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European Commission

Annual Activity Report 2020

DIRECTORATE-GENERAL EMPLOYMENT, SOCIAL AFFAIRS AND INCLUSION

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THE DG IN BRIEF

The Directorate-General for Employment, Social Affairs and Inclusion (DG EMPL) pursues policy and legislative and financial initiatives designed to build a highly competitive social market economy in the European Union. The **European Pillar of Social Rights**[1] is the EU social strategy to ensure that the transitions to climate-neutrality, digitalisation and demographic change are socially fair and just. By implementing the Pillar, DG EMPL aims to create more and better jobs, promote skills and vocational education and training, improve the functioning of the labour markets, fight inequalities, confront poverty and social exclusion, modernise social protection systems including pensions, health and long-term care, facilitate the free movement of workers, promote workers' rights, health and safety at work, and protect against discrimination in the work place, as well as uphold the rights of persons with disabilities.

Mission statement of DG EMPL, 2020-2024 Strategic Plan

The **Treaty on the Functioning of the European Union** (TFEU) provides that in determining and implementing its policies and activities, the EU has to take into account requirements linked to the promotion of a high level of employment, the guarantee of adequate social protection, the fight against social exclusion and promote high levels of education, training and protection of human health (Article 9 of the TFEU). Other specific responsibilities of DG EMPL enshrined in the Treaties include the aim to combat discrimination (Articles 10 and 19 of the TFEU), the implementation of the right to free movement of workers (Article 45 of the TFEU), the coordination of social security systems (Article 48 of the TFEU), the promotion of social dialogue and of improved living and working conditions (Articles 151 to 155 of the TFEU), and the application of a vocational training policy (Article 166 of the TFEU).

DG EMPL is in charge of implementing the **European Social Fund** (ESF), which seeks to: (i) improve job opportunities for workers in the internal market and (ii) help raise workers' standard of living (Article 162 of the TFEU); and (iii) to develop actions to strengthen the EU's economic, social and territorial cohesion (Article 174 of the TFEU).

The responsibility for fulfilling the above objectives as well as for setting policy in the fields of employment, social affairs and inclusion is **shared between the EU and its Member States** (Articles 4 and 5 of the TFEU). Due to the specific nature of the underlying activities and given the shared management mode used in the vast majority of its financial resources, the results and impacts of DG EMPL's activities are only to some extent under its own control.

DG EMPL also contributes to the employment and social dimension of the **enlargement** of EU and to the **international dimension** of the Commission's work.

[1] The European Pillar of Social Rights.

DG EMPL's **main areas of intervention** to attain its objectives are:

- ✓ Policy development, guidance, coordination and governance in the areas of employment, social inclusion and equality, including through the European Semester process, based on the principles of the European Pillar of Social Rights and through a further integration of the UN Sustainable Development Goals.
- ✓ Legislation on working conditions, occupational health and safety, free movement, coordination of social security, non-discrimination and equal opportunities.
- ✓ Management of a wide range of funding instruments to implement DG EMPL's policies, under different management modes:
  - *Shared management mode with the Member States*: the ESF including the Youth Employment Initiative (YEI), and the Fund for European Aid to the Most Deprived (FEAD), both to be part of the European Social Fund Plus (ESF+) shared management strand from 2021, and the European Globalisation Adjustment Fund (EGF).
  - *Direct management mode by DG EMPL*: (i) the EU Programme for Employment and Social Innovation (EaSI) that will become a strand within ESF+ starting in 2021; (ii) part of Erasmus+; (iii) part of the Rights, Equality and Citizenship Programme (REC) that will be merged into the Citizens, Equality, Rights and Values programme (CERV) starting in 2021; (iv) funds allocated by virtue of the powers conferred to the Commission by the Treaty (so-called 'Prerogatives') for social dialogue, labour mobility, analysis of the social situation, demographics and the family; and (v) contributions to five decentralised agencies.
  - *Indirect management mode with non-EU countries and international organisations*: (i) operational programmes under the Instrument for Pre-Accession Assistance (for the 2007-2013 period), which are currently at closure phase; and (ii) actions related to EaSI that are implemented either by international organisations or by the European Investment Bank and the European Investment Fund and which will become part of the InvestEU programme in 2021.

As part of the EU's response to the COVID-19 pandemic, DG EMPL also helps the Member States to implement the funding received under the Next Generation EU package, including the Recovery and Resilience Facility (RRF), the Just Transition Fund (JTF) and REACT-EU.

With a total budget of EUR 100.4 billion for the 2014-2020 programming period, in addition to the amounts remaining from previous programming periods, DG EMPL is **responsible for approximately 9.2% of the EU budget**.

DG EMPL's challenges and risks typically arise from the effects of sudden changes in the socioeconomic situation of the EU, such as the current health crisis, which impacts all policy areas (employment, social inclusion, social protection, education and training etc). However, the DG is proactive in targeting long-term structural reforms in the Member States in order to foster their resilience and preparedness for unexpected situations. As such, DG EMPL supports the Member States through its policy development, guidance, coordination, governance, legislation and financial support that enable changes.

EXECUTIVE SUMMARY

This Annual Activity Report is a management report of the Director-General of DG Employment, Social Affairs and Inclusion to the College of Commissioners. Annual Activity Reports are the main instrument of management accountability within the Commission and constitute the basis on which the College takes political responsibility for the decisions it takes as well as for the coordinating, executive and management functions it exercises, as laid down in the Treaties[2].

A. Key results and progress towards the achievement of the Commission's general objectives and the DG's specific objectives

DG EMPL put forward all initiatives planned in the 2020 Commission Work Programme[3] and Management Plan[4], all contributing to the recovery plan. These initiatives are: the **Communication on a Strong Europe for Just Transitions**, **Reinforcing the Youth Guarantee**, **Updated Skills Agenda for Europe** and **Fair minimum wage for workers in the EU**.

The **Communication on A strong Europe for Just Transitions**, adopted in January, prepared the way for the Action Plan to implement the European Pillar of Social Rights. It described the challenges faced by Europe - such as climate, digitalisation and demographic changes - and sets the framework for relevant initiatives to address these challenges.

In a context of rising youth unemployment and inactivity, further exacerbated by the COVID-19 pandemic, DG EMPL facilitated structural reforms and activation strategies for young people across the EU. Part of the Youth Employment Package, the reinforced **Youth Guarantee** prepared by DG EMPL will reach out and create more opportunities for young people, and help them in developing the right skills for a changing world of work. The Guarantee was adopted by the Commission on 1 July and by the Council on 30 October.

DG EMPL's main policy outputs in the area of skills were delivered with the adoption of the **Communication on a European Skills Agenda for sustainable competitiveness, social fairness and resilience** on 1 July, which will support a rapid recovery from the COVID-19 crisis and help the EU to take advantage of the opportunities provided by the green and digital transitions. On the same day, the Commission adopted its **proposal for a Council Recommendation on vocational education and training**. The proposal sets out 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. It was adopted by the Council on 24 November.

[2] Article 17(1) of the Treaty on the European Union.
[3] 2020 Commission Work Programme
[4] 2020 Management Plan

On 28 October, the Commission adopted its proposal for a **Directive on Adequate minimum wages in the EU (COM(2020)682)** providing a framework to support collective bargaining on wages, ensure that statutory minimum wages are set at adequate levels and strengthen the enforcement and monitoring of minimum wage protection. It will contribute to guaranteeing adequate working and living conditions for workers in the EU, as well as to building fair and resilient economies and supporting inclusive growth.

Besides the initiatives planned in the Commission Work Programme, DG EMPL also updated the **Directive 2000/54/EC on Biological agents** by adopting Directive 2020/739 on 3 June to add SARS-CoV-2 to the list of agents and increase the protection of workers. At the same time, the DG drafted and published a factsheet to explain the Directive, the update and the implications for the workers, which won an award for clear writing for communicating a complex issue in an easily understandable and concise manner.

Moreover, DG EMPL supported the Commission in mitigating the pandemic shock with **guidelines on free movement of workers** and **on seasonal workers**.

All these initiatives support the implementation of the ambitions set in the political guidelines of President von der Leyen[5], which were cascaded in the Strategic Plan[6]. These initiatives also help implement the European Pillar of Social Rights[7] and the UN Sustainable Development Goals[8], as further detailed in the next sections.

Throughout 2020, the Commission took action to cushion the social and employment impact of the COVID-19 crisis also with the help of EU funds.

In the short term, it allowed **full flexibility in the use of Cohesion policy funds** through the Coronavirus Response Investment Initiatives (CRII and CRII+) by, for example, removing the thematic concentration requirements and offering the possibility of a temporary EU co-financing rate of 100%. It supported the Member States in **financing short-term working schemes** through the ESF and the EU instrument for temporary support to mitigate unemployment risks in an emergency (SURE), aiming to keep people in employment during the pandemic.

In the long-term, it paired the proposal for the 2021-2027 multiannual financial framework with the NextGenerationEU programme encompassing the RRF, JTF and REACT-EU, to **mitigate the socioeconomic impact of the crisis** and ensure a socially fair recovery in the coming years.

DG EMPL actively assisted the Member States by **swiftly modifying operational programmes** in order to respond to the emerging and changing needs on the ground, and accommodate the reprogramming that resulted from the Commission's proposals to address the pandemic consequences by mobilising all available EU funds.

[5] Political guidelines of President von der Leyen
[6] 2020-2024 Strategic Plan
[7] European Pillar of Social Rights
[8] UN Sustainable Development Goals

DG EMPL also continued to help Member States simplify the management of their ESF/YEI operational programmes and focus on the achievement of outputs and results by further **promoting the use of simplified cost options** with another amendment to the Delegated Regulation (EU) 2015/2195.

Significant progress was made in the **negotiations for the ESF+ Regulation, which were concluded in January 2021 with a political agreement** between the European Parliament and Council. The Regulation is expected to be adopted mid-2021.

The ESF/YEI helps millions of Europeans improve their lives by learning new skills and finding better jobs. Between 2014 and 2019[9], 36.4 million people were supported by the ESF and YEI, of which 4.5 million had found a job (including self-employed) and a total of 5.5 million had gained a qualification. In addition, the Member States declared that 3 million young people had already benefitted from the YEI by the end of 2019.

The FEAD helped alleviate the worst forms of poverty in the EU by assisting the most deprived persons with food, basic goods and social inclusion support. The Annual Implementation Reports for 2019[10] showed that, in 2019, an estimated 12.2 million people benefited from FEAD food assistance (345 000 tonnes of food were distributed), over 800 000 received material assistance, and 30 000 benefited from social inclusion support.

In 2020, the FEAD Regulation was amended to enable the Fund to meet the COVID-19 related challenges, allowing additional flexibility and reducing administrative burden. This includes delivering basic material assistance through vouchers and buying protective equipment for people delivering aid, thus lowering the risk of infection.

Moreover, DG EMPL provided **guidance to the Member States on how to make use of the EGF under the COVID-19 crisis circumstances.** Four COVID-19-related applications were received by the end of 2020, in addition to three globalisation-related ones.

The **agreement reached** by the European Parliament and Council in December **on the EGF Regulation 2021-2027** will enable DG EMPL to continue providing timely assistance to displaced workers. The adoption of the Regulation is expected in spring 2021.

The EGF demonstrates the Union's solidarity with European workers who have lost their jobs due to a significant restructuring event. Between 2014 and 2020, EGF support has targeted 55 168 workers and 4 099 young people not in employment, education or training in 41 economic sectors. Assistance was offered in the form of a package of personalised services aiming at reintegrating them into sustainable employment as quickly as possible.

The **EaSI** financial instruments together with a whole package of financial and non-financial support (including advisory services, actions to support evidence-based policy

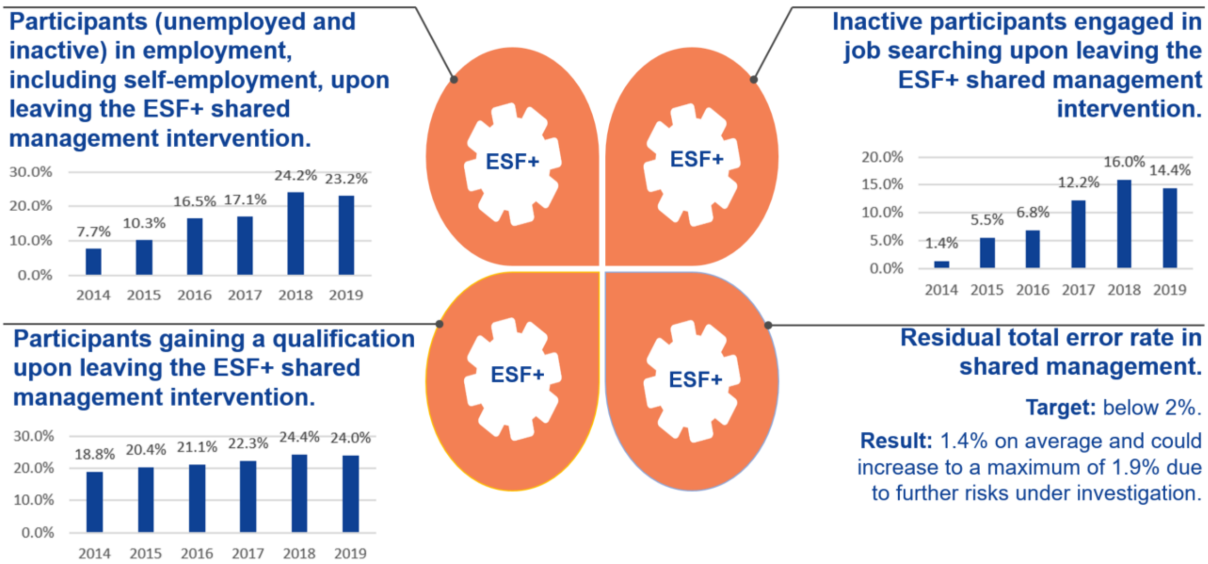
[9] Latest known data. The 2020 data will be presented in the Annual Implementation Reports expected from the Member States by mid-2021.

[10] For the ESF, complete data on 2020 will be presented in the Annual Implementation Reports expected from the Member States by mid-2021.

making and grants) have played a pivotal role in the successful delivery of EU policies and the achievement of several policy objectives.

The **main challenges** of DG EMPL in 2020 flowed from the COVID-19 outbreak and were swiftly addressed through adjustment of the planned policy initiatives. DG EMPL has also adjusted significantly its working methods and ensured business continuity at all times.

B. Key performance indicators (KPIs)[11]



C. Key conclusions on financial management and internal control

In accordance with the governance arrangements of the European Commission, (the staff of) DG EMPL conducts its operations in compliance with the applicable laws and regulations, working in an open and transparent manner and meeting the expected high level of professional and ethical standards.

To ensure the achievement of policy and management objectives, the Commission has adopted a set of internal control principles, based on international good practice. The financial regulation requires that the organisational structure and the internal control systems used to implement the budget be set up in accordance with these principles. DG EMPL has assessed its internal control systems during the reporting year and has concluded that it is effective and that the components and principles are present and overall functioning well. However, some improvements are needed as minor deficiencies

[11] The KPIs from the 2020-2024 Strategic Plan refer to ESF+. However, as the 2021-2027 ESF+ operational programmes were not yet adopted at the end of 2020 and therefore did not produce results, the data reported in the KPIs refers to the results achieved by the ESF 2014-2020 operational programmes.

were identified in relation to planning, reporting, anti-fraud trainings and procedures for exceptions. Further details are available in section 2.1.3.

In addition, DG EMPL has systematically examined the available control results and indicators, including those for supervising entities to which it has entrusted budget implementation tasks, as well as the observations and recommendations issued by the Internal Audit Service and the European Court of Auditors. These elements have been assessed to determine their impact on management's assurance about the achievement of the control objectives. Please refer to section 2.1 for further details.

In conclusion, management has reasonable assurance that, overall, suitable controls are in place and working as intended; risks are being appropriately monitored and mitigated; and necessary improvements and reinforcements are being implemented. The total residual error rate – **risk at payment** (KPI 4) is on average 1.4% after completing the control cycle (national and European Commission) with an upper limit of maximum 1.9% due to further risks under investigation.

Even though the EU budget is well protected, for the programming period 2014-2020, 34 out of 214 programmes (15.9%), corresponding to 15.9% of the 2019/2020 annual accounts, were found to present serious deficiencies.

For 23 programmes with an estimated total error rate above 10% or a residual error rate above 2%, DG EMPL raises reservations in the Authorising Officer by Delegation´s Declaration of Assurance. DG EMPL will then propose corrective measures to Member States to ensure the correct functioning of the concerned management and control systems.

DG EMPL will apply the required financial corrections to bring each concerned operational programme´s **risk at closure** below 2% and it has estimated that it **will be 1.2%, well below the materiality**.

The effectiveness of the corrected measures proposed by DG EMPL and implemented by the national authorities in the past has been demonstrated by the fact that the majority of the annual reservations have been lifted within one year (62%) or two years (29%) since the start of the programming period.

The Director-General, in his capacity as Authorising Officer by Delegation has signed the Declaration of Assurance albeit qualified by reservations concerning the ESF and FEAD for both 2014-2020 and 2007-2013 programming periods.

D. Provision of information to the Commissioners

In the context of the regular meetings and exchanges during the year between the DG and the Commissioners on management matters, the main elements of this report and assurance declaration, including the reservations envisaged, have been brought to the attention of Commissioner Nicolas Schmit, responsible for the Jobs and Social Rights portfolio and Commissioner Helena Dalli, responsible for the Equality portfolio.

E. Specific actions on COVID-19

In 2020, Europe was strongly impacted by the COVID-19 pandemic. The Commission has proposed a strong and coordinated response to the health crisis as well as to the impact on economy and society. COVID-19 has also posed challenges as regards performance, control, audit and assurance in relation to the 2020 EU budget. In an exercise coordinated at corporate level, all Commission services have promoted the consistent and rigorous protection of the budget ensuring that appropriate mitigating measures were put in place.

Besides the adjustment of its policy initiatives to accommodate measures addressing the outbreak of the COVID-19 pandemic, as presented under section A, DG EMPL also took steps to ensure sound financial management in the new context. For instance, the redeployment exercise launched within the DG has largely contributed to achieve excellent budgetary execution rates by transferring funds from cancelled or significantly reduced activities to those over-performing, whenever possible.

In regards to shared management where 97.7% of the resources are concentrated, sound financial management was achieved by assessing the legality and opportunity of the programme modifications, submitted by the Member States and including the measures proposed, to tackle the immediate impact of the pandemic. DG EMPL also verified the correctness of the financial appropriations allocated for financing the immediate responses to the negative effects of the current crisis. In addition, DG EMPL shortened some internal deadlines to accelerate the Commission's reaction to Member States' requests.

Additional information is available in sections 2.1.1.1 and 2.1.1.5.

1. Key results and progress towards the achievement of the Commission's general objectives and the DG's specific objectives[12]

The health crisis triggered by COVID-19 in 2020 had adverse effects on the society as a whole and especially on those that were already in a vulnerable situation such as people with precarious prospects for employment, the long-term and very long-term unemployed, those with temporary contracts, the young population and the people at risk of poverty and social exclusion. The extent of the impact is yet unknown as the crisis continues to unfold. However, it has been softened by policy and budgetary initiatives from the Commission.

The initiatives in the fields of employment, social affairs and inclusion put forward by DG EMPL supported the attainment of **four Commission general objectives where the DG plays a key role** as well as the other two to which it contributes indirectly, as presented in the illustration below and further detailed in the following sections:

COMMISSION – GENERAL OBJECTIVE	COMMISSION – GENERAL OBJECTIVE	COMMISSION – GENERAL OBJECTIVE	COMMISSION – GENERAL OBJECTIVE
2. A Europe fit for the digital age	3. An economy that works for people	5. Promoting our European way of life	6. A new push for European democracy
DG EMPL – SPECIFIC OBJECTIVE	**DG EMPL – SPECIFIC OBJECTIVES**	**DG EMPL – SPECIFIC OBJECTIVES**	**DG EMPL – SPECIFIC OBJECTIVE**
2.1 A digitally skilled workforce.	3.1 Effective support to Member States in their structural reforms and investments in the context of the European Semester. 3.2 Stronger social dialogue. 3.3 Decent and safe working conditions for all. 3.4 Better functioning labour markets. 3.5 Greater social fairness and more effective social protection. 3.6 Enhanced labour mobility. 3.7 More jobs created and sustained in micro- and social enterprises.	5.1 A skilled workforce to master the green and digital transition. 5.2 Vocational education and training (VET) effectively addresses the labour market needs and prepares people for the green and digital transition.	6.1 Equality.

INSTRUMENTS
Policy development, guidance, coordination and governance
Legislation
Funds: ESF, YEI, FEAD, EGF, Erasmus, EaSI, Prerogatives and REC

COMMISSION – GENERAL OBJECTIVE	COMMISSION – GENERAL OBJECTIVE
1. A European Green Deal	4. A stronger Europe in the world

[12] This section should be read in conjuction with Annex 2 'Performance tables'. For more information regarding DG EMPL's funds, please refer to the Programme Statements for Budget 2021 detailing the EU added value and performance of ESF, FEAD, EGF and EaSI, the ESI Funds Annual Summary Reports, the Synthesis Report of Annual Implementation Reports 2018 submitted in 2019 and the ESIF Open Data Platform.

General objective 1: A European Green Deal

In 2020, DG EMPL contributed indirectly to this Commission general objective through analysis focused on making the **transition to the green economy socially just**.

More specifically, it provided analytical support on investment needs for reskilling, job quality, health and safety at work, aspects of the circular and social economy for the preparation of major initiatives such as the **European Climate Law**, the **Green Deal Investment Plan**, the **2030 Climate Targets Plan**, the revised **Climate Adaptation Strategy**, the **Renovation Wave** and the **Climate Pact**, as well as related sectoral initiatives, including those on sustainable finance and corporate sustainable governance.

DG EMPL provided further analytical support for the **Just Transition Mechanism** and **Just Transition Fund**. It also looked into ways of rendering the ESF+, the RRF and InvestEU supportive for the just transition to climate-neutrality and contributed to the assessment of the **National Energy and Climate Plans** with a focus on just transition.

The new initiatives benefitted from **impact assessments** where DG EMPL focused on employment, inclusion and social matters, the involvement of social partners and the consultation of social dialogue committees.

DG EMPL published **study reports and research notes** on policy-relevant topics on social impacts of the green transition contributing to the Green Deal initiatives, such as ‘Leave no one behind (Just Transition)’ and the ‘Renovation Wave’.

It also launched **new cooperation projects with the JRC and the OECD** to enhance analytical capacities for assessing distributional impacts of the green transition and for conducting policy evaluations using administrative data in the Member States.

Finally, DG EMPL contributed to the **programming of research and innovation actions** in climate, energy and mobility under Horizon Europe, which are key elements in the recovery and address the socioeconomic and distributional impacts of the COVID-19 crisis.

In terms of **communication activities**, DG EMPL continued to provide contributions to the Commission’s corporate communication campaigns on the just green and digital transitions.

The policy achievements of DG EMPL under this specific objective benefitted from financial support through ESF.

Young people living in mining regions in Germany were provided with training opportunities in other fields than mining to gain a greater variety of skills to work in non-mining industries. In parallel, more businesses were structurally attracted to the coal-transition areas to diversify the spectrum of opportunities. These were possible through, for example, the Kooperative Ausbildung an Kohlestandorten, a programme from the Land of North-Rhine Westphalia co-financed by ESF with EUR 7.7 million, which supported 1 300 participants between 2014 and 2020.

