minimum rate, and future corrections might not be sufficient to ensure that no material level of error remains at closure. (5.56) While DG REGIO's maximum rates take account of audit results still under discussion with the Member States, as well as any errors lying outside the sample of operations in Ops, DG EMPL seems to follow another approach. While DG REGIO applied the approach as described in the AAR, DG EMPL did not take full account of possible errors beyond those detected. (5.55) Why has DG EMPL applied another approach?

<u>**Commission's answer:**</u>

The Commission has designed its assurance system to allow the Directors-General to provide assurance on each of the 418 ERDF/CF, ESF/YEI and FEAD individual operational programmes, as per their obligation as authorising officers by delegation. The Commission considers it has reasonable assurance on the legality and regularity of the underlying expenditure, except for programmes for which it reported the need for potential additional financial corrections in the AARs, based on a thorough and robust methodology applied for each operational programme.

Moreover, an aggregated KPI is reported in the Annual Activity Reports (AARs) as a weighted average of all confirmed error rates. The Commission , both in the AAR of DG REGIO and in the AAR of DG EMPL, also reported a maximum level of this KPI (worst-case scenario), taking into account all pending information still under validation. This approach is fully shared between DG EMPL and DG REGIO. Finally, the applicable provisions provide for the possibility for the Commission to carry out audits and implement any required additional financial corrections in a multiannual period (including through audits carried out up to three years after the year in which accounts were accepted). This regulatory possibility is important for the Commission to be able to discharge its responsibilities in relation to implementation of the EU budget under multiannual programmes.

DG EMPL has noted the minor differences with DG REGIO in the approach followed for the calculation of the maximum risk level disclosed its AAR (which had a limited impact of 0.2 percentage point in 2020, according to ECA). In this context, the setup in July 2021 of the Joint Audit Directorate for Cohesion (DAC), encompassing all audit activities of the Cohesion expenditure, will allow synergies between DG EMPL and DG REGIO assurance process and will further help to ensure full consistency in the methodology, audit work and assessments for both directorates general.

16. The AMPR 2020 indicates that for the EaSI programme, the KPI relating to the percentage of beneficiaries who are unemployed or from disadvantaged groups and were supported to start a business remains below target. The Commission also mentions it is facing reporting difficulties when it comes to this target. Could the Commission elaborate on these reporting difficulties and explain which measures is it taking to enhance the performance towards this programme?

Commission's answer:

The indicator referred to by the Honourable Member was lagging behind the target partly due to reporting difficulties. This indicator looked at the percentage of beneficiaries who are (1) unemployed or (2) from disadvantaged groups. However, the Commission was only able to report on (1) unemployed/inactive beneficiaries that were supported and could not provide reliable data on (2) disadvantaged groups; there is no unique reporting categorisation for disadvantaged groups and beneficiaries belonging to these groups could be reported into more than one category, thus leading to double-counting.

Considering the difficulties explained above, the target year (2020), the transfer of the financial instruments (to which the indicator pertains) to InvestEU for the 2021-2027 MFF, and taking account of the overall reduction in the number of indicators for the 2014-2020 MFF, the Commission will discontinue the reporting on this indicator under the Employment and Social Innovation programme.

Questions concerning youth-related issues

17. What is the impact of the measures implemented to better redirect young people towards the STEM and jobs related to it?

Commission's answer:

The transition to an environmentally sustainable, circular and climate-neutral economy requires an increased emphasis on the development of STEM skills and jobs (STEM standing for “science, technology, engineering and maths”). Therefore, the Commission's actions, in line with the establishment of a European Education Area by 2025, include several initiatives with STEM education as their integral component.

The future Council Recommendation on education for environmental sustainability which is linked to the development of a European competence framework on sustainable development and climate change will set out how Member States, schools, higher education institutions and educators can strengthen cooperation and peer exchange on environmental sustainability education to increase awareness, understanding and action. The concept of sustainability cuts across the entire spectrum of key competences with a special focus on science and citizenship. The impact of these policy measures is related to changing mind-sets and prompting young people to act towards a greener future.

In addition, the Commission will propose an initiative to help each pupil reach a certain level of proficiency in the basic skills of maths, science and literacy and to complete upper secondary education. This action is called Pathways to School Success. Its impact includes lowering levels of underachievement in maths and science across the EU among the 15-year olds as measured by PISA.

The Commission's actions taken in 2020 for higher education focussed on the up-scaled EU STEAM coalition, bringing together different education sectors, business and public sector employers to promote the uptake of an interdisciplinary STEAM (standing for "science, technology, engineering, arts and maths") approach to STEM subjects. With the 2020 Erasmus+ budget, it also supported partnership actions, and organised a peer learning activity with the participation of 12 Member States, three stakeholder organisations and universities.

It also supported the modernisation of curricula with a STEAM approach to include more multi-disciplinary approaches in the programmes through closer cooperation between relevant faculties and higher education institutions, especially on the field of engineering and ICT to increase the participation of women in these subjects.

The European Universities Initiative will act as a test bed of innovative teaching solutions. All alliances are applying interdisciplinary, challenge-based approach for their pedagogies. Three alliances, CONEXUS, UNITE! and ARQUS are focussing specifically on STEM related topics and activities, with ARQUS developing methods for STEM teaching.

Redirecting young people towards STEM and promoting STEM in Erasmus+ projects in the field of the vocational education and training contributed to the development and reinforcement of frameworks for skills needed in STEM and to address the skills' gap in the labour market. The examples of reinforced skills' frameworks may include: competences needed in sustainable buildings' constructions and services, technical proficiency, digital and environmental skills, etc. The programme strongly promotes work-based learning with special attention to apprenticeships thus enabling the successful school-to-work transitions which is beneficial for both companies and young people.

18. How do you assess the tools put in place to fight youth unemployment, which was still at 14% in December 2019 and which we know has emerged very fragile from the health crisis? How do you judge the performances and the outcomes of the Youth Guarantee program?

Commission's answer:

The fight against youth unemployment is a political priority for the Commission. Our overall objective is to support young people in finding quality employment and developing the right skills for a changing world of work, in particular those relevant to the green and digital transitions.

In response to the recession triggered by the pandemic, in July 2020, the Commission adopted a package of initiatives called 'Youth Employment Support: a bridge to jobs for the next generation'. It was built around four components: a reinforced Youth Guarantee for young people aged 15-29; future-proofed vocational education and training systems; a renewed impetus for apprenticeships; and a number of short-term priority measures supporting youth employment.

The Council adopted the reinforced Youth Guarantee in autumn 2020. The overall objective of the reinforced Youth Guarantee is to support young people in gaining work experience and developing the right skills for a changing world of work, in particular those relevant to the green and digital transitions. Over 90% of jobs require already some digital skills. With the reinforced Youth Guarantee, the digital skills of all young people who register are assessed. On the basis of gaps identified, all those young people should be offered a dedicated preparatory training to enhance their digital skills.

Moreover, through the reinforced Youth Guarantee,the Commission wants to achieve more and better:

- school-to-work transitions through tailored and individualised support measures

- outreach to and activation of the more vulnerable

- upskilling and re-skilling

- post-placement support

- integrated services.

Member States are already adopting or plan to adopt structural reforms and new job and training support measures in line with the reinforced Youth Guarantee (e.g. in Czechia, young people will be among the main beneficiaries of plans to reform the training and requalification system, including a particular focus on digital skills; Spain plans additional investments in the dual learning Tandem programme, where 25% of the programme will be devoted to green skills and another 25% to digital skills; and in the First Experience programme, which offers a first work experience linked to the completion of a qualification and where at least 20% of the programme will be devoted to green skills and another 20% to digital skills)

The Recovery and Resilience Facility has a budget of over EUR 700 billion and one of the six pillars that the national recovery and resilience plans (RRPs) submitted by Member States should cover is policies towards children and the youth. The measures included in the RRPs should be in line with the reinforced Youth Guarantee. Some examples of measures that have been included in submitted RRPs:

- Strengthen VET systems (EL, ES, IT or PT)

- Specialised training or guidance targeting NEETs (CY, FR)

- Apprenticeship programmes (EL, DE, FR and IT)

- Improving Public employment services' support to young people (CY)

- Hiring subsidies (FR, PT and SI)

- Integrated one-stop-shop services for youth (FI)

With a budget of around EUR 99 billion for 2021-2027, the European Social Fund Plus (ESF+) will continue to be the EU's key instrument to support the implementation of the reinforced Youth Guarantee. Member States where the share of young people neither in education nor in employment or training (NEETs) is higher will need to devote at least 12.5% of their ESF+ funding to young NEETs. All the other Member States will need to dedicate an appropriate amount to implement the reinforced Youth Guarantee in line with the gravity of their youth employment challenges.

The reinforced Youth Guarantee builds on the successful implementation of its predecessor. Since 2014, more than 3.5 million young people have received a Youth Guarantee offer of employment, continued education, apprenticeship or traineeship every year. Over the seven years before the COVID-19 pandemic, there were approximately 1.7 million fewer young NEETs across the EU. The EU youth unemployment rate had fallen to 14.9% in 2019. The improving macro-economic context has certainly played a role, but a 2020 study suggests that the Youth Guarantee , coupled with European funding, has created opportunities for young people and – very importantly - has triggered structural reforms in Public Employment Services and education systems in the Member States.