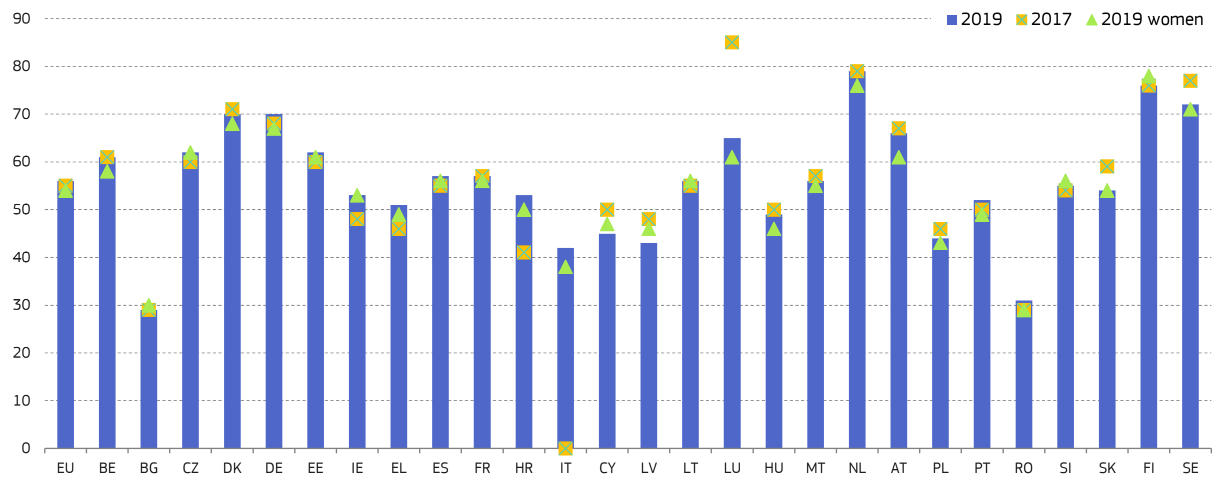
General objective 2: A Europe fit for the digital age

The digital transformation strengthens the potential of businesses and can foster innovation. From the workforce perspective, this is only possible if citizens are fully equipped with the skills they need to thrive in the competitiveness that stems from the technological advancement.

In 2019, only 56% of the EU population aged 16 to 74 had basic or above basic digital skills (55% in 2017) with disparities between the Member States ranging from 79% in the Netherlands to only 29% in Bulgaria.

Discrepancies can also be observed when considering the gender dimension. In this regard, only 54% of the female population had basic or above basic digital skills while the male population recorded 58% in 2019.

Chart 1: Population with basic or above basic overall digital skills by gender[13]



The minor and uneven progress made in the recent years coupled with the high number of Member States lagging behind the EU average underpins the need for more support of adults to acquire at least basic digital skills. To this end, DG EMPL helped make digital literacy a foundation for adults in Europe through the achievements detailed below.

Specific objective 2.1: A digitally skilled workforce

DG EMPL prepared the new Skills Agenda for Europe and the proposal for a Council Recommendation on Vocational Education and Training in 2020, both supporting the implementation of the Principle 1 of the European Pillar of Social Rights that underlines the right to 'Education, training and life-long learning' and Principle 4 'Active support to employment'. These initiatives also contribute to the implementation of the UN Sustainable Development Goals, notably goal 4 'Ensure inclusive and equitable quality education and promote life-long learning opportunities for

[13] Source: Eurostat (online data code: TEPSR_SP410); 2017 data is not available for Italy.

all', goal 9 'Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation' and goal 10 'Reduce inequality within and among countries'.

Launched on 1 July, the updated Skills Agenda for Europe adds great emphasis on digital skills at all levels, a measure accelerated by the COVID-19 outbreak. In particular, action 6 'Skills to support the twin transitions', fortifies the need for digital skills by calling for an update of the Digital Education Action Plan to present a vision for improving digital literacy, skills and capacity at all levels of education and training and for all levels of skills. Work was already underway at year-end on specific actions of the Plan, such as the roll-out of a European Digital Skills Certificate and the update of the Digital Competence Framework, which was already used in 22 Member States by end 2020 (only 13 in 2018).

Featured under the updated Skills Agenda, the new Europass platform was launched during a major virtual event on 1 July and aims to help people communicate their skills, qualifications and experiences, and manage their careers in a fast-changing and digitalised labour market. It received around 70 000 visits per day and, in just six months, almost 1.3 million people registered to create their Europass CV online.

The proposal for a Council Recommendation on Vocational Education and Training calls for innovation and modernisation with a special focus on digitalisation, notably in terms of new learning environments, tools and pedagogies. The work on the extension of the digital skills reflection tool 'Selfie' to work-based learning continued in 2020 with pilots launched in nine countries to support the preparation of the full launch of 'Selfie' in mid-2021.

DG EMPL was also active in inter-service work on digitalisation to ensure that the employment and social dimensions were taken into account; this included work on the upcoming regulation on artificial intelligence, the Digital Services Act and the European Data Strategy.

These initiatives were supported by the findings of the evaluation of ESF support to education and training for the period 2014-2018, finalised in 2020. The findings showed that the actions focused on digitalisation of learning were particularly important and should be strengthened in the future ESF+ programmes.

The policy achievements of DG EMPL under this specific objective benefitted from financial support through ESF, EGF, EaSI and Erasmus.

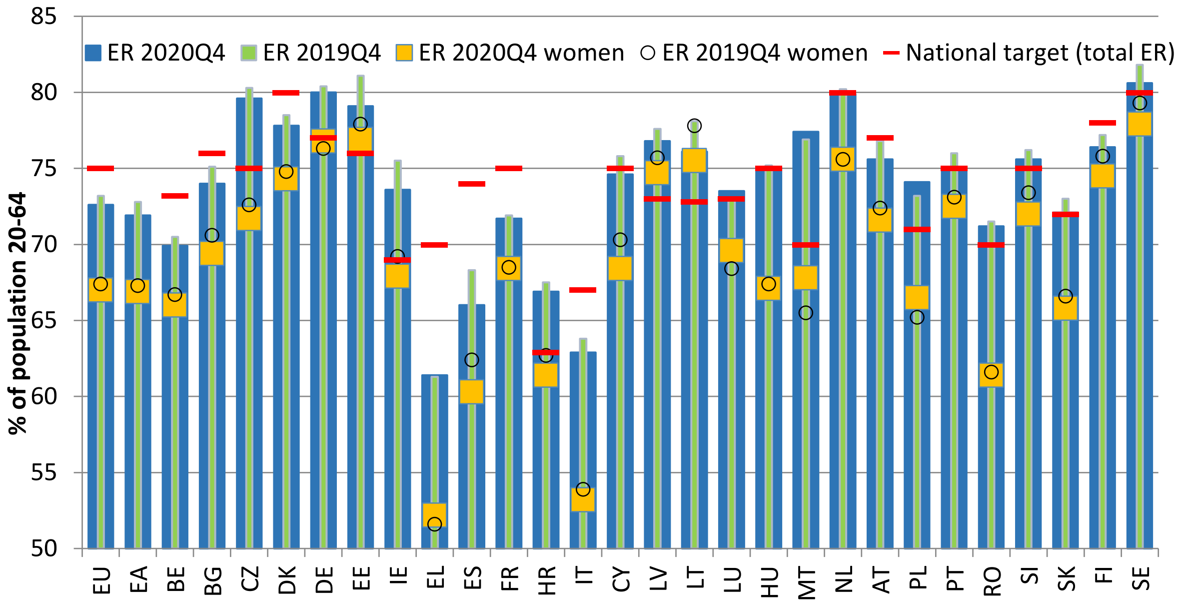
The Technocité Competence Centre from Belgium helped job seekers develop new skills in the field of ICT through qualifications and continuous training. With approximately EUR 3.6 million support from the ESF, the Centre organized 20 training courses for 9 000 teachers and students, focusing on topics such as cybersecurity, artificial intelligence, virtual reality, internet of things and sound design. The project will run until the end of 2021.

General objective 3: An economy that works for people

In 2020, the EU experienced the largest economic shock since World War II, which changed the outlook of the labour market significantly. The contraction was observed in the employment of both men and women, at all education levels and for most age categories.

Overall, the employment rate for the EU population aged 20-64 dropped from 73.2% in the fourth quarter of 2019 to 72.6% in the same period of 2020 corresponding to 1.5 million less employed. When analysing the data by gender, the rate of women employment saw a decrease from 67.4% in the fourth quarter of 2019 to 67.0% in the same quarter of 2020. Although the EU was well on track until 2019, given the significant impact of COVID-19 on the labour market, the Europe 2020 target of 75% employment rate was not reached.

Chart 2: Employment rate for population aged 20-64[14]

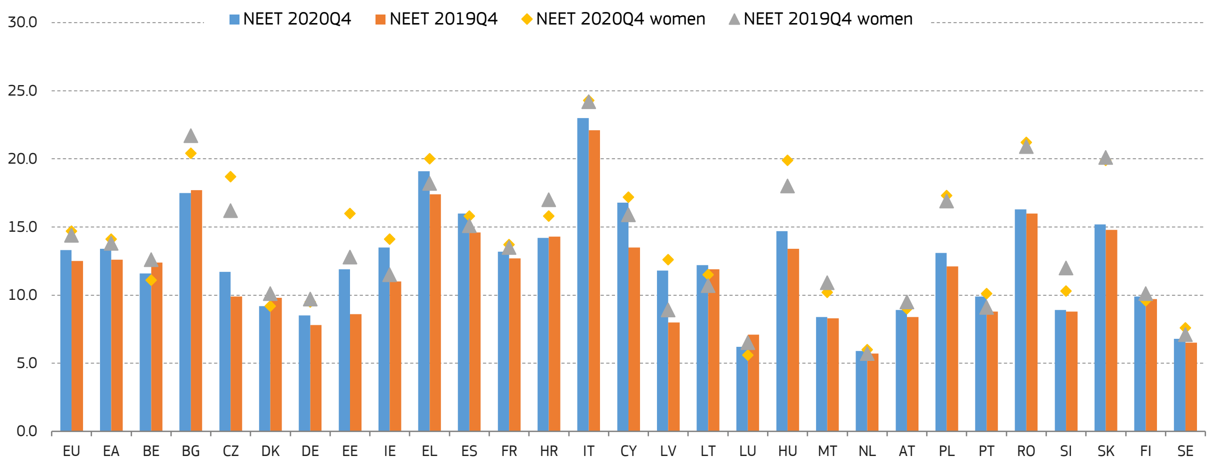


In terms of age, the 20-24 years old population was already vulnerable on the labour market due to lack of or low experience and was more likely to be in temporary employment. This age group saw the most sizeable decline in employment rate with a drop from 51.4% pre-crisis to 48.4% in the fourth quarter of 2020. The other age categories have also recorded declining rates except for those aged 50-54, 55-59 and 60-64 where a marginal increase was noted, while the rate for the EU population aged 65-69 remained stable.[15]

A possible consequence of the scarce employment opportunities and loss of existing jobs for the young is the increase observed in the EU rate of young people neither in employment nor in education and training (NEETs) from 12.5% pre-crisis to 13.3% in the fourth quarter of 2020. As reflected in the graph below, the percentage of young women neither in employment nor in education or training largely surpasses the one of men.

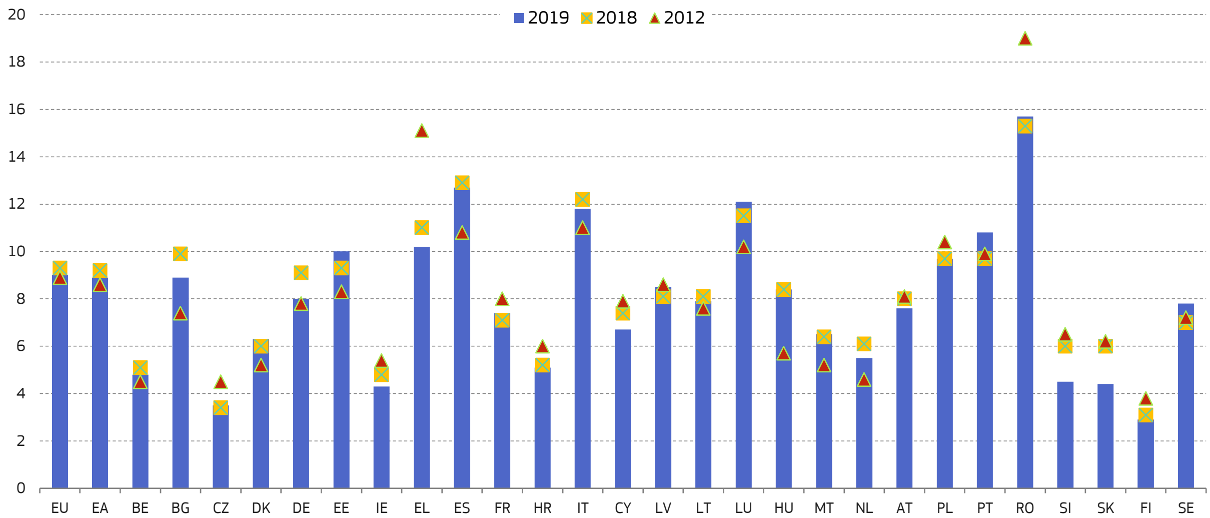
[14] Source: Eurostat (online data code: lfsi_emp_q).
[15] Source: Eurostat (online data code: LFSA_ERGAED).

Chart 3: Young people neither in employment nor in education or training[16]



While the consequences of the COVID-19 outbreak are not yet fully known at EU level, early estimates point to lower wages for those that remained in work through, for instance, a reduction in working hours. In 2019, 9% of the workers in EU were already at risk of poverty (9.3% in 2018), with Romania recording the highest rate of employees earning insufficiently for a decent life (15.7%).

Chart 4: In-work-at-risk of poverty rate[17]



When considering the gender dimension, the level of women workers that are at risk of poverty varies between the Member States with a high of 12% observed in Luxemburg and a low of 2.8% in Finland.

Preliminary estimates indicate an increase also in the level of poverty and social exclusion, ending the rebound observed after the end of the previous economic crisis. Aproximately 20.9% of the EU adult population (21.8% of women) and 22.2% of children were at risk of poverty or social exclusion in 2019 compared to 24.9% of adults (25.9% of women) and

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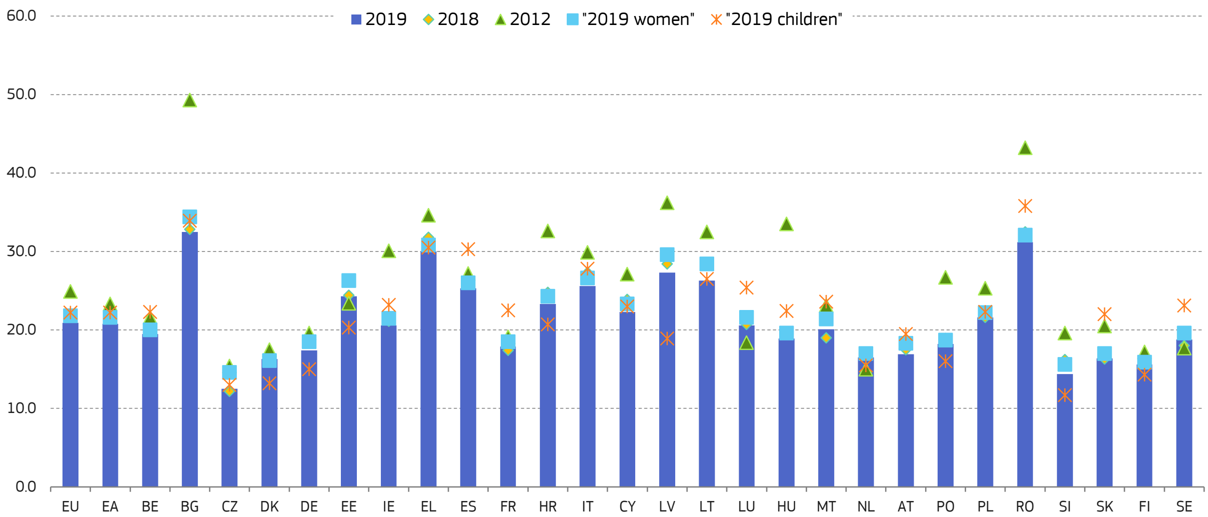
[16] Source: Eurostat (online data codes: une_rt_a and sdg_08_20).

[17] Source: Eurostat (online data code: ilc_iw01).

27.6% of children in 2012. The Europe 2020 target of lifting at least 20 million people out of poverty compared to 2008 (116.2 million) will not be achieved as 107 million people were still at risk of poverty in 2019.

Chart 5: People at risk of poverty and social exclusion[18]



In spite of the overall deterioration due to the COVID-19 impact and the uncertainty of the future, not all economic aspects were altered in the same manner. The dramatic fall in real GDP of 14% in the second quarter of 2020 compared to the same period of 2019[19] was not matched by the drop in employment rate. One of the reasons was the immediate policy response of the Commission, including through DG EMPL, as explained in the following sub-sections.

Specific objective 3.1: Effective support to Member States in their structural reforms and investments in the context of the European Semester

DG EMPL contributed to the 2020 European Semester process with a special focus on the employment and social consequences of the COVID-19 crisis and the social resilience dimension. In doing so, it mainstreamed the principles of the European Pillar of Social Rights and the fairness objective enshrined in the Annual Sustainable Growth Strategy, and helped integrate further the UN Sustainable Development Goals into the Semester.

Through its input, DG EMPL helped re-align the 2020 country-specific recommendations with the challenges and priorities emerging in the crisis context. Overall, almost half of the 2020 country-specific recommendations addressed employment, skills and social challenges, with the greatest number in the areas of education and training, active labour

[18] Source: Eurostat (online data code: ilc_peps01).
[19] Source: European Commission, DG EMPL based on Eurostat data.

market policies, poverty and social inclusion, and healthcare, with great emphasis on crisis mitigation measures and reforms to support an inclusive recovery.

In 2020, the Member States reported progress on 41% of the country-specific recommendations from the previous years addressing employment and social policy reforms recorded progress.

DG EMPL also helped assess Member States' requests for technical assistance under the Technical Support Instrument and launched a new cooperation with the OECD offering Member States support on policy impact evaluations using linked administrative data, including for measures launched in response to the crisis. Furthermore, DG EMPL was also involved in the development of socioeconomic resilience dashboards, which are expected to be finalized in the first semester of 2021.

Given the severity and rapid expansion of COVID-19, DG EMPL played a key role in the preparation and roll-out of the European instrument for temporary support to mitigate unemployment risks in an emergency (SURE) that has allowed the EU to address the impact of the coronavirus outbreak on the labour market and respond to its socioeconomic consequences while alleviating the pressure on national public finances (DG ECFIN in lead). In 2020, EUR 90.3 billion of financial assistance were granted to 18 Member States for the financing of short-time work schemes or similar measures aimed at protecting employees and the self-employed by helping them maintain their jobs, as well as for some health-related measures.

As a first step towards the Action Plan to implement the European Pillar of Social Rights, DG EMPL presented the Communication on a Strong Europe for Just Transitions, a framework for addressing the challenges of digital, green and demographic transitions that Europe is facing and putting forward initiatives to address them. Work also progressed on the revision of the social scoreboard to ensure a closer monitoring capacity of the Pillar principles and alignment with current policy priorities through new headline targets in employment, learning and social domains, following the end of the Europe 2020 strategy.

In preparation of the Recovery and Resilience Facility, embedded in the European Semester governance, DG EMPL provided horizontal input to strategic and guidance documents as well as country-specific input in the employment, skills and social fields.

Adopted in November, the 2021 proposal for a Joint Employment Report integrated for the first time a forward-looking dimension on key policy priorities for reforms and investments with support from the ESF/ESF+ and the Recovery and Resilience Facility.

In 2020, DG EMPL finalised the negotiation of the revised Employment Guidelines including specific elements related to the crisis as well as accounting for the green and digital transitions, which were adopted by the Council in October.

The 2020 issue of the *Labour Market and Wage Developments in Europe*[20] report focused on the labour market impact of the crisis and the policy response. The report has reviewed the main labour market outcomes and helped identify the groups of the workforce more vulnerable to social distancing and the structural changes induced by the pandemic.

DG EMPL also published the *Employment and Social Developments in Europe 2020*[21] review providing evidence-based analysis on how to achieve greater fairness and solidarity in the EU during the COVID-19 pandemic and the twin transition to climate neutrality and a more digital economy.

DG EMPL was supported by Eurofound with research (e.g. representativeness studies in sectors such as health, education, social services etc) and particular contribution to support policymakers to shape the response to the pandemic through, for example, data and analysis on living and working in the COVID-19 context.[22]

In terms of communication, DG EMPL engaged in meetings, seminars and conferences with external stakeholders, notably social partners and civil society organisations, to present the main outputs or collect inputs to documents related to the European Semester. Through the Mutual Learning Programme, two virtual events were organised on 'Public Employment Services - Employer Engagement' and 'Platform Work'. Finally, the European Centre of Expertise organised a thematic seminar with DG EMPL on 'Strengthening the involvement of civil society in the European Semester', an expert meeting on 'Competition law and collective bargaining' and a conference on 'Exploring ways to improve working conditions of platform workers: the role of EU labour law'.

In 2020, the Internal Audit Service concluded in its audit on coordination of the Structural Reform Support Service that DG EMPL has put in place adequate and effective procedures for contributing to the coordination mechanism on technical support led by DG REFORM. One recommendation was issued to DG EMPL for which an action plan was submitted to and accepted by the Internal Audit Service.

The policy achievements of DG EMPL under this specific objective benefitted from financial support through ESF, FEAD and Erasmus.

With ESF support of EUR 713 000, the public sector employees from Malta benefit from training on the latest technologies in the field of geomatics, a type of technology that is increasingly important as it helps the public services in decision-making and policy. The project runs from 2018 to 2022 and has supported over 100 participants by the end of 2019.

[20] Labour Market and Wage Developments in Europe report

[21] Employment and Social Developments in Europe 2020 review

[22] Detailed information on decentralised agencies' contribution to DG EMPL's specific objectives can be found in Annex 12.

Specific objective 3.2: Stronger social dialogue

Social dialogue was instrumental to contain the COVID-19 impact on workers and businesses, and supported the recovery, contributing as such to the further implementation of principle 8 'Social dialogue and involvement of workers' of the European Pillar of Social Rights and of the UN Sustainable Development Goals, in particular goal 1 'End poverty in all its forms everywhere', goal 5 'Achieve gender equality and empower all women and girls', goal 10 'Reduce inequality within and among countries' and goal 16 'Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels'.

The Commission ensured a strong involvement of social partners, which was key for the design and implementation of the response to the crisis as well as the recovery strategy. Thanks to the organizational and financial support from the Commission, the European social partners ensured effective social dialogue and provided support to their members. In 2020, the cross-industry and sectoral Social Dialogue Committees produced about 35 joint statements at EU level on protecting their sectors, people and the economy as a whole, which fed into the Commission's crisis response and recovery plan.

The Commission addressed the response to the crisis and the recovery measures in the regular meetings of the cross-industry and sectoral Social Dialogue Committees as well as in the Tripartite Social Summit. Furthermore, Executive Vice-President Dombrovskis and Commissioner Schmit held five extraordinary meetings with the leaders of cross-industry social partner organisations at Union level to discuss the crisis and recovery.

DG EMPL strengthened the involvement of social partners in EU policy and law-making by organising a record number of seven dedicated hearings with them and eight meetings at high political level to discuss planned initiatives. The social partners' views feed into the preparations of new initiatives such as the Action Plan to implement the European Pillar of Social Rights (planned for 2021).

It also contributed to strengthening social dialogue at national level by analysing related challenges through the European Semester process. The Commission and the Employment Committee also organized a multilateral review on the social partners' involvement in the European Semester with the presence of EU level and national social partners.

DG EMPL supported the EU level social dialogue at cross-industry and sector level by facilitating the development of bipartite agreements. The cross-industry social partners signed in June an autonomous agreement on digitalisation and the railways social partners continue negotiations for an autonomous agreement to promote employment of women. Following the appeal of the European Public Service Union against the ruling of the General Court, the Commission defended before the Court of Justice its position on not proceeding with a legislative proposal on the social partner agreement in personal services and central government administration for reasons of legality and subsidiarity. The rulling of the Court is expected in 2021.

DG EMPL contributed to strengthening the attention to the functioning and effectiveness of industrial relations by including in the *Employment and Social Developments in Europe 2020* review a chapter on social partners' contribution to fair and sustainable working conditions, to migitating the impact of the COVID-19 pandemic and to a successful digital and climate-neutrality transition. The proposed Directive COM(2020)682 on Adequate minimum wages in the EU also aims at improving social dialogue, in particular by increasing the collective bargaining coverage in Member States.

The activities in support of the functioning of social dialogue are financed by the prerogative budget lines and the ESF, providing funding to support negotiations, common projects, exchange of information and good practice between social partner organisations at EU and/or cross-border level, capacity building actions in support of workers' and employers' organisations, analysis on industrial relations and evaluation studies.

In 2020, the Commission organised two meetings of the Tripartite Social Summit on growth and employment, together with the Council Secretariat. DG EMPL also provided logistical and content assistance for 43 sectoral social dialogue committees (three meetings per sector per year). In addition, three calls for proposals were published and evaluated in 2020 on support for social dialogue, information and training measures for workers' organisations and improving expertise in the field of industrial relations.

Specific objective 3.3: Decent and safe working conditions for all

As announced by President von der Leyen in her political guidelines, DG EMPL put forward a proposal for a directive on adequate minimum wages in the EU. It has also supported the prompt response of the Commission to COVID-19 pandemic by adding SARS-CoV-2 in the list of biological agents in the Directive 2000/54/EC on Biological agents to protect the workers from exposure. DG EMPL also took actions intended to reduce occupational exposure to hazardous chemicals. Through its outputs, DG EMPL supported the implementation of the principles related to fair working conditions (5-10) from the European Pillar of Social Rights, as well as the UN Sustainable Development Goals, in particular goal 3 'Ensure healthy lives and promote well-being for all at all ages' and goal 8 'Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all'.

A. Decent working conditions for all

As the share of people earning low wages has increased in the previous years and even aggravated in 2020, the rate of people in work and at the same time at risk of poverty has followed the same trend. To address this challenge, on 28 October, the Commission adopted its proposal for the Directive COM(2020)682 on Adequate minimum wages in the EU. The proposed Directive will contribute to guaranteeing adequate working and living conditions for workers in the EU, as well as building fair and resilient economies and supporting inclusive growth. It aims at fostering collective bargaining on wages, ensuring that statutory minimum wages are set at adequate levels and strengthening the enforcement and monitoring of minimum wage protection. It fully respects the specificities of national systems, national competences and social partners' autonomy.

In line with the Better Regulation principles, DG EMPL has supported the proposed Directive with an impact assessment to determine whether there is a need for EU action and analysed the possible impacts of various policy options. In line with Article 154 of the TFEU, a two-stage consultation of social partners on possible EU action in the area of minimum wages was carried out between 14 January and 4 September. Social partners were consulted on the possible direction of EU action and the content of the envisaged proposal.

DG EMPL gathered the views of Member States in a joint meeting of the Employment and Social Protection Committees and a meeting of the Economic Policy Committee. It has also participated in a number of events with the European Parliament, the European Economic and Social Committee and the Committee of Regions. In addition, the consultation on the Action Plan to implement the European Pillar of Social Rights provided all stakeholders the opportunity to express their views on minimum wages.

In 2020, the expert group on the transposition of Directive 2019/1152 on Transparent and predictable working conditions held four meetings, reviewing in detail each of the provisions of the Directive and discussing the issues faced by the Member States in transposing them into national legislation, contributing as such to an effective and consistent approach in implementing the Directive. The deadline for the transposition is 1 August 2022.

DG EMPL ensured continuous update of information on national legislation and European and national jurisprudence on labour law. Updates of the webpage dedicated to the caselaw on the Directive 2003/88/EC on Working time were carried on throughout the year.

B. Safe working conditions for all

In 2020, DG EMPL pursued initiatives to reduce occupational exposure to hazardous chemicals in the EU with the aim to reduce occupational diseases, as well as to decrease the costs for economic operators and for social security systems. In particular it:

- ✓ finalised the proposal for a fourth amendment of the Directive 2004/37/EC on Carcinagens and mutagens, accompanied by an impact assessment report, which was adopted on 22 September;
- ✓ discussed with stakeholders the results of a study analysing workers' exposure to reprotoxins substances and how to address this issue;
- ✓ monitored and analysed the results of a study gathering evidence regarding the exposure of workers to hazardous medicinal products, including cytotoxic substances, and the best ways to address the challenges observed;
- ✓ launched the first stage consultation of social partners on the establishment of an occupational exposure limit for di-isocyanates and reviewing the current limits for lead under the Directive 98/24/EC on Chemical agents at work and on reviewing an

occupational exposure limit for asbestos under the Directive 2009/148/EC on Asbestos at work;
- ✓ monitored a study to assess the impact of reviewing the occupational exposure limit for lead and asbestos, and establishing an occupational limit value for di-isocyanates.

In 2020, DG EMPL worked on preparing the new EU Occupational Safety and Health Strategic Framework for 2021-2027 (planned for 2021). In particular, it has launched a study to take stock of the implementation of the 2014-2020 Framework and to provide input for the new one. A public consultation was launched on 7 December. It has also launched a study to identify and select possible options for updating the Directive 89/654/EEC on Minimum safety and health requirements for the workplace and the Directive 90/270/EEC on Display screen equipment. These will feed into the preparatory work for the new Strategic Framework and reflect the technological and scientific developments, and the changes in the work environment.

To ensure proper protection of workers, DG EMPL prepared the update of the Directive 2000/54/EC on Biological agents to add SARS-CoV-2 to the list of biological agents (the Commission adopted the update through Directive 2020/739). It explained the purpose of the directive, the update and its implications in a factsheet[23], which won a clear writing award for the capacity to communicate a complex issue in a clear and concise manner.

Throughout the year, DG EMPL closely cooperated with the European Agency for Safety and Health at Work (EU-OSHA), and received technical, scientific and policy inputs for the 'Guidance for the Workplace on COVID-19' and 'Guidance on COVID-19: Back to the Workplace - Adapting workplaces and protecting workers'. These offered practical information and tools to strengthening prevention and workers' protection to mitigate the impact of the pandemic on both workers and companies.[24]

Strong focus was put on the monitoring of the transposition of the EU occupational safety and health acquis, in particular as regard the first amendment of Directive 2017/2398 on Protection of workers from the risks related to exposure to carcinogens or mutagens at work and of Directive 2020/739 on Biological agents. To reduce unnecessary administrative burden in national legislation without reducing workers' protection, DG EMPL continued to work on promoting equivalent and effective application and enforcement of the EU acquis.

These policy achievements benefitted from financial support through ESF and EaSI.

Stress, exhaustion and burnout are frequently observed in the work environment and have been exacerbated by the COVID-19 measures. An ESF co-funded project in Finland has created a 'brain health barometer' using the latest neuroscience expertise to help employees improve their wellbeing. The project is currently ongoing (2020-2023) with 4 project organisations and 225 participants, and benefits of EUR 1 086 598 from the ESF.

[23] Novel coronavirus classified in Biological Agents Directive to better protect health and safety of workers

[24] Detailed information on decentralised agencies' contribution to DG EMPL's specific objectives can be found in Annex 12.

Specific objective 3.4: Better functioning labour markets

In 2020, DG EMPL contributed to the better functioning of labour markets by supporting the coordination of employment policies across Member States and encouraging a deeper monitoring of their implementation so as to ensure just and secure employment conditions. Its contribution backs the European Pillar of Social Rights, namely principle 4 'Active support to employment', the principles related to fair working conditions (5-10) and principle 13 'Unemployment benefits', and also support the implementation of the UN Sustainable Development Goals, in particular goal 8 'Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all' and goal 10 'Reduce inequality within and among countries'.

In the context of increased youth unemployment and inactivity, DG EMPL facilitated structural reforms and activation strategies for young people with the Communication 'Youth Employment Support: a Bridge to Jobs for the Next Generation'. The Communication is part of the Commission's ambitious recovery plan which provides significant EU financing opportunities for youth employment and also includes: a Commission proposal for a Council Recommendation on vocational education and training for sustainable competitiveness, social fairness and resilience, a new impetus to the European Alliance for Apprenticeships and additional measures to support youth employment.

It also prepared the proposal for the Council Recommendation on a reinforced Youth Guarantee, which was adopted by the Commission in July, and supported the negotiations in the Council that were concluded with the adoption of the Recommendation in October. The reinforced Youth Guarantee will support more young people and support them in developing the right skills in the changing world of work. It will also help reduce persistent scarring effects from the severe slowdown triggered by the crisis by encouraging firms to hire unemployed youth and by providing training that eases the matching of unemployed and inactive youth to vacancies. The proposal benefitted from the findings of the evaluation of the ESF and YEI support provided between 2014 and 2018, which pointed towards the need for better targeting inactive, vulnerable and low-skilled young and emphasized the fact that work intensive, personally-tailored guidance and support can significantly help people furthest away from the labour market. In parallel, the implementation of the 2013 Youth Guarantee was monitored using its commonly agreed indicator framework.

The DG also continued to follow the implementation of the Council Recommendation on the integration of the long-term unemployed into the labour market. In 2020, the fourth round of data collection based on the commonly agreed indicator framework was launched. In addition, the biennial multilateral surveillance and the biennial ad hoc module of the Public Employment Services capacity survey took place in 2020, both focusing on long-term unemployment. This was particularly important as the long-term unemployment rate in EU stood at 2.7% in the fourth quarter of 2020 while the very long-term unemployment rate was also high at 1.5% in the same reference period, with negative prospects ahead.[25]

DG EMPL continued to provide support to benchlearning across Member States to promote the development of active labour market policies and to the capacities and performance of Public Employment Services, and engaged in mutual assistance programmes for Member States that received country-specific recommendations on the functioning of their Public Employment Service. Supported by DG EMPL in the inter-institutional negotiations, the European Parliament and Council adopted Decision 2020/1782 on 5 November, amending Decision 573/2014/EU on enhanced cooperation between Public Employment Services, which extended the period of establishment of the Network until 31 December 2027. The extension was supported by the findings of the evaluation conducted in 2019.

The Network supported national Public Employment Services in designing and implementing responses to the COVID-19 crisis by a swift and regular exchange on measures taken in this context, complemented by a dedicated study and a series of webinars. Furthermore, the benchlearning initiative was adapted to the context through a section on crisis management and a methodology for online benchlearning visits. The Network Board also approved an Opinion Paper on the Public Employment Services' role in modernising the labour market and managing structural change, in preparation for post COVID-19 context.

During 2020, DG EMPL took an active part in the future of work policy debates and developments. It worked on preparing the initiative to improve the working conditions of platform workers (planned for 2021). A series of virtual workshops with stakeholders were organised, which enhanced the progress on the analytical steps of the initiative, such as setting the terms of reference for a study to support an impact assessment and launch of a study to explore the link between platforms' business models and working conditions.

Throughout 2020, DG EMPL also followed closely the developments in the European Parliament for a legislative initiative resolution on the right to disconnect. In cooperation with Eurofound, DG EMPL organised an online workshop on the topic.

These policy achievements benefitted from financial support through ESF, EGF and EaSI.

End December 2017, 646 workers in the car tyres manufacturing industry were made redundant by Goodyear Dunlop Tires Germany GmbH due to increased imports of tyres from Asian producers. An amount of EUR 2 165 231 was mobilised from EGF to support all the 646 workers from which 60% had no suitable qualification and used to held elementary occupations (including people with migrant background). Following the EGF support, one third of these workers upskilled and improved their employment level. Overall, 58% of the beneficiaries had found a new job while other 5% were participating in upskilling measures for a longer duration (e.g. getting a vocational qualification), by the reporting date (the final report was sent to the Commission in 2020).

[25] Source: Eurostat (online data code: une_ltu_q).

Specific objective 3.5: Greater social fairness and more effective social protection[26]

The COVID-19 pandemic had severe social consequences on the EU population as many lost their sources of income or saw them diminished, which amplified existing issues such as poverty and social exclusion. To address these issues, DG EMPL intensified its work on the European Child Guarantee, access to social protection and long-term care. Through the progress made in these areas, DG EMPL supported the implementation of the principles related to social protection and inclusion (11-20) from the European Pillar of Social Rights and also contributed to the attainment of the UN Sustainable Development Goals, in particular goal 1 'End poverty in all its forms everywhere', goal 4 'Ensure inclusive and equitable quality education and promote life-long learning opportunities for all', goal 8 'Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all', goal 10 'Reduce inequality within and among countries', goal 11 'Make cities and human settlements inclusive, safe, resilient and sustainable' and goal 17 'Strengthen the means of implementation and revitalize the global partnership for sustainable development'.

Despite the positive trend observed since 2012, child poverty level remained high (22.2% in 2019) and is expected to worsen due to COVID-19 outbreak. DG EMPL organised a series of consultations to prepare an initiative on a European Child Guarantee (planned for 2021) to ensure that children in need have access to services such as education or healthcare. The special report of the Court of Auditors on child poverty[27] and its recommendations were duly taken into account in the preparation of the initiative and in the internal guidance on the European Semester.

In parallel, DG EMPL implemented phase II of the Preparatory Action for a Child Guarantee (i.e. a study looking at the costs and benefits of a guarantee for all children at risk of poverty and social exclusion in the EU), and launched its phase III, which will be implemented by Unicef, to test the Guarantee through pilot projects in various countries.

In 2020, DG EMPL also supported the implementation of the Council Recommendation on access to social protection at national level by developing a corresponding monitoring framework, together with the Social Protection Committee. Three mutual learning workshops were held in 2020. Moreover, DG EMPL commissioned a study to take stock of the impact of the COVID-19 on social protection and social inclusion and draw lessons for the future.

In cooperation with the Social Protection Committee, DG EMPL led the preparations of the *Pension Adequacy Report* and the *Report on long-term care* (to be published mid-2021), giving due consideration to COVID-19 impact and to national policy responses.

[26] DG EMPL has transferred the disability aspects from this specific objective to 6.1 which was renamed 'Equality', as per its updated 2020-2024 Strategic Plan.

[27] Special Report 20/2020: 'Combating child poverty – Better targeting of Commission support required'

Preparatory work for a possible EU initiative on long-term care was also undertaken, including by launching studies to fill analytical gaps and progressing further on agreeing a portfolio of long-term care indicators with the Social Protection Committee.

Other key outputs of DG EMPL include:

- ✓ input to the *Commission Demography Report*, adopted in June, and the *Green Paper on Ageing* (published in January 2021);
- ✓ exploration of options for a possible initiative on combating homelessness, to be launched in 2021; a peer review was organised on 'Housing exclusion: the role of legislation?' to discuss effective social housing policies aiming to provide adequate and affordable housing for vulnerable groups and to eradicate homelessness and housing deprivation;
- ✓ contribution to the socioeconomic dimension of the Commission Action Plan for Integration and Inclusion; a conference organised in November provided an opportunity to exchange innovative practices in labour market integration and social inclusion of migrants and people with a migrant background;
- ✓ contribution to the EU Roma strategic framework through the implementation of the ROMACT programme, which reinforced the capacity of local authorities to socially include disadvantaged Roma in the society, and the preparation of the HERO pilot project on housing and empowerment for marginalised families, in particular Roma families;
- ✓ policy work on better using distributional impact assessment and exploring a possible initiative in this area, including the launch of a study.

Finalised in 2020, the evaluation of ESF support to social inclusion between 2014 and 2018 showed that, besides securing employment and training, participation in ESF interventions also increases confidence and improves soft skills. Moreover, it pointed out that long-term personalised support for participants is crucial to ensure that their needs are met and that projects which engage all stakeholders obtain better results. These findings will be considered in the 2021-2027 programming period and DG EMPL's policy work.

Despite the cancellation of the Annual Convention on Inclusive Growth and the conference on People Experiencing Poverty due to COVID-19, the dialogue with civil society continued with 17 strategic meetings (10 initially planned) and a new call for proposals to support EU level networks of organisations active in the fields of poverty and social exclusion.

The policy achievements of DG EMPL under this specific objective benefitted from financial support through ESF, FEAD and EaSI.

A FEAD co-funded project in Gabrovo, Bulgaria, provided 161 464 lunches to disadvantaged people and organised weekly individual consultations with food aid recipients in order to raise awareness about the administrative and social services provided in the municipality. As a result, many homeless people received financial assistance for urgent needs and personal identification documents to lift them out of poverty. Actions have been taken to also provide them with public housing.

Specific objective 3.6: Enhanced labour mobility

Uncoordinated closures of internal borders of the EU to contain the spread of COVID-19 impacted the labour mobility. DG EMPL supported the Commission in mitigating the pandemic shock with guidelines on free movement of workers and on seasonal workers. This contributed to the implementation of the principles on fair working conditions (5-10) from the European Pillar of Social Rights and of the UN Sustainable Development Goals, particularly goal 8 'Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all'.

In addition to the guidelines mentioned above, DG EMPL remobilized the EURES Network and its staff and adopted a roadmap to focus the work of the Network members on information requests received from mobile workers.

Throughout 2020, DG EMPL was permanently in contact with the Technical Committee on Free Movement of Workers, DG EMPL's network of legal experts, and the EURES cross-border partnerships, to monitor the measures that hinder cross-border labour mobility. It also encouraged an extensive dissemination of relevant information for all categories of mobile workers via the existing platforms and tools.

DG EMPL actively contributed to the progress on the negotiations between the European Parliament and Council on the revision of the social security coordination regulations. The proposed revised rules are based on a thorough impact assessment and studies and contain various provisions to ensure proper evaluation.

Regarding the relations between the EU and the UK in the field of social security, DG EMPL started the implementation of the Withdrawal Agreement and finalised the negotiations for the Trade and Cooperation Agreement.

DG EMPL also continued its efforts to ensure that the Electronic Exchange of Social Security Information tool becomes fully operational. By the end of 2020, all 32 participating countries connected to the tool and started exchanging information 'live'. A limited number of cases and documents remain to be rolled out in 2021.

Particular attention was given to enforcement in this area, with focus on:

- ✓ drafting the implementation report of Directive 2014/50 on the Acquisition and preservation of supplementary pension rights, adopted by the Commission on 6 July;
- ✓ finalisation of an ad hoc report[28] providing guidance on the transposition of Directive 2018/957 on Posting of workers in the framework of the provision of services;
- ✓ launching dialogues with 25 Member States on the quality of transposition and application of Directive 2014/67/EU on the Enforcement of the directive on posting of workers.

[28] Report of the subgroup on the transposition of Directive 2018/957 to the Committee of Experts on Posting of Workers

DG EMPL has special instruments at its disposal to ensure the proper implementation and enforcement of the social security coordination rules notably via dedicated committees, expert networks and the possibility for implementing and delegated acts, once the revision of the regulations on social security coordination will be adopted.

In 2020, DG EMPL provided support on the set-up of the newly established European Labour Authority[29] which had 18 National Liaison Officers at full capacity by year end compared to 27 targeted. While the European Labour Authority launched all recruitments in 2020, 9 National Liaison Officers started beginning of 2021 due to individual issues linked to the COVID-19 pandemic.

Together with the Authority, DG EMPL coordinated and launched #EU4FairWork campaign, the first EU campaign on the benefits of declared work. In addition, DG EMPL launched the #EURESMovingForward campaign for the remobilisation of the EURES Network and information about the EURES services during the crisis, which will be completed in 2021.

DG EMPL used various communication tools (e.g. studies, reports, seminars, Q&A, databases, websites, animation, videos, etc.) to ensure that the social security coordination rules and their implications are adequately transmitted to the public and the national authorities.

The policy achievements of DG EMPL under this specific objective benefitted from financial support through ESF, EaSI and the Prerogatives.

EaSI co-financed the 'East European Posting of Workers' project with EUR 353 138. Led by the Austrian based European centre for Social Welfare Policy and Research, the project aims to assist the four candidate countries (Albania, Montenegro, North Macedonia and Serbia) in assessing their institutional capacities and needs for implementing the Directive 96/71/EC on Posting of workers.

Specific objective 3.7: More jobs created and sustained in micro- and social enterprises

To support the Commission's intervention in mitigating the COVID-19 impact, DG EMPL amended the EaSI Guarantee financial instrument to increase it in size so as to support more eligible recipients. This output will support the implementation of the European Pillar of Social Rights and contribute to the UN Sustainable Development Goals, particularly goal 8 'Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all' and goal 10 'Reduce inequality within and among countries'.

[29] Detailed information on decentralised agencies' contribution to DG EMPL's specific objectives can be found in Annex 12.

The specific COVID-19 support measures offer more flexible contract terms and relief and further facilitate access to and availability of finance for micro-enterprises and social enterprises, allowing for an enhanced risk coverage to eligible final recipients.

With an increased budget, the EaSI Financial Instruments helped DG EMPL to support micro- and social enterprises, improving their access to finance and helping them start up and grow their businesses, thereby creating and sustaining jobs. Given the unprecedented challenged raised by the COVID-19 outbreak, urgent action was taken to adapt the existing instruments and to provide the necessary support and relief to financial intermediaries.

In 2020, DG EMPL worked on preparing the action plan for the social economy (planned for 2021), which will be part of the recovery package. The study on the impact of the 2011 Commission's Social Business Initiative and its follow-up actions were finalised. The Commission also completed an internal coordination exercise aimed at mapping all existing EU initiatives that directly or indirectly benefitted social economy organisations and social enterprises. Moreover, the Commission proactively engaged with social economy stakeholders to better understand their needs in the light of the economic and social impact of the crisis and to collect their ideas on the way forward.

DG EMPL also coordinated the work on the InvestEU social investment and skills window by steering the efforts on the financial products and the associated advisory initiatives, and contributed to the negotiations with potential implementing partners. DG EMPL has laid the foundations for the successful deployment of the social investment and skills window. In parallel, the DG led the work on the social proofing aspect of the Commission guidance on sustainability proofing within InvestEU, which seeks to minimize potential negative social impacts and maximize positive social impacts of investments proposed for support.

In terms of communication, DG EMPL undertook several activities, including the publication of 39 event news on Europa website and three EaSI Technical Assistance newsletters.

The European Code of Good Conduct for Microcredit Provision was updated by DG EMPL and published in June on the Europa website. The Code is an important tool to promote best practices in the European microfinance sector and serves as a quality label, upholding high ethical and responsible lending practices, further protecting investors and consumers.

These policy achievements benefitted from financial support through EaSI.

In 2020, a grant of EUR 1 241 162 was signed following an EaSI call for proposals aiming at incentivising mainstream business incubators to expand their outreach to inclusive and social entrepreneurship. Non-financial support (consisting of training, workshops, coaching and mentoring, business advice and networking opportunities) provided by incubators increases the survival chances of businesses run by underrepresented groups and social enterprises.

General objective 4: A stronger Europe in the world

DG EMPL contributed indirectly to this Commission's objective through, for instance, strengthening decent work in global supply chains. To this end, it continued to promote decent work in the EU's external action, multilateral fora, global partnerships, including via trade arrangements, as well as development, enlargement and human rights policies. Preparatory steps were taken to update the 2006 Communication on decent work for all.

DG EMPL also contributed to the Commission's zero-tolerance policy on child labour in cooperation with other relevant services. In this regard, DG EMPL continued to promote the relevant International Labour Organization Conventions to ensure that the elimination of child labour is better mainstreamed across all relevant EU policies and instruments.

Moreover, it continued to promote labour rights within the Union's trade relations. In this area, DG EMPL contributed to the ongoing negotiations for free trade agreements to include commitments on fundamental rights at work, occupational safety and health, labour inspection and access to remedy and provisions on decent working conditions. In addition, DG EMPL monitored the effective implementation of labour commitments in existing free trade agreements and under the Everything But Arms scheme.

In 2020, DG EMPL continued to support the social and economic reforms in the Western Balkans through the Economic Reform Programmes and also by incentivising the application of the principles of the European Pillar of Social Rights in these countries, strengthening the regional cooperation in partnership with the International Labour Organization and the regional Cooperation Council, and the roll-out of the EU acquis.

DG EMPL improved further its policy dimension in the new EU Eastern Partnership post-2020 and continued its engagement with the Union for the Mediterranean Labour and Employment Ministries. It received support from the European Training Foundation that mapped the measures taken by the EU neighbouring countries in education and training.[30]

In terms of outreach of partners, DG EMPL organised, amongst others, three events with the Union for the Mediterranean partners, a technical meeting with the US Department of Labour and a policy dialogue with China's National Reform and Development Commission.