The YEI and the ESF have made a significant contribution to the implementation of the Youth Guarantee: by the end of 2020, over 3.4 million young people have benefitted from the YEI and over 1.7 million young people have successfully gone on to continued education, an apprenticeship or a traineeship, gained a qualification, found a job after the YEI-supported intervention.

19. Regarding the ESF/ Youth Employment Initiative, in what way is the Commission assisting Member States with lower project selection rate, as well as those Member States and regions facing implementation issues?

Commission's answer:

The Commission assists Member States in the achievement of a high project selection rate through regular meetings with programme authorities, such as annual review meetings, monitoring committee meetings, as well as bilateral discussions. Implementation progress and challenges are discussed in the ESF Committee meetings and the ESF Technical Working Group meetings. DG EMPL has furthermore taken measures to address implementation weaknesses, such as sending observations on the implementation of the programmes to programme authorities to encourage them to take actions and to improve implementation.

Based on execution reports from Member States, at end of June 2021, the average ESF/YEI project selection rate has increased to 105 % of the total funding (EU and national); with 16 Member States reporting 'overbooking' (project selection >100%) on the ground.

Examples of project selection rates at the end of June 2021:

• High selection rate: ES 137%, CY 129%, FR 117% and EL 109%.

• Lower selection rate: SE 77%, HR 90%, DK 91% and IT 93%

(the selection rate in these Member States was affected by additional REACT-EU funding already decided by June but not yet allocated on the ground).

20. How do you assess the existing tools put in place to fight youth unemployment, especially considering the surge of unemployment during the Covid-19 pandemic?

Commission's answer:

Youth unemployment is more sensitive to the economic cycle than adult unemployment. The COVID-19 outbreak put Europe under exceptional public health, economic and social stress. Economic activity suffered an exceptional slump and the state of the EU labour market deteriorated. These adverse developments were reflected in all main economic and social indicators, including for young people.

During the crisis, many young people could not integrate in the labour market nor continue their education or training, and tended to be over-represented in the hardest-hit industries (art and entertainment, travel and transport, tourism and hospitality). However, youth unemployment and NEET rates have not reached the peaks seen in the aftermath of the previous crisis. Recent youth unemployment figures offer hope that the employment situation of young people will improve fast if the economy continues to rebounds (the EU-27 youth unemployment rate 15-24 was 15.9% in September 2021, down from 19% in August 2020 and very close to the pre-crisis level of 14.9% in 2019; the EU-27 NEET rate 15-29 is also down to 13.2% in Q2 2021 from 14.7% in Q2 2020 and getting close to pre-crisis levels).

The reinforced Youth Guarantee is our reference policy framework to fight youth unemployment and inactivity (see reply to question 18).

Besides the reinforced Youth Guarantee and the funding instruments, numerous EU initiatives are also benefiting young people and supporting their sustainable integration into the labour market. Since last year, also as part of the YES initiative, the Commission has renewed the European Alliance for Apprenticeships (EAfA). It has adopted and is implementing an ambitious European Skills Agenda for up- and re-skilling, including for youth who may have left education with a low qualification or with a qualification in low demand in the labour market.

The European Child Guarantee, adopted in June this year, seeks to prevent and combat social exclusion, by guaranteeing the access of children in need to a set of key services (early childhood education and care, education including school-based activities, healthcare, nutrition, housing). It thus aims at providing children with equal opportunities from the outset.

21. Would you say that the Youth Guarantee is living up to its expectations?

Commission's answer:

Please see replies to questions 18 and 20.

Questions concerning COVID-19 related issues

22. How has the COVID-19 crisis affected the absorption rate of programs and are there any lessons learned to bear in mind for the future?

Commission's answer:

The outbreak of the COVID-19 pandemic has had multiple consequences on public policies and spending. In the short-term, the ensuing public health crisis required that the Member States increase public spending in their healthcare systems and specific sectors of their economies. As a result, in the initial phase of the crisis, a significantly lower level of Member States' expenditure declarations was observed for the ESI Funds, including for the ESF and YEI. The main reasons for Member States declaring less expenditure to the Commission between April and June 2020 included:

• the existence of lock-downs in many Member States, slowing down the administration, verification and certification process;

• the withholding of certification by some programme managing authorities in view of expected CRII and CRII+ related programme amendments that would provide more flexibility.

It was therefore necessary for the EU to urgently give Member States special flexibility in using the European funds to enable them to address the newly emerged needs and to mobilise all non-utilised support from the Funds.

In immediate reaction to the pandemic in March and April 2020, the European Commission proposed two packages of measures: the Coronavirus Response Investment Initiative (CRII) and the Coronavirus Response Investment Initiative Plus (CRII+). The two proposals were swiftly adopted by the European Parliament and the Council of the EU. Whilst the CRII(+) packages did not offer new EU financial resources, they provided crucial flexibility to use existing, unspent resources and re-direct them to where they are most needed. Flexibilities available included transferring unallocated EU funding between funds and categories of regions, an immediate increase of liquidity to improve cash flow (in particular delayed recoveries at the acceptance of the 2018/2019 accounts), an option to increase the EU co-financing rate to 100% for the 2020/2021 accounting year.