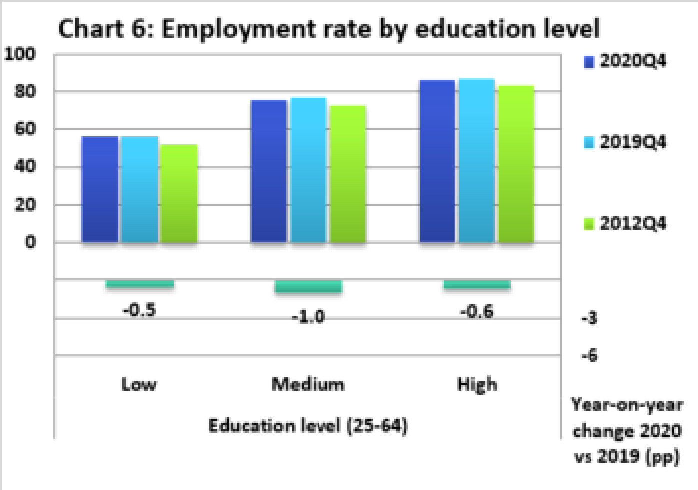
These policy achievements benefitted from financial support through EaSI.

With EUR 350 000 from EaSI, a research project developed diagnostic tools for better understanding the labour market impacts of trade by identifying key labour market indicators linked to trade openness and agreements; examining the links between those indicators and trade at the macro level; and developing a methodology at the enterprise level to assess the impact of trade on firm performance and workers. This first phase ended in May 2020. The second is ongoing and focuses on the tools' implementation.

[30] Detailed information on decentralised agencies' contribution to DG EMPL's specific objectives can be found in Annex 12.

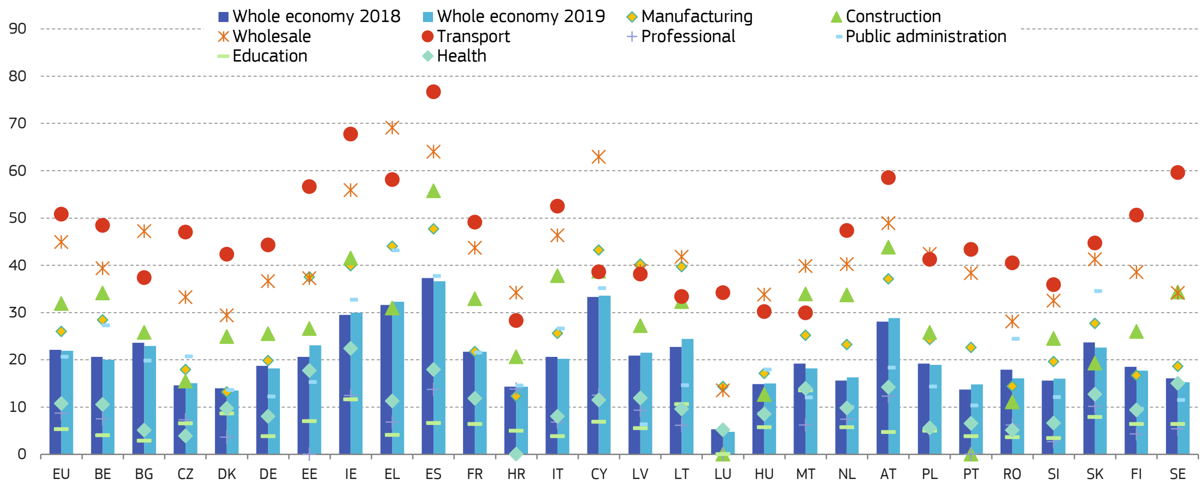
General objective 5: Promoting our European way of life

The measures taken to limit the COVID-19 infection rate impacted people disproportionately, also due to their education level. From this perspective, those with medium education level saw a fall of 1 percentage point in employment rate in the fourth quarter of 2020 (75.7%) compared to pre-crisis levels (76.7%), while the drop in employment rate for people with high education level was only 0.6 percentage points.[31] One of the reasons for the disproportionate impact relates to their type of job as those with medium education level are more likely to have contact-intensive occupations where teleworking, largely favoured in the pandemic, is not practicable.



Another challenge amplified by the pandemic outbreak is the skills mismatch. Even before the pandemic, several workers were either over or underqualified for their jobs. At the end of 2019, 21.9% of the employees were overqualified, most of them working in the transport sector (50.8%), wholesale (44.9%) and constructions (31.9%).

Chart 6: Skills mismatch – overqualification[32]



To support the Commission's ambitions to reduce the consequences of the crisis and smooth the digital and green transition, DG EMPL focused its activities in 2020 on boosting the upskilling and reskilling of the workforce to increase their job security and improve their employment opportunities.

[31] Source: Eurostat (online data code: LFSA_ERGAED).
[32] Source: Eurostat experimental statistics on skills.

Specific objective 5.1: A skilled workforce to master the green and digital transition

DG EMPL prepared the Communication on a European Skills Agenda for sustainable competitiveness, social fairness and resilience, aiming to support a rapid recovery from the crisis and take advantage of the opportunities provided by the green and digital transitions. This initiative will advance the implementation of the European Pillar of Social Rights, namely principle 1 'Education, training and life-long learning' and principle 4 'Active support to employment'. The flagship actions of the Agenda will also contribute to the UN Sustainable Development Goals, in particular to goal 4 'Ensure inclusive and equitable quality education and promote life-long learning opportunities for all', goal 9 'Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation' and goal 10 'Reduce inequality within and among countries'.

Adopted on 1 July, the European Skills Agenda announced around 12 flagship actions. The Pact for Skills is one of them and mobilises private and public stakeholders to join partnerships providing more and better training opportunities to people of working age and unlocking public and private investments. Launched during the European Vocational Skills Week (9-13 November), the Pact identified the sectors most severely hit by the crisis for immediate response.

In 2020, DG EMPL started the work on the impact assessment for a proposal on individual learning accounts, an action from the Skills Agenda planned for 2021. A study has been launched and the evidence base has been strengthened with reports from experts and a dedicated literature review. Preliminary consultations on individual learning accounts have also taken place at the level of expert groups. The interest of Member States in the initiative has been confirmed by the call to strengthen individual training entitlements in the revision of the employment guidelines adopted by the Council in October.

In collaboration with DG Education and Culture, DG EMPL has also worked towards the development of common standards for the quality and transparency of micro-credentials, another action from the Skills Agenda planned for 2021. It also started developing practical tools such as a European competence framework and a set of core skills for researchers in cooperation with DG Research and Innovation, and a Competence framework on green skills and a European Digital Skills Certificate in cooperation with the Joint Research Center.

DG EMPL finalised the evaluation of the 2012 Council Recommendation on the validation of non-formal and informal learning and the findings fed into the new Skills Agenda.

These policy achievements benefitted from financial support from ESF, EaSI and Erasmus.

The 'Empleaverde' programme aims to create green jobs and boost employability through development of transversal skills. With EUR 36 million from ESF, the programme has assisted 339 projects in Spain, which supported 1 300 000 participants and helped create 2 600 businesses in the green and blue economies, by end 2019.

Specific objective 5.2: Vocational education and training effectively addresses the labour market needs and prepares people for the green and digital transition

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. This Recommendation supports national reforms in this area and backs the implementation of the updated Skills Agenda and the European Pillar of Social Rights, specifically principle 1 'Education, training and life-long learning', 4 'Active support to employment' and 5 'Secure and adaptable employment'. In addition, it also contributes to the UN Sustainable Development Goals, especially goal 4 'Ensure inclusive and equitable quality education and promote life-long learning opportunities for all', goal 9 'Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation', goal 10 'Reduce inequality within and among countries' and goal 12 'Ensure sustainable consumption and production patterns'.

Adopted by the Commission on 1 July as part of the Communication on a European Skills Agenda for sustainable competitiveness, social fairness and resilience, the Recommendation places a strong focus on increased flexibility of VET, reinforced opportunities for work-based learning and apprenticeships, and improved quality assurance. It calls to promote Centres of Vocational Excellence, stresses the need to integrate VET into economic, industrial and innovation strategies and embed social and environmental sustainability into training programmes. Given the social distancing and swift transition to teleschooling, the Recommendation is particularly opportune as it puts a strong focus on the importance of investments in digitalisation of systems and professional development of teachers and trainers in digital skills, and contributes as such to the recovery. The Recommendation was adopted by the Council on on 24 November.

Supported by an analytical Staff Working Document, the Recommendation integrates two former recommendations on European Quality Assurance Reference Framework for Vocational Education and Training (EQAVET) and European Credit System for Vocational Education and Training (ECVET). It also benefitted from support from Cedefop, which provided input based on a study on 'Changing role and nature of VET in Europe'.[33]

On 30 November, the Ministers in charge of VET in the Member States, the EU Candidate Countries and the EEA-EFTA countries, the European social partners and the Commission endorsed the 'Osnabrück 2020 Declaration on VET as an enabler of recovery and just transitions to digital and green economies'. The Declaration outlines four key objectives accompanied by concrete measures for action at EU and national level.

[33] Detailed information on decentralised agencies' contribution to DG EMPL's specific objectives can be found in Annex 12.

DG EMPL organised the 2020 Vocational Skills Week on 'VET Excellence for Green and Digital Transitions' where it provided more than 3 000 policy makers, researchers, VET providers, social partners and other stakeholders with the opportunity to discuss issues directly related to the new VET framework set by the Recommendation and the Osnabrück Declaration, as well as the EU funding instruments for the 2021-2027 programming period.

These policy achievements benefitted from financial support from ESF, EaSI and Erasmus+.

In 2020, the Commission published an Erasmus+ call with a budget of EUR 28 million to establish Platforms of Centres of Vocational Excellence aiming to support seven fully-fledged platforms running for 4 years, which closely resemble the future model that the Commission intends to support in the Erasmus+ programme in the period 2021-2027. The call was extremely successful with 55 project applications submitted, representing investments exceeding EUR 180 million. All Member States were represented as partners in the applications as well as 25 non-EU countries. Over 1 300 organizations from all over the world were involved in the project applications, which shows a strong interest in the initiative and its potential to boost VET internationalisation.

General objective 6: A new push for European democracy[34]

The consequences of the pandemic outbreak might put in danger what had previously been achieved in terms of equality and might exacerbate inequalities. The gender employment gap was stable at 11.6%-11.8% since 2013 and decreased to 11.3% in 2020[35] but is expected to increase as many women gave up their job or job searching as a consequence of the COVID-19 outbreak; 27.3% of the inactive women were already unable to start a job due to caring responsibilities that kept only 3.9% of inactive men away from work in 2020.

Chart 7: Employment by age and gender[36]

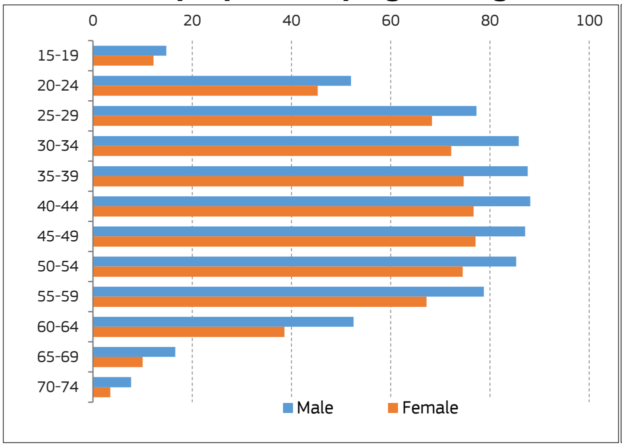


Chart 8: Inactivity due to caring tasks[37]

[34] DG EMPL has transferred the disability aspects from specific objective to 3.5 to 6.1 which was renamed 'Equality', as per its updated 2020-2024 Strategic Plan.

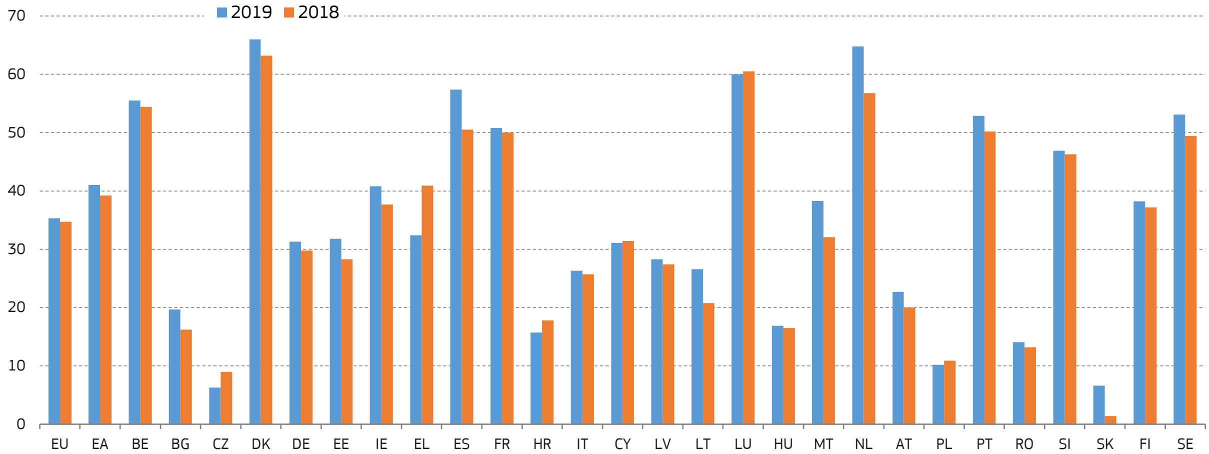
[35] Source: Eurostat (online data code: sdg_05_30); measures the differences between men and women's employment rate (aged 20 to 64) in percentage points.

[36] Source: Eurostat (online data code: lfsa_ergaed).

[37] Source: Eurostat (online data code: sdg_05_40).

While more children aged less than 3 years were enrolled in formal childcare in the past years (35.3% in 2019 compared to 34.7% in 2018), the lockdown kept them home and so the caring responsibilities fell on family members, mainly women.

Chart 9: Children aged less than 3 years in formal childcare[38]



The crisis also affected the persons with disabilities. Even before the crisis, only 50.8% of them were in employment in 2018 compared to 75% of those without disabilities (EU27 data).[39] Moreover, 28.4% of the persons with disabilities were at risk of poverty or social exclusion in EU27 in 2019 compared to 18.4% for those without disabilities.[40]

In this context, DG EMPL focused on ensuring that women and persons with disabilities are not discriminated and have access to the same job conditions as others as well as supporting the mitigation of the social consequences of the COVID-19 crisis.

Specific objective 6.1: Equality

In 2020, DG EMPL focused on preparatory steps for the new Strategy for the Rights of Persons with Disabilities and contribution to other equality strategies. In doing so, it helped the Commission's Task Force on Equality and supported the implementation of the European Pillar of Social Rights, especially principle 2 'Gender equality', 3 'Equal opportunities' and 17 'Inclusion of people with disabilities'. The outputs also contributed to the UN Sustainable Goals, particularly to goal 5 'Achieve gender equality and empower all women and girls' and goal 10 'Reduce inequalities within and among countries'.

Throughout the year, DG EMPL finalised the evaluation of the 2010-2020 European Disability Strategy and a series of consultations, and organised meetings of the High Level Disability Group and dedicated meetings with civil society and organisations of persons with disabilities, the conclusions of which underpinned the 2021-2030 Strategy for the Rights of Persons with Disabilities (adopted by the Commission in March 2021). The new

[38] Source: Eurostat (online data code: TEPSR_SP210).
[39] Source: European Disability Expertise for the European Commission, DG EMPL, based on Eurostat (online data code: ilc_di11).
[40] Source: Eurostat (online data code: HLTH_DPE010).

Strategy aims to ensure the full participation of persons with disabilities in society on an equal basis with others and support the implementation of the relevant EU acquis and the UN Convention on the Rights of Persons with Disabilities by the EU Member States.

In addition, DG EMPL continued the work on the EU Disability Card pilot project, with a study that has found and documented evidence of the EU added value of the Card. The report on the assessment of the pilot project will be issued in 2021.

It also continued the preparation of the transposition of Directive 2019/882 on the Accessibility requirements of products and services through the organisation of four meetings with national experts.

DG EMPL also contributed to the Gender Equality Strategy 2021-2025, the Anti-Racism Action Plan, the Strategic Framework for Roma and the LGBTIQ Strategy by providing input on the socioeconomic dimension of gender equality.

In 2020, DG EMPL worked on the *Pension adequacy report* and the *Long-term care report* (planned for 2021) together with the Social Protection Committee. The first analyses gender differences in pension adequacy. The second illustrates a strong gender dimension with women providing the bulk of care services while also being the main recipients.

DG EMPL guided the work of the Social Protection Committee and Employment Committee in developing indicators for monitoring the Directive 2019/1158 on Work-life balance for parents and carers. The indicators will allow the proper monitoring and assessment of its implementation, in particular with regard to gender equality.

Moreover, DG EMPL monitored the implementation of the Directive 2000/78/EC on Equal treatment in employment and occupation, which prohibits discrimination on grounds of religion and belief, age, disability and sexual orientation in the field of employment. In cooperation with DG Justice, DG EMPL prepared the draft report on the application of the Directive as well as of the Directive 2000/43/EC on Implementing the principle of equal treatment between persons irrespective of racial or ethnic origin (planned for 2021).

In terms of communication, DG EMPL organised a conference on the European Day of Persons with Disabilities and the European Access City Award. This annual event is an opportunity for the EU to mainstream disability issues and to raise awareness of the challenges faced by persons with disabilities. The awareness raising campaign on discrimination in the workplace (#EuvsDiscrimination) was succesfully concluded in 2020.

These policy achievements benefitted from financial support through ESF, EaSI and REC.

The EaSI funded project 'Master Parenting in work and life' aims at reconciling work and private life, support equal sharing of care responsibilities between women and men and encourage a higher participation of women in the labour market by developing and testing innovative work-life balance strategies that focus on a different culture of parenthood. With EUR 1 368 312 from EaSI, the project is will end in April 2021.

Managing 2014-2020 ESF towards delivery of policy results

Implementation of 2020 operational priorities

The performance-based reporting on the ESF programmes' implementation is pursued by following the progress made under 6 operational priorities and 42 associated indicators. In this framework, more than 90% of the actions for which indicators were defined were reported to be on track or completed by the end of 2020 (same at end 2019) with the rest experiencing slight delays or awaiting confirmation on pending data.

The year 2020 saw a peak in the number and complexity of programmes' amendments mainly due to the integration of CRII and CRII+ flexibilities to support the Member States in the recovery process. While working in parallel on closure of 2007-2013 programmes, ongoing implementation of 2014-2020 programmes, negotiations on the 2021-2027 regulation and operational programmes, DG EMPL completed on time 79.2% of the ESF and/or multi-fund programme amendments covered by Commission decision (93% in 2019).

As regards monitoring of the programmes with DG EMPL as lead DG, 77% of the observation letters on the Annual Implementation Reports were sent within the deadline (91% in 2019). In addition, DG EMPL enhanced its programme monitoring via regular attendance at monitoring committees and annual review meetings.

The Member States completed 515 ESF and multi-fund evaluations related to 2014-2020 programmes by October. However, few of them went beyond process and implementation. To tackle this limitation, DG EMPL completed and published four thematic evaluations covering 2014-2018 for all the Member States, on: ESF/YEI support to youth employment, ESF support to employment and labour mobility, ESF support to education and training and ESF support to social inclusion. The conclusions of these evaluations will feed into the preparation of the 2021-2027 programmes.

Assessment of the performance of programmes

As indicated in 'DG EMPL strategy for a performance-based culture for the ESF 2016-2023', in 2017 DG EMPL developed a methodology to assess the performance of programmes on a yearly basis. This methodology was updated in 2020 to take into account the latest information available at the time of the drafting of the Annual Activity Report. The assessment of the performance is carried out by desk officers in the geographical units for each programme with ESF and focuses on four criteria and one overall assessment. The criteria are the following:

- ✓ financial implementation in terms of projects selection by end 2020;
- ✓ financial implementation in terms of expenditure declared by beneficiaries by end 2020;
- ✓ outputs by end 2019 (latest available data in the annual implementation reports);
- ✓ administrative capacity.

The assessment results in placement under 'good', 'acceptable', 'poor' or 'critical' categories.

Overall, the performance of programmes across all Member States at the end of 2020 is satisfactory, with 86% of programmes assessed as good or acceptable (85% in 2019).

As regards the four criteria of assessment, the main difficulties are linked to financial implementation where 25% of programmes were assessed as poor or critical with regard to both selected operations and eligible expenditure declared. The situation has however significantly improved compared to 2019, when 38% of programmes have been assessed as poor or critical with regard to selected operations (the assessment of eligible expenditure declared remains similar as in 2019).

As for output implementation, 85% of the programmes were assessed as acceptable or good, proving that the policy delivers results and generates Union added value.

The administrative capacity ranked very high and was assessed as satisfactory with 91% of the programmes assessed as good or acceptable. There were no or very small concerns raised for those programmes and the actions were reported as being carried out as planned.

The main implementation challenges relate to the complexity of programming and planning of the interventions, delays due to consultation of different public administrations, administrative issues related to tender procedures, problems with the payment system, administrative burden of applicants, requirements of General Data Protection Regulation and delays at governance level due to a focus on preparation/setting up organisation/programme management, not yet on attracting proposals. In addition, the changes in the national/regional socioeconomic context such as the impact of COVID-19 affected as well the performance of the programmes.

Chart 10: Overall assessment

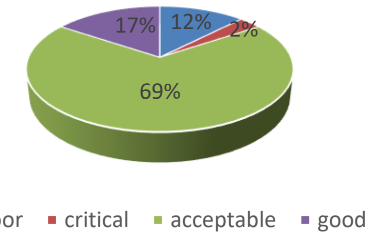


Chart 12: Financial implementation (1) - selected operations

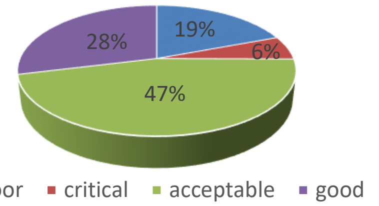


Chart 11: Financial implementation (2) - eligible expenditure declared

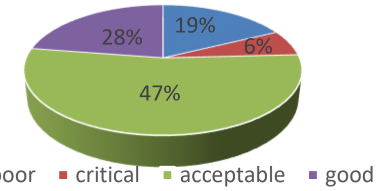


Chart 12: Output implementation

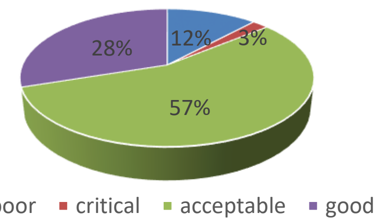
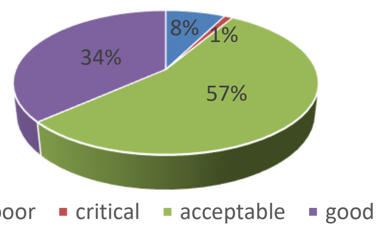


Chart 13: Administrative capacity



All are addressed in close cooperation with DG EMPL during the regular meetings held with programme authorities, such as annual review meetings and monitoring committee meetings as well as other bilateral discussions. The programmes are also adapted in order to better address new challenges or changes in the socioeconomic context, as those arising from the COVID-19 outbreak. Moreover, implementation progress and challenges are discussed in the ESF Technical Working Groups and ESF Committee meetings. Finally, DG EMPL has also taken measures to address implementation weaknesses, such as sending observations on the implementation of the programme to the programme authorities.

Status of programme implementation and key achievements

By the end of 2020, the ESF project selection rate increased to 99%. In 2020, nearly EUR 13.8 billion have been paid to the 2014-2020 ESF programmes (including pre-financing), raising the absorption rate to 43% (interim payments made compared to allocation). The high level of ESF expenditure certified to the Commission is a confirmation that a mature phase of implementation has been reached for the majority of programmes.

The same was observed for YEI where, by the end of the year, the total eligible cost of operations selected for support was EUR 10.8 billion and more than EUR 6.6 billion had been declared by beneficiaries. Nearly EUR 6 billion had been paid to the Member States in relation to YEI since 2014 (including interim payments and pre-financing).

Following the agreement reached by the European Parliament and Council to increase the YEI specific allocation for 2020 by EUR 28.3 million, the Commission adopted a proposal for a Regulation amending the Common Provisions Regulation (COM(2020)206). It also adopted the Commission Implementing Decision 2020/1278 on the annual breakdown of resources from the YEI specific allocation by Member State and the list of eligible regions. DG EMPL amended in 2020 all the programmes benefitting from this increase.

In terms of simplified cost options, 19 Member States were covered by unit costs or lump sums set in the Delegated Regulation 2015/2195, at the end of 2020. Moreover, the Commission also developed unit costs for four areas (education, training for unemployed, counseling services and training for employees) for the use of all Member States. These initiatives have reduced the administrative burden and facilitated implementation for both programme authorities and beneficiaries as they enabled them to use their staff for tasks other than compliance checks so as to focus on performance and results. The simplified cost options can also help to lower the error rate, since it makes it easier to comply with rules. It also facilitates access for small beneficiaries to the ESI Funds.

The duration of the two pilot projects launched in 2019 on VET and migrants integration was extended in response to the unforeseen consequences of COVID-19.

By the end of 2019, **36.4 million people were supported by the ESF and YEI**, of which:

- ✓ 4.5 million people had found a job (including self-employed);
- ✓ 5.5 million people had gained a qualification;
- ✓ 1.8 million people were in education and training as a result of ESF or YEI support;
- ✓ 3 million young people had benefitted from the YEI;
- ✓ 2.5 million participants with disabilities received support;
- ✓ 5.6 million migrants and participants with foreign background received support;
- ✓ 6.5 million other disadvantaged people received support.

2. Modern and efficient administration and internal control

This part explains how the DG delivered the achievements described in part 1 and how it obtained the assurance, disclosed under the point 2.1.5. It is divided into two sections:

2.1 Financial management and internal control, which reports the audit and control results and all other relevant information that supports management's assurance on the achievement of the financial management and internal control objectives. It includes any additional information to establish that the available evidence is reliable, complete and comprehensive.

2.2 Other components of organisational management, including human resources, digital transformation and information management, and sound environmental management.

2.1 Financial management and internal control[41]

Assurance is provided on the basis of an objective and systematic examination of all evidence available to the DG for the purpose of providing an assessment of the effectiveness of risk management, control and governance processes.

This examination is carried out by management, who monitors the functioning of the internal control systems on a continuous basis (including through its audit activities), and by internal and external auditors. The results are explicitly documented and reported to the Director-General. The following reports have been considered in the assurance building process:

- ✓ the annual reports by Authorising Officers by Sub-Delegation;
- ✓ the reports from the entrusted entities;
- ✓ the reports on control results from Management and Audit Authorities in the Member States in shared management as well as the result of the Commission supervisory controls on the activities of these bodies;
- ✓ the reports of the Audit Directorate and ex post supervision and controls, including the assessment of system audit reports received from Audit Authorities;
- ✓ the contribution of the Internal Control Coordinator, including the results of internal control monitoring at the DG level;
- ✓ the reports on recorded exceptions, non-compliance events and any cases of 'confirmation of instructions' (Article 92(3) of the FR);
- ✓ the limited conclusion of the Internal Audit Service on the state of internal control, the observations and the recommendations it reported;
- ✓ the observations and the recommendations reported by the European Court of Auditors.

[41] The reporting for shared management is based on 214 operational programmes (the UK FEAD operational programme is not considered as it was not implemented).

These reports result from a systematic analysis of the evidence available. This approach provides sufficient guarantees as to the completeness and reliability of the information reported, and results in a complete coverage of the budget delegated to the Director-General of DG EMPL.

This section covers the control results and other relevant elements that support management's assurance. It is structured in the following sub-sections: control results, audit observations and recommendations, effectiveness of internal control systems, and resulting in conclusions on the assurance.

2.1.1 Control results

This sub-section reports and assesses the elements identified by management which support the assurance on the achievement of the internal control objectives[42]. The DG's assurance building and materiality criteria are outlined in Annex 5. Annex 6 outlines the main risks together with the control processes to mitigate them and the indicators used to measure the performance of the relevant control systems.

Table 1: Synthesis of the control results

Activity		Payments 2020	% from total	Internal Control Objectives: indicators available at this level	Reservation
2014-2020 programming period	ESF/YEI	14 390.53	92.8%	Risk at payment: 1.4%	21 operational programmes
	FEAD	521.84	3.4%	Risk at payment: 0.7%	2 operational programmes
	EGF	2.05	0.0%	- Error rate: 26.8%[43] - Five year basis: 0.5%	No
2007-2013 and prior programming period	ESF	284.01	1.8%	Residual risk rate = 0.6%	2 operational programmes
	IPA	11.28	0.1%	Residual risk rate = 0.7%	No
Direct management	Grants & procurement	220.77	1.4%	- Error Rate grants = 0,4% - Error rate procurement <2%	No
Indirect management	Subsidies to agencies	75.17	0.5%	NA	No
Total		**15 505.65**	**100.0%**		

[42] Article 36(2) of the Financial Regulation (FR): a) effectiveness, efficiency and economy of operations; b) reliability of reporting; c) safeguarding of assets and information; d) prevention, detection, correction and follow-up of fraud and irregularities; and e) adequate management of risks relating to the legality and regularity of underlying transactions, taking into account the multiannual character of programmes as well as the nature of the payments.

[43] The singular isolated irregularity that led to this high error rate is detailed on page 60-61.

For direct and indirect management, IPA and EGF, management has reasonable assurance that suitable controls are in place and work as intended and that risks are appropriately monitored and mitigated.

Management has also reasonable assurance that suitable controls are in place and work as intended as regards the ESF, YEI and FEAD.

Based on the in-depth review of the data provided by the Audit Authorities in the Final Control Reports received by the Commission on 31 March 2017 and on the audit work performed during the following years, the closure of the 2007-2013 programming period is almost achieved, but a reservation (without financial impact) is maintained for two operational programmes for which additional financial corrections will be required.

For the 2014-2020 programming period, DG EMPL has carried out audit work to confirm the residual total error rate for the 2018-2019 accounting period where Member States had declared expenditure for an amount of EUR 18.1 billion. DG EMPL also reviewed the assurance packages for the 2019-2020 accounting period and the audit reports submitted by the Audit Authorities. This allowed DG EMPL to have reasonable assurance and to conclude that the management and control systems of the operational programmes worked as intended in 2020 with the exception of 21 ESF/YEI and 2 FEAD programmes which presented material deficiencies of some key elements of the systems.

2.1.1.1 Control effectiveness as regards legality and regularity

DG EMPL is using internal control processes to ensure the adequate management of the risks relating to the legality and regularity of the underlying transactions it is responsible for, taking into account the multiannual character of programmes and the nature of the payments concerned.

A. Shared Management

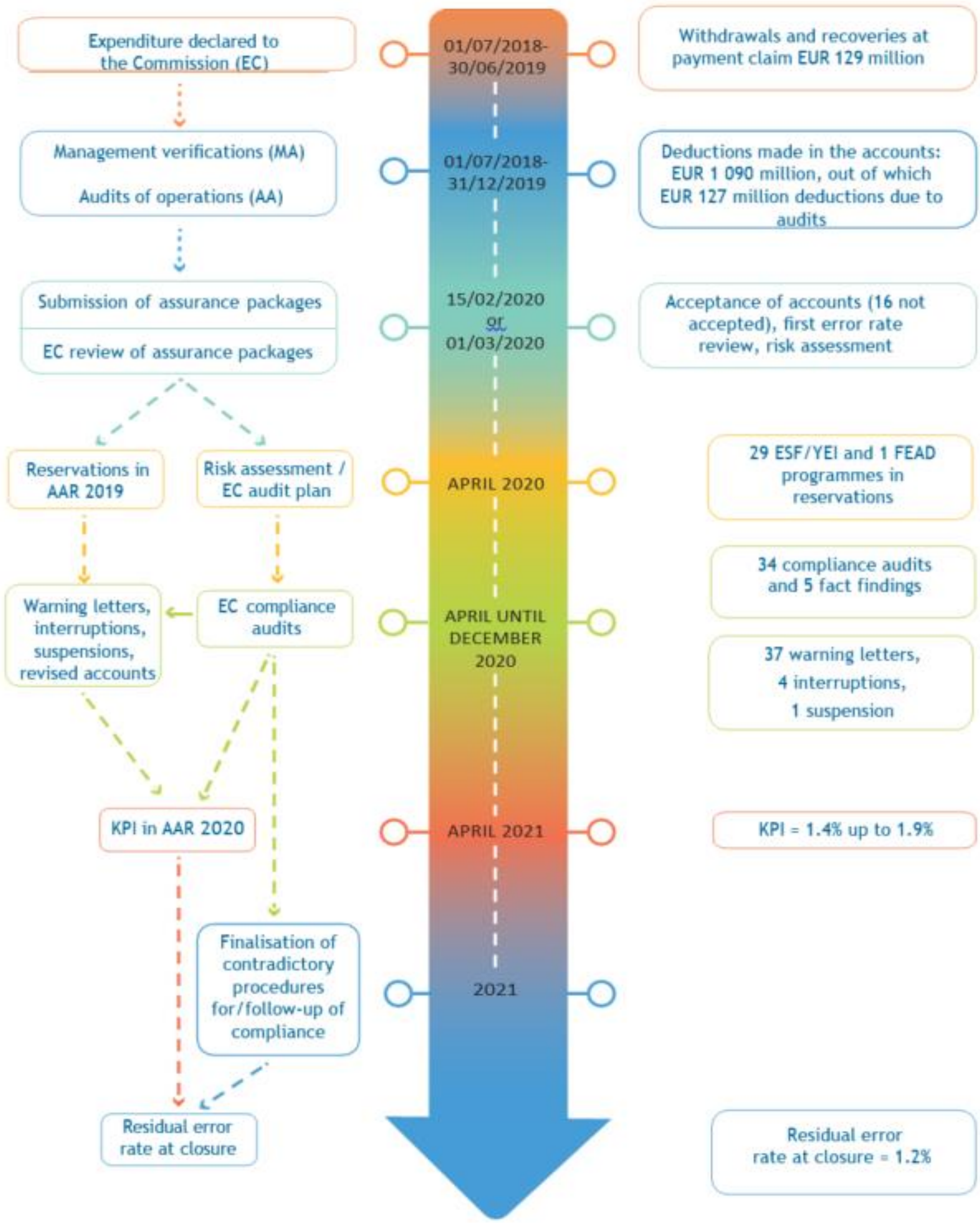
Overview of how DG EMPL obtains assurance for each programme and how it deals with material error rates, including actions taken to improve the situation

The 2014-2020 Regulation provides increased safeguards for assurance. A 10% retention applies on all interim payments during the year and until annual programme accounts are accepted, thus effectively protecting the EU budget. Programme Managing Authorities carry out management verifications before expenditure is certified and Audit Authorities report audit opinions and representative error rates based on audits of systems and declared expenditure. Programme authorities have an interest to apply themselves appropriate corrections in programmes annual accounts in order to be able to re-use such expenditure. Otherwise, net financial corrections may apply.

The error rate for ESI Funds reported in the Annual Activity Report is robust and gives a true and fair view

The Commission assesses the situation for each programme with expenditure reported in the accounts accepted in the reporting year and discloses in the Annual Activity Report (AAR) individual rates confirmed for each programme, based on Member States' reporting and following our systematic review and risk-based on-the-spot audits.

Chart 16: Assurance process building for programme accounts submitted and accepted in 2020



A total weighted average error rate for ESF/YEI and FEAD is also disclosed under the Key Performance Indicator (KPI) 4 on legality and regularity. In the 2020 Annual Activity Report, DG EMPL reports a KPI 4 of 1.4% up to a possible maximum of 1.9%, taking account of additional risks and ongoing contradictory procedures as a result of audits. This error interval reflects a reasonable and fair estimate of the overall error rate for ESF/YEI and FEAD, following a programme by programme analysis.

Differentiated situation per programme: How does DG EMPL identify and correct the 'bad' programmes?

Despite an acceptable overall level of error, DG EMPL has robust audit evidence that the situation is differentiated for the 214 programmes with ESF/YEI or FEAD expenditure.

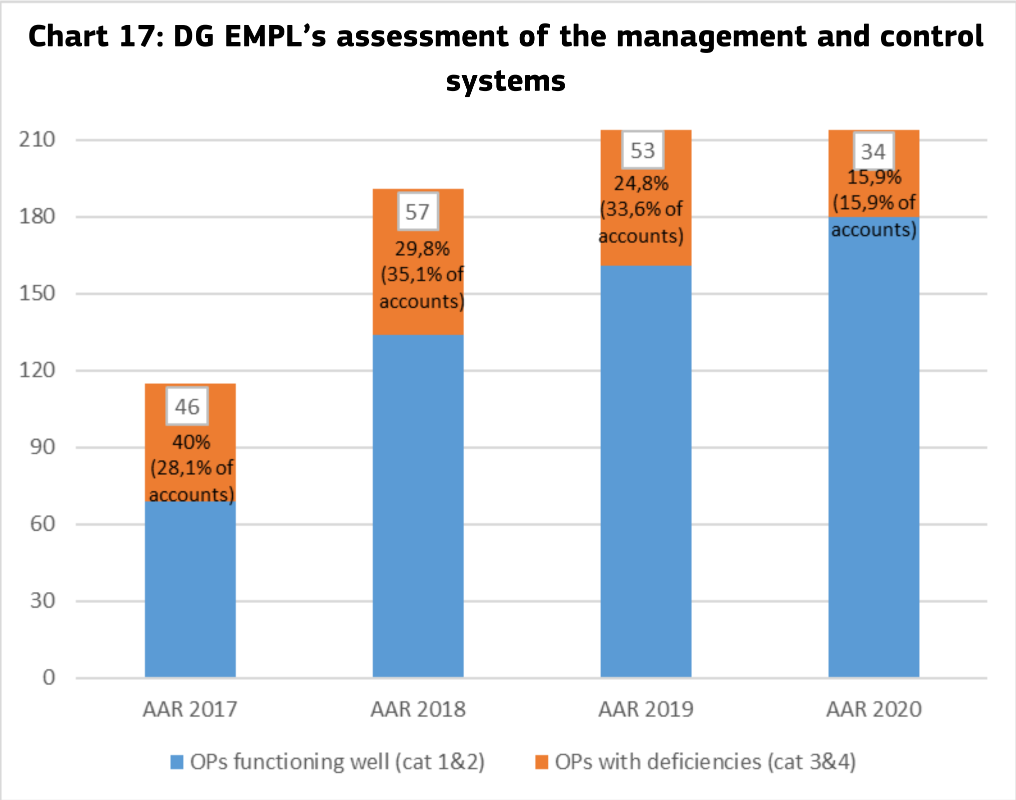
In 2020[44], DG EMPL's auditors conducted 34 compliance audits covering 14% of the expenditure declared in the 2018-2019 accounts, in addition to the analysis of the results from the system audits (267 received in 2020) and audits of operations (4 200) carried out by Member States Audit Authorities. On a cumulative basis, since the beginning of the 2014-2020 programming period, **DG EMPL's Audit Directorate has audited 64% of the programmes representing 87% of the financial programming** through system audits or re-performance of audits of operations.

For accounts accepted in 2020, the total error rates and residual error rates are confirmed for 181 programmes as a result of verifications and re-calculations of DG EMPL's auditors. Based on the analysis of the causes for the incorrect reported error rates, only a limited number of such adjustments reflect serious deficiencies in the underlying audit work. These results were taken into account to assess the need for reservations for 2020.

In addition, in the DG EMPL 2020 risk-based audits to verify the reliability of the work of Audit Authorities, some further irregularities to the ones detected by Audit Authorities were identified, leading to a re-calculated material residual risk in 8 cases. Taking into account the cumulative audit work and desk review performed, DG EMPL has a reasonable assurance on the reliability of the work of most of its programme Audit Authorities, except for 11 of them where it identified weaknesses and requested improvements.

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 (OPs), corresponding to 84% of the total.

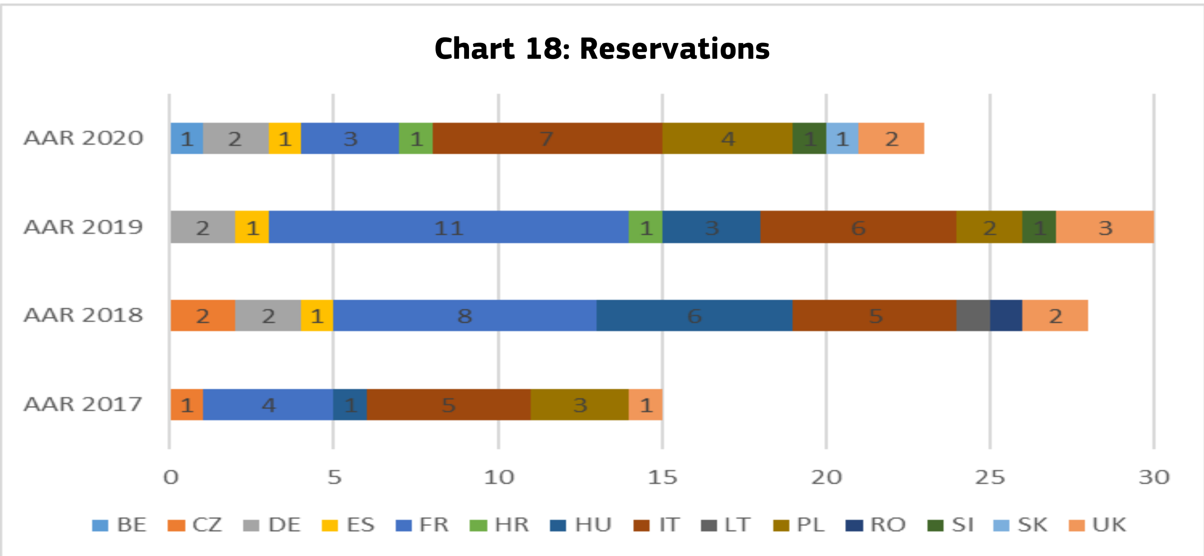
[44] Data refers to the accounting year 2018-2019.



For 34 programmes the management and control system was found to present serious deficiencies.

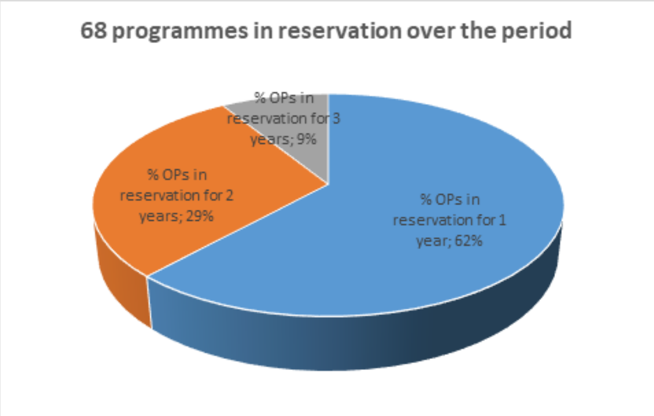
For these programmes, in general, the Total Error Rate (TER) is above 5% meaning that there are deficiencies in terms of management verifications or the Residual Total Error Rate (RTER) is above 2% meaning that the audit work of the Audit Authorities is incomplete or the relevant financial corrections have not been implemented.

DG EMPL enters reservations in the Annual Activity Report for the programmes in category 3 and 4, except those for which the TER is between 5% and 10% as the 10% retention still protects the EU budget in these cases.



Reservations issued in the 2020 Annual Activity Report mainly relate to weaknesses in the management and control systems for parts of programmes, namely insufficient quality of management verifications in areas such as selection of operations. Reservations are only lifted once sufficient corrective measures are taken by the national/local authorities and assessed as effective by the Commission services. The majority of deficiencies could be quickly corrected thus 62% of the reservations could be lifited within one year.

Chart 19: Lifted reservations within the first, second and third year



The table below gives a snapshot of the operational programmes (OPs) for which the management and control system shows deficiencies at the time of the signature of the Annual Activity Report by the Authorising Officer by Sub-Delegation.

Table 2: Operational programmes with deficiencies in the management and control system

MS	Reference	Name	Issues
Programmes in reservation			
BE	2014BE05M9OP002	Brussels-Capital Region : 'Investment for growth and jobs'	Total error rate (TER) > 10%. Management verifications to be improved.
DE	2014DE05SFOP012	Operational Programme ESF Sachsen 2014-2020	Reservation maintained from last year: re-calculated Residual Total Error Rate (RTER) > 2% materiality. Relates to one operation with a systemic deficiency.
DE	2014DE05SFOP014	Operational Programme ESF Thüringen 2014-2020	One audit of operation has not been completed; therefore, the final RTER cannot be determined yet.
ES	2014ES05SFOP007	PO FSE 2014 C.A. CATALUÑA	Reservation maintained from last year: the audits of operation had not been completed at the time. National authorities are currently preparing to send the revised completed accounts.
FR	2014FR16M0OP009	Regional programme Guadeloupe Conseil Régional 2014-2020	TER > 10%. Adverse audit opinion on management and control systems.
FR	2014FR16M2OP012	Regional programme Mayotte 2014-2020	Adverse audit opinion. Significant deficiencies in management and control systems identified by the Commission compliance audit.
HR	2014HR05M9OP001	ESF Operational Programme Efficient Human Resource	Reservation maintained from last year: management and control systems to be improved.
IT	2014IT05M2OP002	Governance, networks, special projects and technical assistance	Recalculated RTER > 2% materiality. Flat rate financial correction to be applied for limitation of subcontracting in public procurement.
IT	2014IT05SFOP001	National Operational Programme on Social Inclusion	Recalculated RTER > 2%. Flat rate financial correction to be applied for limitation of subcontracting in public procurement.