At the end of September 2021, 192 programme amendments from 24 countries have been launched taking advantage of the new possibilities provided by the CRII(+) packages to address the crisis. As regards the ESF, all areas of ESF support are concerned – protecting employment, promoting health and continued access to services, and allowing the continuation of education and training. The CRII and CRII+ flexibilities extend to the FEAD: there have been 12 FEAD programme amendments in nine Member States (AT, ES, FR, HU, HR, IT, LU, PT, RO) - eight programmes amendments to benefit from the 100% co-financing rate and 4-four to introduce emergency measures to respond to the COVID-19 pandemic.

The Commission has just started the preliminary evaluation process of the support provided by ESF and FEAD under the CRII and CRII+ to provide preliminary lessons learnt and recommendations on the use of the ESF and FEAD in a crisis context. A fully-fledged assessment of the effect of anti-crisis operations will be made by December 2024 with the ex-post evaluation of ESF and FEAD.

At this stage it seems that the flexibility measures introduced by CRII/CRII(+) proved to be effective to respond to emerging needs via the embedded flexibility. In particular, Member States have shown a lot of interest in the provisions on non-substantial transfers between priorities to immediately reallocate funds where most needed. Similar rules on reallocations that do not require programme amendments have been introduced into the 2021-2027 Common Provisions Regulation (Article 24(5)). Member States also show interest in extension of the temporary 100% EU co-financing under 2014-2020 programmes.

23. Long-term unemployment remains a huge problem in the EU, especially in some Member States. The Covid-19 crisis complicated the situation of these vulnerable people even more. Do you have the information on the extent of the Covid impact on long-term unemployment? What are Commission’s steps to tackle this issue?

Commission's answer:

So far, the statistical evidence does not identify significant changes in long-term unemployment across the EU following the COVID-19 pandemic. Overall, long-term unemployment dropped from 5.5% in 2013 to 2.8% in 2019 prior to the COVID-19 pandemic. The latest annual figures show that it actually dropped further to 2.5% in 2020 while latest quarterly data shows a rise by 0.4% from 2020Q1 to 2021Q1.

In any case, large disparities still exist across the EU with the rate of long-term unemployment spanning from 0.7% in Malta and Czechia to 10.0% in Greece. Women are generally recording 0.3% higher long-term unemployment than men.

The containment of long-term unemployment so far is believed to be strongly related to the many short-time work schemes and similar job-retention schemes put in place by Member States during the first phases of the pandemic. Such schemes are now being reduced drastically. The evolution of unemployment in 2020 has been also influenced by an inflow into inactivity.

The Commission continues to monitor the implementation of the Council Recommendation on Long-term unemployed through the European semester and through annual thematic reviews on active labour market policies. In this context, the Commission is pushing for necessary reforms that would strengthen the capacities of active labour market policies in Member States, notably through reinforced labour market support including enhanced labour market training systems and more and better-coordinated social services for long term unemployed.

Since 2014 and by end 2020, the ESF and the Youth Employment Initiative (YEI) have supported 5.9 million long-term unemployed, thus effectively delivering on its mission and providing new opportunities to those furthest away from the labour market.

The Recovery and Resilience Facility is expected to provide very important financial means to support such reforms. The aim is to build back better and ensure that Member States are better prepared to handle the labour market fallouts of any new crisis and thereby also prevent large increases in long-term unemployment.

Moreover, the European Social Fund Plus will continue to support measures bringing long-term unemployed back to the labour market.

24. During the year 2020 DG EMPL prepared the proposal for a Council Recommendation on vocational education and training (VET), which defines key principles for ensuring that vocational education and training is agile, adapts swiftly to labour market needs and provides quality learning opportunities for all age groups. Question: How has the Covid-19 pandemic and teleworking affected to the implementation of this proposal?

Commission's answer:

The negotiations regarding the proposals for the Council Recommendation on vocational education and training (VET) have been successfully concluded and the Council adopted the Recommendation in November 2020.

Since the adoption, the Commission has been working with the EU Member States to devise the implementation and monitoring approach of this Council Recommendation. It was agreed that the EU Member States will submit their implementation plans in May 2022. Furthermore, the Commission has started to implement the EU level support actions mentioned in the Council Recommendation. These included for example exploring the concept of EU Vocational core profiles, the development of Selfie for work-based learning, Centres of Vocational excellence, EQAVET peer reviews at VET system level as well as peer learning activities regarding tracking of VET graduates.

At this stage, there is no evidence that the pandemic has delayed implementation.