IT	2014IT05SFOP004	POR Friuli Venezia Giulia ESF	Recalculated RTER > 2%. Flat rate financial correction to be applied for limitation of subcontracting in public procurement. Partial reservation for axis Technical Assistance and 4.
IT	2014IT05SFOP006	POR Liguria ESF	Recalculated RTER > 2%. Flat rate financial correction to be applied for limitation of subcontracting in public procurement. Partial reservation for axis Technical Assistance and 4.
IT	2014IT05SFOP007	POR Lombardia ESF	Reservation maintained from last year: ongoing quantification by the Member State authorities of the irregularities concerned.
IT	2014IT05SFOP013	POR Piemonte ESF	Re-calculated RTER > 2%. Financial corrections to be applied for irregularities in call for proposals with restrictive selection requirements.
IT	2014IT16M2OP004	National Operational Programme on Metropolitan Cities	Recalculated RTER > 2%. Flat rate financial correction to be applied for limitation of subcontracting in public procurement.
PL	2014PL16M2OP002	ROP 2 Regional for Kujawsko-Pomorskie Voivodeship	Recalculated RTER > 2% due to risk of ineligible participants.
PL	2014PL16M2OP012	ROP 12 Regional for Śląskie Voivodeship	Recalculated RTER > 2% due to risk of ineligible participants.
PL	2014PL16M2OP014	ROP 14 Regional for Warmińsko-Mazurskie Voivodeship	Recalculated RTER > 2% due to risk of ineligible participants.
PL	2014PL16M2OP015	ROP 15 Regional for Wielkopolskie Voivodeship	Reservation maintained from last year: re-calculated RTER > 2%. A recent compliance audit also shows evidence of multiple quantifiable errors.
SI	2014SI16MAOP001	Implementation of the EU Cohesion Policy	Reported RTER > 2%.
SK	2014SK05M0OP001	Operational Programme Human Resources	Re-calculated RTER > 2%: due to national simplified cost options irregularities detected from a Commission compliance audit.
UK	2014UK05M9OP002	ESF Scotland (incl. YEI)	Payments are suspended, awaiting the results of national audit authority's checks on public procurement.
DE	2014DE05FSOP001	FEAD Deutschland 2014-2020	Audit of operations sample is insufficient; therefore, the final RTER cannot be determined yet.
FR	2014FR05FMOP001	Programme Opérationnel FEAD	Reported RTER > 2%.
Programmes not in reservation as risk below the 10% retention			
DE	2014DE05SFOP008	Operational Programme ESF Hessen 2014-2020	Commission compliance audit concludes in category 3 for Key Requirement (KR) 16 & 18 (adequate audits of operations and preparation of annual control report).
FR	2014FR16M2OP011	Regional programme Guyane Conseil Régional 2014-2020	Commission concludes that KR 4 (management verifications) is in category 3.
IT	2014IT05M9OP001	National on Youth Employment	Audit Authority concludes that KR 2 (selection of operations) and KR 6 (performance data) are in category 3.
IT	2014IT05SFOP002	National Operational Programme on Systems for Active Employment Policies	Audit Authority and Commission conclude that KR 2 (selection of operations) and KR 6 (IT system for performance data) are in category 3.
IT	2014IT05SFOP005	POR Lazio ESF	Issue of limitation of subcontracting in public procurement.
IT	2014IT05SFOP017	ROP PA Bolzano ESF	Issue of limitation of subcontracting in public procurement.
PL	2014PL16M2OP001	ROP 1 Regional for Dolnośląskie Voivodeship	Commission concludes that KR 4 (management verifications) is assessed in category 3.
SE	2014SE16M2OP001	Community-led local development programme	Audit Authority concludes that KR4 (management verifications) and KR5 (adequate audit trail) are assessed in category 3.
UK	2014UK05SFOP005	ESF Gibraltar	Audit Authority concludes that KR4 (management verifications) is assessed in category 3.
IT	2014IT05FMOP001	Programma Operativo 1 FEAD 2014-2020	Audit Authority and Commission conclude that the Managing Authority and the Certifying Authority are assessed in category 3.
RO	2014RO05FMOP001	FEAD	Commission concludes that KR 4 (management verifications) and KR 6 (IT system for performance data) are assessed in category 3.
Expenditure declared in the 2019/2020 accounts for these programmes: EUR 2.3 billion – 15.9%			

DG EMPL also systematically transmits suspicions of fraud to OLAF (three cases in 2020-beginning of 2021) and financial corrections are imposed when fraud is confirmed (six cases in 2020).

DG EMPL therefore has the tools to analyse the individual situation of each programme and to report the specific weaknesses identified in the Annual Activity Report (see Annex 7).

The multiannual corrective capacity to bring the risk at closure below 2%

If DG EMPL detects system deficiencies at the level of Managing or Audit Authorities, or re-calculate an error rate beyond materiality for a programme, it uses the regulatory tools at its disposal to stop payments (interruptions, suspensions). It does not resume payments until it has audit evidence that the systems were improved.

Remedial actions are requested to improve the management and control systems and the functioning of the programme authority with a view to prevent recurring irregularities.

As a last step, DG EMPL imposes the required additional financial corrections to bring each concerned programme's residual risk below 2%, following due contradictory procedures and the right of defence of the concerned programmes' authorities. DG EMPL estimates that once it will have applied additional financial corrections for the programmes found to have a remaining residual level of error above 2%, the 'risk at closure' (after such additional corrections) will be 1.2% well below materiality. This reflects the multiannual corrective capacity mechanism.

Actions undertaken in 2020 to improve the programme authorities' administrative capacity and improve further the situation of programmes

When DG EMPL identifies that Managing Authorities missed errors, it provides them with targeted support to improve their administrative capacity. DG EMPL requests improvement in the quality (use of improved check lists, training of staff etc.) and quantity of verifications carried out before certifying expenditure. It may also impose reinforcement of staff or increased recourse to outsourcing to reinforce the management system.

When DG EMPL identifies that Audit Authorities lack capacity to appropriately or exhaustively detect errors, it individually provides them with targeted and technical support in order to ensure they work up to expected standards and improve their detection capacity. It requires targeted actions to improve their methodology and their capacities (e.g. revision of audit checklists, clarification of applicable rules, training, requests for staff reinforcement or support from outsourcing). Overall, the objective is to assist the national authorities to improve their management and control systems, by better detecting, correcting and preventing deficiencies, thereby protecting the EU budget.

Some concrete examples over the recent years are disclosed below to highlight the corrective and preventive actions implemented on an ongoing process between the Member States and the Commission:

EXAMPLE OF DEDICATED REMEDIAL ACTIONS
All the ESF co-financed operational programmes in Poland

The national authorities certified as eligible expenditure recoverable VAT in relation to grants for starting a business and equipping workstations. Deficiencies in management verifications of VAT status of grants recipients were also identified. The system did not ensure that all recoverable VAT was not claimed to the Commission.

- **What did the Commission do?**

Findings related to ineligible VAT were formulated by the European Court of Auditors for the mainstream ESF programme and for three regional programmes, also audited in 2017. Also, the Commission compliance audit performed in 2017 on KED programme identified the same deficiency.

As a consequence, DG EMPL issued a warning letter requesting national authorities to withhold certification of expenditure incurred in the affected measures until the management and control system ensures that only eligible costs related to VAT are declared. The authorities were invited to implement preventive and corrective measures to improve the functioning of the management and control system for the future and make the necessary financial corrections for the past.

- **How did the Managing and Audit Authorities respond?**

The Member State authorities (ESF Coordinating body and all Managing Authorities) prepared and agreed with the Commission services a methodology for a systemic financial correction. The authorities applied the financial corrections based on the agreed methodology (PLN 236 million i.e. about EUR 55 million for all 17 programmes concerned, for all concerned accounting years) and proposed the corrective measures in management and control systems for the future. The Managing Authorities implemented the unit costs or started settling net amounts excluded VAT (depending on type of beneficiary/project/grants).

- **What is the result?**

The financial corrections applied protected the EU budget. Following their implementation, the warning was lifted. The error rates for the affected years were re-calculated by the Audit Authority taking into account the systemic correction, and validated by the Commission services.

EXAMPLE OF DEDICATED REMEDIAL ACTIONS
Human Resources Development Operational Programme (HRDOP) in Hungary

The Managing Authority had launched several calls for proposals that significantly deviated from the required targeting of the programme (due to too broad interpretation of 'social inclusion'). Deficiencies in the management verification system were also identified.

- **What did the Commission do?**

The deficiencies were detected as a result of a Commission audit by DG EMPL in September 2019, targeting specific risks in the ESF-supported priority axes 1 and 5 of the operational programme. As a consequence, on 20 February 2020, the Commission partially suspended payments for the HRDOP affecting the two priority axes concerned. The final audit report was sent to the Member State in April 2020.

- **How did the Managing and Audit Authorities respond?**

The Member State applied financial corrections of EUR 134 million related to nine deficient calls for proposals, ranging from 10.62% to 100% of the total grant amount contracted under these calls (in line with the proportion of the amounts that could not be attached to the relevant thematic objective).

The Managing Authority will take into consideration the Commission's position when drafting future calls for proposals in the new programming period.

- **What is the result?**

The financial corrections applied protected the EU budget. The suspension was lifted on 14 January 2021.

EXAMPLE OF DEDICATED REMEDIAL ACTIONS
Operational Programme ESF Hamburg 2014-2020

The accounts presented on 28 February 2019 were rejected considering the conflicting conclusions presented in the two reports of the Audit Authority on a particular project. As a consequence, the Audit Authority was requested to increase its sample (i.e. by auditing four to five additional projects) in order to gain assurance on the expenditure and to provide evidence that the alleged error is not, in any way, present in the other operations.
The operational programme was placed in reservation for 2019.

- **What did the Commission do?**

The Commission (geographical and audit units) met the Audit Authority on several occasions in 2019 and 2020 to:

- discuss the results of the additional audit work and the impact on the Annual Control Report and on the accounts, and
- explore possibilities with regard to the reorganisation of the ESF authorities and to take appropriate actions addressing a perceived conflict of interest.

- **How did the Managing and Audit Authorities respond?**

Following the additional audit work performed by the Audit Authority, the Commission was in a position to accept the accounts.
In September 2020, the Hamburg authorities were reorganised to avoid any risk / perception of potential conflicts of interest.

- **What is the result?**

Following the reorganization of the ESF authorities, the reservation was lifted at the end of 2020.

EXAMPLE OF DEDICATED REMEDIAL ACTIONS
Operational Programme ERDF-ESF Ile-de-France et Seine

Deficiencies in the management and control system were identified by the Commission during a preventive system audit carried out in 2018. The deficiencies were confirmed by the high total error rate reported in the Annual Control Report 2018 and confirmed by the Commission services.

- **What did the Commission do?**

In July 2018, the Commission sent a warning letter to the national authorities requesting them to implement corrective measures related to the findings issued in the audit report and preventive measures in the form of an action plan, to avoid systemic deficiencies in the future. In February 2019, a letter of interruption of the payment deadline for interim payment requests dated 21 December 2018 (ERDF and ESF) was sent to the national authorities.
In September 2020 the Commission decided to continue with a suspension procedure but to cancel it if the Audit Authority communicated positive results to the Commission on a sample of audits of operations managed under the new management and control system (i.e. after implementation of the action plan).

- **How did the Managing and Audit Authorities respond?**

Several meetings took place with the national authorities. The Audit Authority assessed the improvements made to the management and control system through (i) dedicated audits to cover the deficiencies found by the Commission auditors, and (ii) an exhaustive system audit to cover all key requirements related to the Managing Authority. In October 2020, the Audit Authority provided a revised and reliable error rate for the 2018 expenditure, which led to correction of this expenditure by the national authorities to the materiality threshold and to the conclusion that the corrective measures for the deficiencies detected were taken. The Audit Authority submitted, in September 2020, an audit report categorising this operational programme's management and control system in category 2 (no more significant system deficiencies). The results of the improved management and control system were confirmed by the error rate provided for a sample of 2019 expenditure operations and in the accounts for the accounting year 2019/2020.

- **What is the result?**

The management and control system is now considered as functioning satisfactorily (category 2 based on the national system audit report) and all the remaining open recommendations from the Commission audit were implemented. Consequently, as all the points in the pre-suspension letter have been closed, it has been decided to cancel the suspension procedure.

DG EMPL continuously provides to all programme authorities actions to reinforce their administrative capacities through guidance, targeted support, continuous training and professional development, peer-to-peer exchanges of experience, awareness raising events about simplification of procedures etc.

DG EMPL will continue to actively promote less error-prone simplified cost options, a radical paradigm-changer for the overall error rate, and put at the disposal of Member States, free of charge, the data mining tool Arachne to increase capacities to detect fraud suspicions or possible conflicts of interest.

Steps taken to ensure sound financial management in the COVID-19 context

Due to the COVID-19 pandemic there was a risk of reduced assurance for the 2020 Annual Activity Report because programme Audit Authorities could encounter limitations to carry out all the required on-the-spot audit work (scope limitations). The Commission reflected with the Audit Authorities to provide them possibilities to reduce their workload while still granting sufficient assurance. The COVID-19 pandemic was an exceptional situation as foreseen in Article 127 of the Common Provisions Regulation giving the Audit Authories the possibility to use for one year non-statistical sampling without further justification. The Commission also offered further flexibilities to the Audit Authorities within the margin of existing regulatory provisions and guidance to help them finalise their work in time to report the required assurance for each programme.[45]

However, this risk did not materialise as the Audit Authorities submitted the assurance packages on time and finalised the audits of operations except in four cases, less than in the previous year.

As for DG EMPL audits, there was also a risk of scope limitations due to the impossibility to go on the spot during the COVID-19 crisis. However, DG EMPL carried out 42 audits of the planned ones (most of them remotely via extensive videoconferencing and electronic exchange of documents) with no impact on the quality of the results and the assurance.

A.1 Shared management - ESF/YEI and FEAD 2014-2020

The Single Audit Strategy for the funds managed by DG EMPL, DG Regional and Urban Policy (DG REGIO), and DG Maritime Affairs and Fisheries (DG MARE) for the 2014-2020 programming period focuses the Commission's audit activity on the re-performance of the Audit Authorities' work. The overall objective of the Strategy is to obtain reasonable assurance that the management and control systems of the Member States:

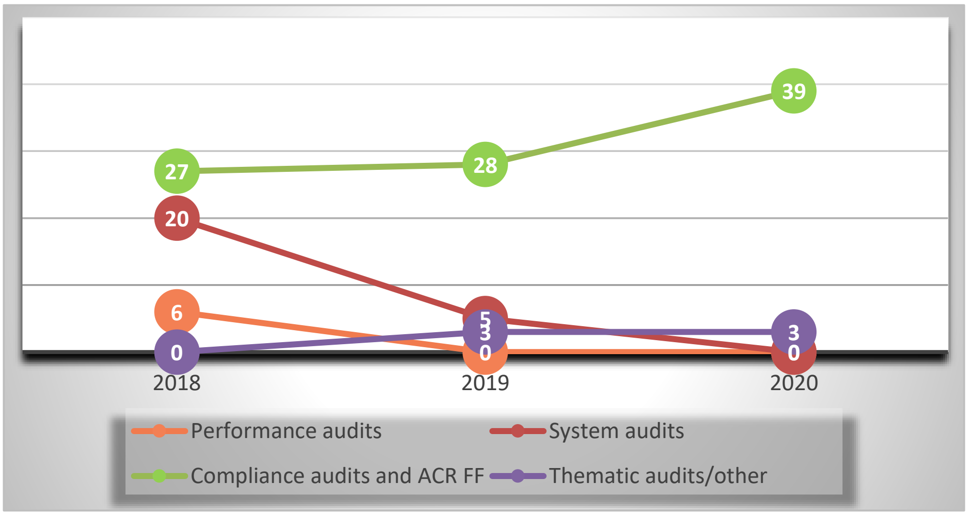
- ✓ comply with requirements of the relevant EU regulations;

[45] For example postposing system audits to focus on audits of operations, reducing the sample size for well-functioning systems etc.

- ✓ are functioning effectively to prevent and detect errors and irregularities and to ensure the legality and regularity, and the effectiveness of the expenditure declared to the Commission; and
- ✓ ensure the quality and reliability of the systems for reporting performance data.

The graph below offers an overview of the audit missions carried out over the last three years for the 2014-2020 programming period.

Chart 20: Audit missions



The audit plan for 2020 focused on the 2014-2020 programming period and included 34 compliance audits and 5 pre-Annual Control Reports fact findings audits to review the work of the national Audit Authorities (i.e. re-performance of audits of operations at the level of beneficiaries) in order to assess the level of reliability the Commission can place on it. These covered 34 out of the 214 ESF/YEI and FEAD programmes with accounts (15.9%) for an amount of EUR 2.5 billion out of EUR 18.2 billion (13.7%) declared in the annual accounts 2018-2019.

The five remote fact-finding missions were performed at the level of the Audit Authorities, which aimed to clarify methodological issues detected and/or prepare for the analysis of the next annual control.

In total, the Audit Directorate in DG EMPL audited **205 ESF/YEI/FEAD projects of a total value of EUR 332 million from which EUR 254 million have been audited**.

Table 3: Error categories found in audit of operations

Category of error	Data	Proportion
Ineligible expenditure/projects	25	23.15%
Missing supporting information or documentation	20	18.52%
Public Procurement - Contract notice and tender specifications	24	22.22%
Public Procurement - Evaluation of Tenders	7	6.48%
Public procurement – National rules	6	5.56%
Public procurement – Contract implementation	5	4.63%

Sound Financial Management	10	9.26%
Accounting and calculation errors at project level	1	0.93%
Information and publicity measures	3	2.78%
Expenditure not paid to beneficiary	1	0.93%
Standard Cost Options	5	4.63%
Revenue generating projects	1	0.93%
Total	**108**	**100.00%**

The audits of operations carried out by the Audit Authorities in 2020 have resulted in the detection of 530 errors, of which 35% related to ineligible expenditure/project, 20% related to public procurement and 19% related to missing supportive information or documentation.

Annual accounts 2018-2019 - audit work performed in 2020 to validate error rates:

***214 ESF/YEI and FEAD** certified accounts received*

Updated Residual Total Error Rate of ***1.4% for ESF/YEI and 0.7% for FEAD***

DG EMPL completed its assessment of the assurance packages submitted by the Member States. In total, 214 programmes submitted Annual Control Reports. A complete desk review of all information was carried out with a particular focus on the validation of the reported audit opinions and error rates / residual total error rates. The assessment took account of the results from any EU re-performance audit work carried out during the year by DG EMPL's or DG REGIO's auditors. Where possible, DG EMPL also took account of the results of the European Court of Auditors' work. DG EMPL paid special attention to the sampling methodology used by the Audit Authorities, analysis and treatment of errors, and the reporting of financial corrections that would affect the calculation of the residual total error rate. Subsequently, the programmes to be audited were identified on the basis of a risk analysis.

Based on the results of the compliance audits available at the date of signature of the 2020 AAR, the residual total error rate for the 2018-2019 annual accounts is estimated to be 1.4% for ESF/YEI and 0.7% for FEAD.

Taking account of possible further errors in the remaining audited samples, beyond the detected ones, and of further information which might become available after the validation of the AAR, DG EMPL estimates the confirmed rate could reach a maximum of 1.9% for ESF/YEI after adjusting upwards the rates for some programmes with the use of conservative flat rates and before implementation of the relevant additional financial corrections for the programmes concerned.

Based on all audit activities and for those programmes where the confirmed residual total error rate is above 2%, additional financial corrections will be requested in order to arrive at 2%. After implementation of these additional financial corrections, the average residual total error rate for ESF/YEI is expected to drop to 1.2%.

DG EMPL can therefore conclude with reasonable assurance that, after the control cycle (national and Commission) has been completed, there is no material residual risk remaining in the accepted 2018-2019 accounts, except for 19 programmes for which additional financial corrections are necessary to reach the objective of bringing the residual risk to materiality level for all programmes. In addition, for another 33 programmes, further corrections could be needed pending ongoing contradictory procedures at the time of signature of the AAR.

In regard to the annual accounts 2017-2018, the contradictory procedures have been finalised in almost all cases and the financial corrections requested implemented, leading to a total residual error rate of 1.3% in line with what was expected in the 2019 AAR.

Annual accounts 2019-2020 - acceptance of accounts and first review of legality & regularity

For accounting year
2019-2020:

214 certified accounts received with ESF/YEI and FEAD expenditure

211 accounts accepted as at 1 April 2021

The Commission received a full assurance package for 214 programmes (187 ESF/YEI and 27 FEAD) with certified expenditure for a total amount of EUR 14.5 billion. This is a decrease of EUR 0.5 billion (3.5%) compared to the related final interim payment applications submitted in July 2020.

As a consequence, Audit Authorities were able to issue unqualified audit opinions on the completeness, accuracy and veracity of all submitted accounts.

Upon receipt of the assurance packages for the accounting year 2019-2020, DG EMPL has carried out a preliminary assessment to confirm that the information disclosed in the Annual Control Report and audit opinion is in line with all other relevant information available to the Commission, including through their own audit work.

Following its assessment of the assurance packages, DG EMPL concluded that the accounts can be accepted in 211 cases and had to reject the accounts for 3 programmes, mainly due to the fact that the audit opinion was deemed unreliable.[46]

The audit opinions and the error rates detailed by programme are available in Annex 7.

Conclusion for 2014-2020 expenditure paid in 2020: overall assessment of the effective functioning of management and control systems:

Indicator	2020
Number of ESF/YEI programmes from the 2014-2020 programming period in reservation	21

[46] The conditions to consider the reliability of the audit opinion are set out in chapter six of the guidance note for Member States on Audit of Accounts – EGESIF_15_0016_04 of 3 December 2018.

Number of FEAD programmes from the 2014-2020 programming period in reservation	2

Taking into account all the available information, a detailed review of all the programmes took place during the Interruptions, Suspensions and Financial Corrections Committee (chaired by the Director-General) on 12 April 2021. This review aimed to ensure the quality and consistency of the opinions and to identify the programmes for which a reservation should be made. This resulted in a single DG EMPL opinion for each operational programme.

As a general rule, taking into account the 10% retention on payments and the annual accounts that include the necessary financial corrections to reach a maximum materiality threshold of 2%, a programme is included in the reservation list if at least one of the following conditions applies:

- a total projected error rate above 10%;
- residual total error rate above 2%;
- Material issues concerning the completeness, accuracy and veracity of the accounts;
- Deficiencies in key elements of the management and control system with a material risk of the EU budget.

For the cases where the total projected error rate is below 10% and the audit opinion is qualified with significant observations, no reservation is issued provided that adequate financial corrections have been implemented, meaning residual risk remains below 2%. Exceptions may be decided on the basis of professional judgement.

DG EMPL concluded that it has reasonable assurance that the management and control systems function effectively and ensure the legality and regularity of the 2020 expenditure certified by the Member States in the annual accounts with the exception of 21 ESF/YEI and 2 FEAD programmes.[47]

<u>Safeguarding the EU budget by preventive and corrective actions (interruption and financial corrections):</u>

- Preventive actions:
    - In 2020, 4 interruption decisions were taken by the Authorising Officer by Delegation and 1 suspension decision was adopted by the College. In addition, 2 pre-suspension letters and 37 warning letters were sent. In the first quarter of 2021, 6 warning letters were sent and 1 repealing decision of a suspension decision was adopted. Interruptions and suspensions are lifted once it is established that the management and control systems provide

[47] This is based either on incorrect 2018-2019 annual accounts that have been returned for correction (eg. residual risk above 2%, missing financial corrections, audit work not properly completed by the Audit Authority, etc.), for 16 programmes, or on systemic deficiencies identified and/or ongoing interruptions for 15 programmes.

reasonable assurance again and, where appropriate, financial corrections have been implemented (details in Annex 7).

- Corrective actions:
  - For the 2019-2020 accounting year, following the submission of the annual accounts in February 2021, the amount of the expenditure deducted represents EUR 507.5 million for ESF/YEI and EUR 10.7 million for FEAD out of which EUR 64.9 million for ESF/YEI and EUR 4.4 million for FEAD as result of EU and national audits of operations (details in Annex 7). The expenditure deducted at the end of 30 June 2020 in relation to withdrawals and recoveries as a result of the EU and national audit work represents EUR 9.7 million for ESF/YEI and EUR 0.7 million for FEAD.

A.2 Shared Management – Closure of ESF 2007-2013

Indicator	2020
Number of programmes (pre)closed at end 2020	110
Remaining allocation to settle (RAL) at 1/1/2020 (in EUR million)	941
Remaining allocation to settle (RAL) at 31/12/2020 (in EUR million)	346

At the end of December 2020, DG EMPL has sent 110 pre-closure letters (98 programmes with an amount to be paid, 8 with an amount to recover, and 4 with no payment/recovery). For 94 programmes, the Member States accepted the closure proposal and therefore DG EMPL sent 94 closure letters closed those programmes definitively.

In regard to the programmes with under-execution (EUR 801 million), DG EMPL has issued all letters and received the agreement to carry out decommitments for 45 programmes.

<u>Estimated residual risk rate for the whole 2007-2013 programming period:</u>

The additional information provided or additional audit work performed for the programmes closed in 2020 result in the update of the residual risk rate for these programmes. The average residual risk rate for the whole programming period is confirmed at 0.6%. For the final payments made in 2020, the estimated residual risk was 0.65%.

<u>Safeguarding the EU budget by corrective actions</u>

Indicator	2020
Corrections made resulting from Commission audit work (accepted/ decided) – in EUR million	56
Corrections made resulting from Commission audit work (implemented) – in EUR million	85.5

The purpose of financial corrections is to restore a situation where all the expenditure declared for co-financing from the structural funds is in line with applicable regulations.

The cumulative amount of the ex post financial corrections implemented at the Member States' initiative stands at EUR 1.5 billion and those implemented at the Commission's request stand at EUR 1.6 billion.

When considering both the ex post and ex ante corrections, the total amount of the implemented financial corrections stands at EUR 3.1 billion at the end of 2020, representing around 4% of the declared expenditure. The amount of financial corrections accepted but not yet implemented is EUR 68 million.

Detailed tables showing cumulative financial corrections (accepted/decided and implemented) for all programming periods can be found in Annex 7.

Conclusion: reservation in relation to ESF 2007-2013

For the Annual Activity Report 2019, there were six programmes for which the Member States' authorities still needed to provide additional information to clarify some issues or to perform additional audit work on expenditure declared at the end of the eligibility period.

The information provided by the Member States has allowed the lifting of the reservation for two programmes for which DG EMPL was able to issue the final payment in 2020.

For the four other programmes, the closure process is ongoing and the final payment should be issued in 2021. But for two programmes (Italy-Calabria and Romania-Human Resources Development) a non-quantified reservation is maintained as additional financial corrections exceeding 5% of the whole amount of the programmes will probably be needed.

B. IPA

The Final Control Reports and closure declarations have been received at the end of 2018 for Turkey, Montenegro and North Macedonia. Their review did not lead to the identification of significant issues.

In 2020, the payment or recovery has been processed for Turkey and Montenegro. The average residual risk rate is 0.75%.

C. EGF

According to Regulation (EU) No 1309/2013 of the European Parliament and Council of 17 December 2013 on establishing the EGF, the fund supports workers affected by trade-related redundancies from 1 January 2014 onwards.

In 2020, the Commission finalised six audits selected on a risk-based approach, four initiated in 2019 and two performed in 2020. The Commission's auditors identified deficiencies and irregularities relating to the functioning of the management and control system in place.

Based on the finalised ex post audits in 2020, the amount audited was EUR 27.3 million. An amount of EUR 7.3 million was rejected, of which EUR 4.3 million relate to the EGF co-financing share. This resulted in an error rate of 26.8%.

It should be noted that the irregularity identified in the framework of the audit fieldwork relates to a specific issue, which is of a singular isolated character and should, therefore, not be extrapolated in an analogous way on the totality of all EGF applications. In addition following the audit fieldwork, the relevant rejected amount of EUR 4.3 million relating to the EGF co-financing share was already paid back by the Member State concerned in August 2020.

This rate is considered as acceptable taking into account that:

- The increased error rate for the reporting period is based on a singular isolated irregularity identified during one finalised audit, which is considered exceptional and of singular isolated nature. None of the remaining five audits leaded to any financial correction. If the result of this audit is excluded, the error rate is calculated at 0%.
- On a five-year basis, the average error rate is estimated at 0.45% excluding the error rate linked to the above-mentioned singular isolated irregularity.

Therefore, the assessment described above provides reasonable assurance to DG EMPL as regards EGF.

D. Direct management

The following points form the building blocks of DG EMPL's assurance:

Programming, evaluation, selection of proposals and contracting

Indicator	2020
Grants and procurement	
Validation of actions in the annual work programme (relevance and compliance)	100%
Number litigation cases	0
Grants	
Validation of calls for proposals by the Financial Unit prior to publication	100%
Formal opinion given by the Financial Unit before award	100%
Procurement	
Formal opinion given by the Financial Unit before award	90%

DG EMPL produces annual Financing Decisions which specify the activities that will be undertaken to implement the budget in support of policy objectives defined in legal bases. The programming process starts with a top-down definition of policy priorities. Specific activities subsequently proposed by Authorising Officers by Sub-Delegation are consolidated and examined by the Programming & Planning Unit and the Programme Management & Implementation Unit from two perspectives: their relevance as regards policy priorities and their compliance with the rules defined in the Financial Regulation for grants and contracts.

DG EMPL's procedures ensure that the selection of projects and supplies comply with the sound financial management principles and effectively meet policy objectives.

DG EMPL exercises control through the following:

D.1 Grants

All calls for proposals are systematically verified prior to the publication of the calls by the Programme Management & Implementation Unit for completeness, coherence and compliance with the rules.

The evaluation reports are as well systematically verified prior to the award decision and budgetary and legal commitments.

DG EMPL allowed indirect costs above the 7% flat rate in seven cases, all with the OECD, in line with the Framework Administrative Agreement concluded between the OECD and the Commission, using for this purpose Article 181(6) of the Financial Regulation.

DG EMPL did not conclude grants not linked to costs (Article 125(3) of the Financial Regulation), nor launched or signed any financial framework partnership agreement (Article 130(4) of the Financial Regulation). Furthermore, DG EMPL did not award grants retroactively (Article 193(2) of the Financial Regulation).

D.2 Procurement

Contract notices, technical specifications and invitations to tender for procedures above EUR 60 000 are systematically verified prior to publication for completeness, coherence and compliance with the rules.

Evaluation reports for open tender procedures, negotiated procedures and reopening of competitions procedures are also verified prior to award and commitment by the Programme Management & Implementation Unit.

After an unsuccessful open call for tender by the European Labour Authority for insurance broker services for which nobody applied, a negotiated procedure has been launched, but the invited applicants did not submit any offer. Therefore, the negotiated procedure was unsuccessful as well and did not generate any contract.

There was no case of confirmation of instructions (Article 92(3) of the Financial Regulation) or waivers granted (Article 101(5) of the Financial Regulation).

Monitoring the execution

Indicator	2020
Grants	
Verification of transactions by operational and financial agents	100%
Ex ante in depth check of final cost claims	42%
Error rate	0.35%
Procurement	
Verification of transactions by operational and financial agents	100%

DG EMPL carries out preventive and corrective controls at the various phases of implementation of projects. For example, at closure phases, final reports are analysed by operational officers to verify conformity of the implemented actions/deliverables with the contractual provisions, including cross-checking the final accounts and the final report on the implementation of the action. Final cost claims are checked by financial officers on a risk-based approach to, among others, verify the eligibility of the costs and conformity with the initial budget, detect arithmetical errors and miscalculation of the co-financing.

The error rate at cost claim level has slightly increased compared to last year (0.35% in 2020 compared to 0.26% in 2019).

Ex post controls - Audit work

Indicator (*)	**2020**
Ex post audits finalised	14 Commission audits 15 Outsourced audits
% amount controlled by ex post audit vs. total amount	10.76%
Error rate grants	0.39%
Error rate public procurement	0-2%

(*) based on audit procedures finalised between 1 February 2020 and 31 January 2021.

Approximately 40% of payments made under direct management are contracted through public procurement, which by nature and in view of the ex ante control procedures are considered free of errors and therefore below the materiality threshold of 2%.

The majority of payments concerns grant agreements. Ex post controls relate only to grant projects which have been closed by the operational units of DG EMPL.

As regards grants, for selecting the sample of transactions to be controlled on the spot, DG EMPL applies a risk based approach rather than a statistical random method that would comply with the criteria of samples' representativeness. The risk based approach is considered more cost-effective given the heterogeneity and relatively small size of DG EMPL's audit population.

When measuring against the 2% materiality level, DG EMPL calculates the weighted average error rate from the audited sample (grants) and complements the information by a qualitative analysis of the origin, nature, impact and coverage of the errors found before issuing any reservation.

In 2020, the error rate for grants amounts to 0.39%. On a five-year basis for grants, the weighted average error rate is estimated at 0.83% of payments made. This rate is considered as acceptable.

The assessment described above and the estimated overall error rate being under the materiality threshold (0.23%) provides reasonable assurance to DG EMPL as regards centralised direct management.

E. Budget implementation tasks entrusted to other services and entities

This section reports and assesses the elements that support the assurance on the achievement of the internal control objectives as regards the results of the DG's supervisory controls on the budget implementation tasks carried out by other Commission services and entrusted entities distinct from the Commission.

DG EMPL has entrusted parts of its budget for indirect management implementation to five decentralised agencies and to the European Investment Fund. In all these cases, the DG's supervision arrangements are based on the principle of controlling 'with' the relevant entity.

Decentralised agencies

DG EMPL acts as parent DG for five decentralised agencies to which has provided an annual subsidy and has not delegated budget for programme management implementation. The table below summarizes the subsidies provided in 2020:

Agency	Amount paid in 2020 (in EUR million)
CEDEFOP	16.73
ELA	2.71
ETF	20.40
EU-OSHA	15.51
EUROFOUND	21.19
Total	**76.54**

Although agencies have full responsibility for their own management, a number of monitoring, reporting and supervising arrangements allow DG EMPL to build assurance in regard to their management, as detailed in Annex 12.

The latest declarations of assurance of the directors of CEDEFOP, ETF, EU-OSHA and EUROFOUND in their Annual Activity Reports contain no reservations. The declaration of assurance of DG EMPL covers ELA until the newly established agency reached its financial autonomy, and contains no reservation in relation to the agency for 2020.

DG EMPL has not been aware of any issue related to the legality & regularity, sound financial management or fraud affecting its contribution payments.

Funding to European Investment Fund

The EASI guarantee financial instrument and the EaSI Capacity building are implemented through indirect management by the European Investment Fund based on the Delegation Agreements signed with the Commission. In 2020, an amount of EUR 33.2 million was transferred to the European Investment Fund in relation to these instruments.

In line with the Delegation Agreements, the European Investment Fund submits to the Commission:

- a management declaration of assurance annexed to the financial statements;
- a summary report on audits and controls carried out in the reporting period, including an analysis of the nature and extent of errors and weaknesses identified and any corrective actions taken or planned;
- an independent audit opinion on the management declaration and the summary report on audits and controls.

Based on the reporting made by the European Investment Fund for 2020, no particular issues were observed that would need to be addressed in this Annual Activity Report.

F. Conclusion on control effectiveness as regards legality and regularity

In the context of the protection of the EU budget, the DGs' estimated overall risk at payment, estimated future corrections and risk at closure are consolidated at Commission level. DG EMPL's data is shown in Table 4 and its accompanying notes below.

DG EMPL has set up internal control processes to ensure the adequate management of the risks relating to the legality and regularity of the underlying transactions, considering the multiannual character of programmes as well as the nature of the payments concerned.

Table 4: Estimated risk at closure

	2020 payments (annex 3)	Prefinancing paid	10% retention	Cleared prefinancing minus retention released and deductions by MS		2020 relevant expenditure (M€)	Average Error Rate (%)	Estimated risk at payment (M€)	Average Recoveries and Corrections (%)	Estimated future corrections (M€)	Estimated risk at closure (M€)
ESF 2007-2013	284	0	0	4		288	0.7%	2	0.0%	0	2
ESF/YEI 2014-2020	14 391	-2 619	1 307	-352	*	12 727	1.4% / 1.9%	183 / 240	0.2% / 0.7%	25 / 82	158
FEAD	522	0	55	-38		539	0.7%	4	0.2%	1	3
ESF 2000-2006 and before	0	0	0	0		0	0.0%	0	0.0%	0	0
EGF	2	-2	0	13		13	26.8%	4	0.0%	4	0
IPA	11	0	0	8	**	19	0.8%	0	0.0%	0	0
Centralised	296	-168	0	146		273	0.2%	1	0.0%	0	1
Overall	**15 506**	**-2 790**	**1 362**	**-219**		**13 859**	**1.4% / 1.8%**	**194 / 251**	**0.1% / 0.6%**	**30 / 87**	**164**

* 965 million of cleared pre-financing not taken into account for the relevant expenditure as already taken into account the year before through the 10% retention and the adjustment received in the annual accounts.
** Including 0.441 million of cleared pre-financing for EU Trust Fund Madad.

1.2%

For DG EMPL, the estimated overall amount at risk at payment for the 2020 relevant expenditure is between EUR 194 million and EUR 251 million (1.4% to 1.8% of the 2020 relevant expenditure). This is the most conservative estimation of the Authorising Officer by Delegation of the amount of relevant expenditure not in conformity with the regulatory provisions at the time the payment is made.

The estimated future corrections represent the amount of errors that DG EMPL conservatively estimates to identify and correct from controls that it will implement in successive years. It results in the risk at closure, which indicates the remaining risk to the 2020 relevant expenditure once the Commission will apply the necessary financial corrections to bring the total residual error rates for all programmes down to 2%. As the 2007-2013 programming period is at the closure stage, final payments are processed when the Commission is of the opinion that all the necessary financial corrections have been made and that the residual risk is below the materiality threshold of 2%, meaning that no additional future corrections should be estimated. Therefore, the estimated amount at risk at payment is based on the estimated residual risk after financial corrections.

The overall amount at risk is at a comparable level with the one of previous year (1.6%) as well as the level of additional financial corrections (0.4%).

For the 2014-2020 programming period, following DG EMPL's compliance audits, additional financial corrections may be requested on top of those already registered in the annual accounts by the Member States' authorities for the programmes with a current reportable residual total error rate above 2% that would reduce it by 0.2% to 1.2%.

In terms of benefits of control, overall, DG EMPL ensures compliance with the Financial Regulation, i.e. fulfilling control performance needs and optimising the use of EU funds. This contributes to a reduced amount of corrections requested to the Member States following audit work performed by the Commission, reduced risk of fraud, prevention of conflict of interest, favourable auditor's opinion on reporting/accounting, unqualified discharge and avoiding reputational damage.

Due to the external factors that influence these amounts (e.g. improvements in sound financial management of the programmes at Member States' level), the benefits cannot be quantified.

DG EMPL considers that the necessity of these controls is undeniable, as the totality of the appropriations would be at risk in case they would not be in place. It also considers that the relative level of efficiency and cost-effectiveness of the controls operated is adequate. This conclusion is supported by the error rates being consistently below the materiality threshold and by positive values of efficiency indicators.

2.1.1.2 Fraud prevention, detection and correction

Implementation of actions for the prevention and detection of fraud in the Structural Funds and Direct Management

DG EMPL has developed and implemented its own anti-fraud strategy since 2010, on the basis of the methodology provided by the European Anti-Fraud Office (OLAF). Following the adoption of the new Commission Anti-Fraud Strategy on 29 April 2019, a fresh Fraud-Risk-Analysis and the review/update of the Anti-Fraud Strategies for shared and direct management, DG EMPL reviewed its procedures and issued a new manual of procedures regarding relations with OLAF and the fight against fraud. A futher tanglible deliverable was a review and restructuring of the anti-fraud pages of DG EMPL's intranet.

DG EMPL has continued to contribute to the development of the risk scoring tool ARACHNE helping the national authorities, among others, to identify the risk of fraud. ARACHNE aims at establishing a comprehensive database of financial and operational data on projects and beneficiaries in order to carry out, on the basis of objective criteria, a risk scoring allowing the identification of the most risky projects and the most risky programmes.

Currently, 22 Member States (plus the United Kingdom) are involved in ARACHNE with a total of 250 programmes in the system (17 Member States and the United Kingdom have integrated Arachne in their management verification processes for at least 1 programme while 2 Member States are currently evaluating the tool). One Member State is still in pilot phase and seven others have decided not to use the tool. In total there were 3 165 active users in 2020 (for Cohesion policy as a whole) and the number of connections to the tool in 2020 amounted to 36 398, a slight increase compared to 2019 (34 763).

In addition, DG EMPL now also offers a module in Arachne, which allows the Managing Authorities to assess the risk of fraud during the selection phase of an operation, i.e. the so-called ex ante module. This module, which also specifically addresses the identification of presence of conflict(s) of interest, was rolled out further in 2020.

The controls by DG EMPL aimed at preventing and detecting fraud are similar to those intended to ensure the legality and regularity of the transactions. DG EMPL carries out in-depth controls and/or audits on the basis of the annual audit strategies (for both its shared/indirect and direct management area) revised in consideration of risk assessments made to check the regularity and legality of transactions and include the detection of (suspected) fraud, if any.

At the end of 2020, there were 24 ongoing OLAF investigations concerning DG EMPL's fields of activity and all programming periods together (1 concerning direct management, 2 concerning FEAD and 21 concerning the ESF). In addition, at DG EMPL level, 19 OLAF reports are currently followed up after OLAF closed its investigations (18 of which concern the ESF and 1 in relation to direct management). The most common types of fraud reported in these 19 OLAF reports are overpricing and non-respect of procurement rules and procedures.

Follow-up of OLAF reports

DG EMPL contributes to the Commission anti-fraud strategy by following up all of OLAF's financial recommendations. In the case of shared mangement, where the bulk of cases is located, this is done first by negotiating with the Member States and then, if a resolution in an amicable manner is not possible, by the pursuit of financial correction procedures.

In 2020, the follow-up of six OLAF reports was completed whereby DG EMPL, through various means and forms (recovery from a beneficiary, withdrawing payment requests, self-corrections by national authorities, recovery orders by the Commission, etc.), recovered EUR 12.5 million. In additional four cases, the follow-up is still ongoing but, by the end of 2020, DG EMPL was able to recover already an additional EUR 2.7 million. In these cases, further recoveries may take place in the future. In the remaining 15 cases, the follow-up of the OLAF reports is still ongoing with the aim of attaining a full recovery either amicably or through financial correction procedures.

DG EMPL's arrangements to facilitate the fight against fraud

DG EMPL uses a database to track the progress of the implementation of reports by OLAF which logs the following details:

- each event linked to a case;
- the amounts recovered or by which the EU budget was protected;
- the types of recovery involved;
- the types of fraudulent activity involved in the case.

This database, therefore, also provides essential data for the analysis of fraud-cases and the response by DG EMPL on requests by the European Court of Auditors.

In order to further improve the handling of the before mentioned activities, an internal network of anti-fraud correspondents exists in DG EMPL since June 2016.

On the basis of the available information described above, DG EMPL has reasonable assurance that the anti-fraud measures in place are effective.

2.1.1.3 Other control objectives

Safeguarding of assets

The main assets of DG EMPL are its financial instruments.

The EaSI Guarantee Instrument and the Capacity Building Investment Windows fall under the Financial and Administrative Framework Agreement with the European Investment Fund managing the assets in accordance with Article 9(6) of the Agreement aforementioned. The treasury assets resulting from asset management of cash available in the Financial Instrument Account is managed in accordance with the principles of sound financial management and following appropriate prudential rules.

The Funded Instrument is a regulated fund governed by the Luxembourg specialised investments fund law. The fund has appointed as depositary the 'Banque de Luxembourg' which is, among others, responsible for the safekeeping of the fund's assets on behalf of the unitholders. The depositary must perform its duties with professional care and is liable towards the management company and the unitholder to the extent foreseen by the Luxembourg law.

The regular supervision of these instruments did not identify any particular issue that could have a material impact on the assurance and would require reporting in this Annual Activity Report. Therefore, DG EMPL considers that its safeguarding of assets is effective and appropriate.

Reliability of reporting

Audits on the reliability of performance data indicators

DG EMPL has analysed the data from the latest Annual Implementation Reports for plausibility and coherence and has shared this information with the Audit Authorities. Where issues were identified, the Audit Authorities have been requested to verify these. Also, for the 10 most risky programmes, DG EMPL had planned to launch an audit to verify the accuracy and completeness of the data. Due to the COVID-19 outbreak, this audit has been postponed. The risk will also be mitigated at programmes' closure/end of the programming period. Until then, the Audit Authorities will have performed sufficient audit work to provide assurance.

EaSI financial instruments

For all EaSI financial instruments, the European Investment Fund provides unaudited and audited financial statements and a standardised reporting package as presented in section 2.1.1.1 E.

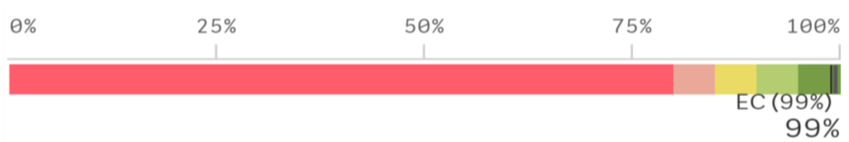
2.1.1.4 Efficiency

This sub-section outlines the indicators used to monitor the efficiency of the control systems for each of the relevant management modes.

As illustrated in the introduction of part 2, DG EMPL manages funds under several management modes:

Budget 2020	**Share in overall amount of payments**
Shared management	97.7%
Direct and Indirect management	2.3%
Total	**100.0%**

In terms of payments on time, DG EMPL's performance in 2020 improved compared to 2019 and is in line with the Commission result as a whole (99%). This achievement was possible thanks to the increase use of electronic IT tools in financial management.

Timely Payments	**DG Score**	**EC Score**
	**99%**	**99%**

A. Shared management

The table below shows the results registered in 2020 in relation to the indicators used to assess the efficiency of the controls carried out during the reporting year. The average time to pay improved significantly from 32 days in 2019 to only 18 days in 2020.

Indicator	2020
Budget execution (payments in EUR million)	15 205.65
% of payments on time	99%
Average time to pay (days)	18
% timely interruption and suspensions of payments notified to Member States (impacted by the time required by Member State to react)	100%

B. Direct and indirect management

The table below shows the results registered in 2020 in relation to the indicators used to assess the efficiency of the controls carried out during the reporting year.

Indicator	2020
Budget execution (payments in EUR million)	300
Time-to-inform (days)[48]	152
Time-to-grant (days)[49]	89
% of Commission payments on time	97%
Average time to pay	21

Time to inform and time to grant indicators are within the limits set by the Financial Regulation and show a slight improvement compared to 2019 (161 days to inform and 91 days to grant in 2019).

The % of Commission payments on time has also improved from 95% in 2019 to 97% in 2020 while the average time to pay improved from 22 days in 2019 to 21 days in 2020.

[48] Average time to inform applicants of the outcome of the evaluation of the application. (Article 128(2) of the Financial Regulation – maximum 6 months).
[49] Average time to grant (Article 128(2) of the Financial Regulation – maximum 3 months).

2.1.1.5 Economy (cost of controls)[50]

Based on an assessment of the most relevant key indicators and control results, DG EMPL has assessed the cost of controls for each of the relevant control systems (management modes).

The functions/activities factored in include: financial management; budget and accounting; external audit; coordination (e.g. strategic planning and programming, internal control); anti-fraud; programme management and ICT.

The estimates are calculated based on the time dedicated by the staff members to the functions/activities aforementioned which is translated into costs by using the annual average cost of staff, complemented with the external costs incurred by the Commission for the same functions/activities (e.g. outsourced audit, ICT etc).

The source of the time estimates is ATLAS (internal HR tool).

The assessment resulted in a total cost of controls for 2020 of 0.21% of the funds managed, slightly above the target set in the 2020 Management Plan ('remains below 0.2% of funds managed'), mainly due to an internal revision of ATLAS, a realignment of the function group of contract agent posts to the level of the tasks performed, higher costs in ICT and higher unit costs for staff, as per corporate guidance.

The sub-sections below present the outcomes per management mode and separately for horizontal functions:

A. Shared management

The cost of controls for shared management for 2020 stands at 0.13% which is slightly higher than the level observed in 2019 (0.11%) due to the reasons presented above.

The calculations do not take into account the cost of control incurred at Member States' level. For the 2014-2020 period, this is estimated at 2.8% for ESF (compared to 2.2% for ERDF which encompasses much higher amounts, 4.4% for EMFF owing to the relatively small size of the fund and 8.3% for EAFRD due to a very high number of small operations)[51], which shows a significant decrease compared to the previous programming period when the cost of control at Member States' level reached 4.8%.

B. Direct and indirect management

The cost of the controls during the reporting year stands at 3.57% which is comparable with the level observed in 2019 (3.43%).

The calculations do not take into account the cost of control incurred with the entrusted entities. For 2020, this stands at EUR 4 560 205 and takes the form of administrative and

[50] Detailed information is available in Annex 7.

[51] Based on the study 'New assessment of ESIF administrative costs and burden'.

policy-based fees as well as treasury fees disbursed to the European Investment Fund in relation to the financial instruments of DG EMPL that it manages.[52]

C. Horizontal

The cost of controls of the horizontal tasks which are not attributable to a single relevant control system is 0.01%.

D. Initiatives to improve economy and efficiency of financial and non-financial activities

In 2020, all incoming invoices and cost claims were processed electronically within the DG either through the ARES e-signatory system or the new workflow system in RDIS.

The RDIS approval workflow is currently used for the approval of the IT invoices, representing around 60% of the total invoices received, and it allowed reducing their payment time by 50%.

The initiative taken in 2019 to not analyse the financial capacity of applicants receiving grants of less than EUR 60 000 has been continued in 2020 as no cases of failure in the implementation due to weak financial capacity have been reported.

The COVID-19 outbreak led to unprecedented circumstances and required **additional steps to ensure sound financial management** as DG EMPL offered additional support to alleviate the adverse effects of the crisis on the contractors, beneficiaries and social partners. To adjust to the extraordinary context, DG EMPL has taken the following measures without any prejudice to the protection of the EU budget:

- ✓ authorised the extension of deadlines for calls for tenders and for proposals;
- ✓ agreed on suspension of contracts, framework contracts and grant agreements for 'force majeure' and extended the maximum duration for the implementation of underlying specific contracts of framework contracts;

[52] The amount was paid to the European Investment Fund for:
a) EaSI Guarantee (based on the Annual Operational Report):
- EUR 1 701 994 as administrative fee corresponding to 5% of the operations signed in 2020 but capped at 9% of the EU contribution committed (EUR 96 million) and at 8% of the additional contribution committed;
- EUR 61 142 tresury fee calculated on the basis of the average value of assets under management with a cap of 0.5% of the EU contribution committed;
b) Capacity Building Instrument (based on the Annual Operational Report):
- EUR 641 385 as administrative fee and incentive corresponding to 2% of the total amount of operations signed;
- EUR 684 tresury fee calculated on the basis of the average value of assets under management with a cap of 0.5% of the EU contribution committed;
c) EaSI Funded Instrument (based on Management Regulations and the Annual Operational Report):
- EUR 2 050 000 as flat administrative fee equal to 1.025% of the funds aggregate commitment (EUR 200 million);
- EUR 105 000 policy-based fees calculated as EUR 35 000 per each signed operation (three were signed in 2020).

- ✓ agreed on the combination of the two previous measures;
- ✓ allowed in a few cases that the evidences for the non-exclusion situation be produced at a later stage when there was an impossibility to make it available at the tender stage due to the pandemic;
- ✓ modified contracts where the initially planned activities had to be substantially adjusted, in line with Article 172 of the Financial Regulation;
- ✓ authorised on case by case basis the submission of the original proposal with blue ink signature in grant proposals at a later stage when there was an impossibility to make them available at submission stage;
- ✓ waived temporarily the internal obligation of processing exceptions for extensions of contracts and grant agreements duration when exceeding 20% the duration of the contract;
- ✓ authorised exceptions to postpone some events for which order forms had already been signed without modifying the said order forms;
- ✓ authorised exceptions to extend a specific contract under the framework contract ARACHNE and to accept variable extra costs in the licences contract and in the hardware maintenance contract;
- ✓ authorised the submission of invoices by e-mail;
- ✓ authorised the receipt of signed scanned versions of contracts and grant agreements countersigned by the Authorising Officer by Sub-Delegation and returned scanned and regularised afterwards with blue inked signature, or when available the signature by third parties with European Qualified Electronic Signatures and by the Authorising Officer by Sub-Delegation with the electronic module of ARES;
- ✓ worked on a call for proposals under EaSI to support the social partners: 'Strengthening the role of social partners in mitigating the economic and social impact of the COVID-19 crisis', to be launched in 2021;
- ✓ supported the co-funded EU level networks and alleviated the impact of the crisis to the extent possible by implementing a flexible approach to modifications of the 2020 work programme and accelerated the procedure for the 2021 work programme.

The above series of measures was proportional to the COVID-19 impact and was applied on a case-by-case basis after prudent analysis.

2.1.1.6 Conclusion on the cost-effectiveness of controls

Based on the results presented above, DG EMPL has assessed the effectiveness, efficiency and economy of the control system and reached a positive conclusion on the cost-effectiveness of controls for which it is responsible.

2.1.2 Audit observations and recommendations

This sub-section sets out the observations, opinions and conclusions reported by auditors, including the limited conclusion of the Internal Auditor on the state of internal control. Summaries of the management measures taken in response to the audit recommendations are also included, together with an assessment of the likely material impact of the findings on the achievement of the internal control objectives, and therefore on management's assurance.

DG EMPL is audited by both external and internal independent auditors: the European Court of Auditors and the Commission Internal Audit Service.

<u>A. European Court of Auditors (ECA)</u>

ECA Annual Report for 2019

For the fifth time in a row, the ECA has not reported a specific error rate for ESF expenditure, but it has integrated the ESF related errors in the global error rate for Cohesion spending since the audited ESF sample was too small to make valid conclusions.

The 2019 Statement of Assurance on Cohesion policy is the third year of the ECA pilot approach consisting in focusing on the audit work already performed at both national and Commission level in assessing and testing management and control systems. This step builds on the reinforced control and assurance framework for the 2014-2020 period.

A decrease in the 2019 global error rate for Cohesion spending

Audit Authorities had reported 64 quantifiable errors in the assurance/closure packages for the 236 transactions the ECA sampled. In the sample examined, ECA has identified and quantified 29 additional errors that had not been detected by the Audit Authorities. Taking account of the 64 errors previously found by the Audit Authorities and corrections applied by programme authorities (worth a total of EUR 334 million for both programming periods taken together), the ECA estimates the level of error to be 4.4% (down from 5.0% in 2018).

Taking into account that the ECA quantified only 10 errors related to the 67 audited ESF transactions, DG EMPL considers that the error rate disclosed in its 2019 Annual Activity Report reflects a fair estimate of the level of risk.

Main sources of Cohesion policy errors in the ECA 2019 annual report

Ineligible projects and infringements of internal market rules (in particular non-compliance with public procurement rules) contributed most to the ECA's estimated level of error.

Furthermore, the ECA found ineligible expenditure in 15 of the transactions they examined and these cases accounted for 52% of the number of quantifiable errors they found. The main causes of ineligible expenditure were project participants or cost items that did not meet the eligibility rules.

The ECA's assessment of the work of Audit Authorities

The work of the Audit Authorities is a critical part of the framework for assurance and control of Cohesion spending. The ECA's review of their work is part of a process that may mean that they make more use of the Commission's assurance model in the future. In 2020, the ECA assessed the work of 18 out of 116 Audit Authorities.

In all of the assurance and closure packages the ECA examined, the Audit Authorities had reported a residual error rate below 2%. Errors that the Audit Authorities failed to detect or correct affect these rates. The additional errors the ECA detected in its sample of transactions examined by the Audit Authorities gave them sufficient evidence to conclude that the residual rate for 9 of the 20 assurance packages for the 2014-2020 period was above 2%. The Commission's own work led it to report a residual error rate above 2% for 8 of these 9 assurance packages.

The Commission noted in its replies that most of the irregularities identified by Audit Authorities and the Commission concern the same main categories, as identified by the ECA. This shows that Audit Authorities appropriately detect the different types of irregularities contributing to the error rate, but not entirely in all cases, due to complex projects and rules. The Commission also agrees with the ECA that management verifications are the first line of defence against errors and should be more effective in preventing and detecting errors in the first instance. DG EMPL's audit directorate cooperates with the Audit Authorities to ensure a consistent control framework, to improve the quality of the assurance work when needed and to ensure the necessary detection and corrective capacities. It has obtained audit evidence that the majority of the Audit Authorities function well and that improvements are required for a limited number of them. It also provides continuous training and assistance to the Audit Authorities in order to align processes and procedures as much as possible.

The ECA's recommendations for Cohesion policy

The ECA issued two recommendations in chapter five of the 2019 Annual Report. The Commission shared the ECA's opinion for both of them and will take the necessary actions to follow up the recommendations.

<u>Recommendation 5.1 – Project eligibility conditions</u>

'Clarify what is meant by ''physically completed'' and/or ''fully implemented'' operations. This would help Member States to verify that operations comply with Article 65(6) of the Common Provision Regulation and avoid the non-detection of ineligible operations. It should be made clear that this condition relates only to works or activities necessary to achieve the operation's output and not to financial and administrative aspects.'

The Commission has explained in a Q&A the difference between operations 'physically completed' and other operations that could be considered 'fully implemented', due in particular to absence of a physical object/investment.

<u>Recommendation 5.2 – Action to increase the reliability of the residual rates reported by Audit Authorities: Analyse the main sources of undetected errors and develop the necessary measures together with Audit Authorities to improve the reliability of reported residual rates</u>

The Commission accepted the recommendation and is already providing in the Annual Activity Reports (see page 41 of the 2019 Report of DG EMPL) an overall analysis by comparing the main error types identified by the Audit Authorities and by the Commission auditors. Furthermore, a discussion on existing discrepancy of the Commission findings and the Audit Authority's findings are a permanent point in the Annual Coordination Meetings since 2018.

ECA Special Reports (based on performance audits) in 2020

In 2020, the ECA published five Special Reports covering DG EMPL policy areas: (1) Combating child poverty; (2) Cost of implementing Cohesion policy; (3) The European semester; (4) Digitising European industry, and (5) Future of EU Agencies. Further details, summary conclusions and/or main recommendations on these Special Reports can be found in Annex 7.

At the beginning of 2021, there are eight Special Reports ongoing. While DG EMPL is not always the lead DG for these audits, they require a significant involvement at all stages from its staff.

ECA Opinions in 2020

Furthermore, the ECA published three opinions in 2020 in the field of employment and social affairs matters: (1) Opinion on the Commission's amended proposal of 14 January 2020 on the Common Provisions Regulation; (2) Opinion on the amending EU regulation for the European Structural and Investments Funds' use in response to the COVID-19 outbreak, and (3) Opinion regarding the proposed REACT-EU regulation and Common Provisions Regulation governing the ESI funds and the Border Management and Visa Instrument. Further details on these ECA opinions can also be found in Annex 7.

Impact of the ECA findings on DG EMPL's assurance

DG EMPL notes that the ECA's conclusions and recommendations in its 2019 annual and special reports do not have a material impact on the achievement of the internal control objectives. DG EMPL will continue to focus its audits and actions on the most risky programmes/Member States and implement corrective measures when needed through a strict policy of interruptions and suspensions of payments up to closure, and to apply strict procedures at closure to exclude any remaining material risk of irregular expenditure.

B. Internal Audit Service (IAS)

Audit on 'Monitoring the implementation and performance of 2014-2020 operational programmes by DGs REGIO, EMPL and MARE'

The objective of the audit was to assess whether DGs REGIO, EMPL and MARE effectively monitor the implementation and performance of their 2014-2020 operational programmes and whether they were well prepared for the 2019 performance review. Reference is made to the 2019 Annual Activity Reports for the audit conclusions.

DG EMPL agreed an action plan with the IAS, which is currently being implemented. Two recommendations have already been closed by the IAS. The third recommendation (very important) will be implemented in accordance with the time limits (end 2022) indicated in the plan. The required actions have been largely implemented such as the update of the Annual Implementation Report quality checklist which would allow more efficient monitoring of the performance of operational programmes, including checks on the reliability of data. The Audit Authorities have been requested to specifically address performance data reliability in their Annual Control Reports. The Commission has also, based on its analysis of the Annual Implementation Reports 2019, decided to audit the 10 most risky operational programmes and has requested the Audit Authorities to verify the indicators showing discrepancies. The latter is currently ongoing and the first results are expected to be submitted in February 2021. The audit of the 10 high risk programmes has been postponed due to the COVID-19 crisis and is expected to start early 2021.

Audit on the processes for coordinating technical support to the Member States in the Directorate-General for Structural Reform Support (including the contribution of DG REGIO and DG EMPL to the coordination mechanism)

The objective of the multi-DG audit was to assess whether or not DG REFORM's processes for coordinating the provision of technical support to the Member States and for selecting projects under Structural Reform and Support Programme are adequately designed and functioning effectively. The audit also assessed whether DG REGIO and DG EMPL have put in place adequate procedures for contributing to the coordination mechanism on technical support established by DG REFORM and whether these are functioning effectively.

The IAS concluded that DG EMPL has put in place adequate and effective procedures for contributing to the coordination mechanism on technical support led by DG REFORM. No critical or very important issues were identified by the IAS.[53]

Conclusion

In its note of 12 February 2021, Ares(2021)1220708, the Internal Auditor concludes that the internal control systems in place for the audited processes are effective, except for the observations giving rise to one 'very important' recommendation relating to the audit on 'monitoring the implementation and performance of 2014-2020 operational programmes by DG REGIO, DG EMPL and DG MARE'. This recommendation needs to be addressed, in line with the agreed action plan.

DG EMPL considers that the necessary improvements and reinforcements are being made, and that the above findings will not impact on the assurance provided in the Annual Activity Report, given the fact that the action plan is being implemented in accordance with the revised planning (see above the state of play of the very important recommendation).

[53] Also presented under the Specific Objective 3.1 (page 21).

2.1.3 Assessment of the effectiveness of the internal control system

The Commission has adopted an Internal Control Framework based on international good practice, to ensure the achievement of its policy and management objectives. Compliance with the internal control framework is a compulsory requirement.

DG EMPL uses the organisational structure and the internal control systems suited to achieving its policy and internal control objectives in accordance with the internal control principles and has due regard to the risks associated with the environment in which it operates.

To assess the effectiveness of the internal control principles the DG has followed the methodology established in the 'Implementation Guide of the Internal Control Framework of the Commission'. A survey, ICAT (Internal Control Self-Assessment Tool), was conducted in October 2020. DG EMPL had defined indicators for each of the Internal Control Principles (ICP) in its working group for internal control, which is composed of representatives of each Directorate. The working group selected a series of questions for the ICAT survey. All managers as well as 100 staff, who were selected on a representative and random basis, were invited to participate in the survey. The results of the survey were analysed by the ICP working group taking into consideration other factors including audits and exceptions. DG EMPL has a centralised recording of all cases within one of its financial units. The number of exceptions in 2020 compared to the previous year was higher (16 versus 11 in 2019) and the number of non-compliance cases continued decreasing from 6 to 3.

Based on this wide-ranging analysis and comparison with the target values, suggestions for improvements were developed. The follow-up actions, which had been proposed for 2020 for selected internal control principles, have been implemented.

The assessment tool provided by DG Budget was also used to help evaluate the overall working of the internal control system.

DG EMPL has assessed its internal control system during the reporting year and has concluded that it is effective and that the components and principles are present and functioning well overall, but some improvements are needed as minor deficiencies were identified related to usefulness of planning and clarity of reporting, to anti-fraud training and to the procedure for exceptions.

The improvements envisaged are to review the reporting of financial data for reliability, accuracy and user-friendliness, to look at ways to make the management plan a more useful management and monitoring tool, to increase knowledge and awareness on fraud, and to review the note on exceptions and particularly its application mainly in view of consistency.

2.1.4 Conclusions on the impact as regards assurance

This sub-section reviews the assessment of the elements already reported above (in under 2.1.1, 2.1.2 and 2.1.3), and the sub-conclusions already reached. It draws an overall conclusion to support the declaration of assurance and whether it should be qualified with reservations.

Review of the elements supporting assurance

The information reported above stems from a systematic analysis of the evidence available. This approach provides sufficient guarantees as to the completeness and reliability of the information reported and results in a complete coverage of the budget delegated to the Director-General of DG EMPL.

The Commission gives the highest priority to the exercise of its responsibilities for implementing the budget under Article 317 of the EU Treaty.

DG EMPL has assessed the effectiveness of its key internal control systems during the reporting year and concluded that they are overall working satisfactorily.

In addition, DG EMPL has systematically examined the available control results and indicators, including the results of its own audits, those aimed to supervise entities to which it has entrusted budget implementation tasks, as well as the observations and recommendations issued by internal auditors and the European Court of Auditors. These elements have been assessed to determine their impact on the management's assurance as regards the achievement of control objectives.

Reservations and overall conclusion on assurance

For direct management, the assessment described above and the estimated overall error rate for centralised direct management under the materiality threshold (0.23%) provides reasonable assurance to DG EMPL.

For EGF, the overall estimated error rate is 0.5% on a five-year basis. Based on this assessment, management has reasonable assurance that suitable controls are in place and work as intended, risks are being appropriately monitored and mitigated and necessary improvements and reinforcements are being implemented.

Concerning IPA, the analysis made allowed to conclude to a reasonable assurance. The overall estimated error rate is 0.7% for the whole programming period.

For the ESF 2007-2013 programming period, the overall residual risk for the whole programming period is estimated at 0.6%. A reservation without financial impact is maintained for two operational programmes for which significant additional financial corrections will be requested.

As regards the ESF/YEI and FEAD 2014-2020 programming period, the average residual total error rate for the 2018-2019 annual accounts is confirmed at 1.4%. The maximum risk identified could reach 1.9% taking into account programmes still under contradictory procedures. For the programmes with a residual error rate above 2%, additional financial corrections will be requested. The first assessment of the assurance packages received in February 2021 for the 2019-2020 annual accounts in addition to the audit work performed during 2020 allowed detecting deficiencies in the management and control systems of 21 ESF/YEI and 2 FEAD operational programmes of the 2014-2020 programming period that are included in the 2020 reservation.

DG EMPL will continue offering tailored preventive actions to address the root causes of errors and the risk of non-detection of errors and under-reporting of their financial impact, thereby improving the quality of assurance offered by programme authorities, by:

- further facilitating the uptake of simplified cost options, a radical game-changer for the overall error rate;
- reinforcing its efforts on administrative capacity building through updated action plans, peer to peer exchanges and technical assistance (information sessions, workshop discussions, training material and best practice guidance for Managing and Audit Authorities);
- contributing to the predictability of standards of audit review based on methodologies approved and agreed with all actors, including with the ECA, and sharing detailed analysis of the errors found in DG EMPL, DG REGIO and ECA audits against the legal framework;
- consistently imposing remedial action plans to Managing and/or Audit Authorities in case of deficiencies identified in the system;
- providing assistance to the programme authorities to prepare and assess the schemes for 2021 – 2027 programmes.

Overall Conclusion

In conclusion, DG EMPL management has reasonable assurance that, overall, suitable controls are in place and function as intended, that risks are being appropriately monitored and mitigated and that necessary improvements and reinforcements are being implemented. The Director-General, in his capacity as Authorising Officer by Delegation has signed the Declaration of Assurance albeit qualified by reservations concerning 23 2014-2020 ESF/YEI and FEAD programmes and two ESF 2007-2013 programmes.

2.1.5 Declaration of assurance and reservations

I, the undersigned, Joost KORTE, Director-General of the Directorate-General for Employment, Social Affairs and Inclusion

In my capacity as authorising officer by delegation,

Declare that the information contained in this report gives a true and fair view[54]*.*

State that I have reasonable assurance that the resources assigned to the activities described in this report have been used for their intended purpose and in accordance with the principles of sound financial management, and that the control procedures put in place give the necessary guarantees concerning the legality and regularity of the underlying transactions.

This reasonable assurance is based on my own judgement and on the information at my disposal, such as the results of the self-assessment, ex post controls, the observations of the Internal Audit Service and the lessons learnt from the reports of the Court of Auditors for years prior to the year of this declaration.

Confirm that I am not aware of anything not reported here which could harm the interests of the institution.

However, the examination of the management and control systems of the Member States highlights 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.

Brussels, 23 April 2021

(e-signed)

Joost KORTE

[54] True and fair in this context means a reliable, complete and correct view on the state of affairs in the DG.

Table 5: Reservations 2014-2020 programming period

DG EMPL	
Title of the reservation, including its scope	Management and control systems for 21 ESF/YEI operational programmes in Belgium, Croatia, France, Germany, Italy, Poland, Slovakia, Slovenia, Spain and United Kingdom, and 2 FEAD operational programmes in France and Germany for the programming period 2014-2020.
Domain	Shared management of ESF/YEI and FEAD
Programme in which the reservation is made and total (annual) amount of this programme	04.02 ESF/YEI (2014-2020) 04.06 FEAD (2014-2020) Payments made in 2020 to programmes in reservation: EUR 1.9 billion.
Reason for the reservation	Deficiency of the management and control systems set up in relation to the requirements of Regulations 1303/2013 and 223/2014.
Materiality criterion/criteria	Significant deficiencies at the level of the key elements of the management and control systems
Quantification of the impact (= actual 'exposure')	EUR 77 million
Impact on the assurance	The weakness affects the legality and regularity of the payments concerned and the management systems in place.
Responsibility for the weakness	The expenditure concerned is under shared management in which the Member State is responsible for implementing the management and control systems. The Commission supervises the national authorities in this respect.
Responsibility for the corrective action	For each programme included in the reservation, with the aim to obtain assurance that the required corrective measures have been completed, the Commission has undertaken or planned specific actions which include, if necessary: • warning letters; • interruption of payments; • launch of suspension and financial corrections procedures; • complementary guidance and support for national authorities, especially on the coverage and quality of the audit activities; • audit work to check the ability of national auditors to fulfil their obligations; • on the spot audits of operations or on systems on a risk-based approach.

Table 6: Reservations 2007-2013 programming period

DG EMPL	
Title of the reservation, including its scope	Management and control systems for two ESF operational programmes in Italy and Romania for the 2007-2013 programming period.
Domain	Shared management of ESF
Programme in which the reservation is made and total (annual) amount of this programme	04.02 ESF (2007-2013)
Reason for the reservation	Deficiency of the management and control systems set up in relation to the requirements of Regulation 1083/2006 (ESF 2007-2013).
Materiality criterion/criteria	Significant deficiencies at the level of the key elements of the management and control systems.
Quantification of the impact (= actual 'exposure')	EUR 0 million The final payment for the closure of the programmes concerned will take place only when all the issues are solved and the relevant financial corrections agreed.
Impact on the assurance	The weakness affects the legality and regularity of the payments concerned and the management systems in place. The Commission will make the final payment once the Member States' authorities will have agreed all necessary additional financial corrections.
Responsibility for the weakness	The expenditure concerned is under shared management in which the Member State is responsible for implementing the management and control systems. The Commission supervises the national authorities in this respect.
Responsibility for the corrective action	For each programme included in the reservation, the Commission has requested Member States to perform additional audit work and/or apply additional financial corrections.

2.2 Modern and efficient administration – other aspects[55]

Besides the six general objectives set in the political guidelines of President von der Leyen to which DG EMPL contributes as presented in part 1 above, the Commission also targets to adjust its internal procedures and processes towards a more 'modern, high-performing and sustainable' institution, which constitutes the seventh general objective of the Commission. Below is a presentation of the progress made by DG EMPL in this regard in 2020.

2.2.1 Human resource management

The preparation of the **DG's reorganisation** foreseen for mid-2021 started with a management seminar in February and an initial consultation of all units.

The careful **screening of all vacant posts** throughout the year contributed to a more optimal resource allocation. The encoding of detailed data on each job to enable switching to the full use of ATLAS also continued.

A careful **screening of services providers jobs** was also carried out to achieve an alignment to the new guidelines received regarding the reduction of the number of intramuros.

A proactive **consultation process about the HR corporate strategy** allowed to consult 120 staff of DG EMPL with very rich contribution as an output. The consultation also fed into the prepatory work on the HR local strategy in addition to a brainstorming workshop. As a result, a concept paper was presented to the DG.

To **facilitate mobility** within the DG and contribute to the retention policy, the systematic publication of DG EMPL vacant posts on the intranet also continued, as well as a realignment of the function group of contract agent posts to the level of the tasks.

Several **internal communication actions** were organised to boost morals and improve staff engagement, and a number of **internal training and info sessions** were provided in an online format due to the special circumstances. These also included targeted sessions for managers.

During the year, two **female colleagues were appointed** to middle management positions and one to a senior management position. Five women were appointed deputy to the director (out of six appointments). Besides, the development of our female colleagues' management skills continued through **individual coaching**.

[55] This section should be read in conjunction with Annex 9.

2.2.2 Digital transformation and information management

DG EMPL participated actively in the **European Commission Digital Strategy** (ECDS) in 2020. The Digital Solutions Modernisation Plan (DSMP) aims to provide order and direction for the further development of the Commission's digital landscape in support of business requirements and improved processes, and in line with the ECDS principles. DSMP is a collective effort whereby all DGs reflect on ways to modernise the systems that support their business functions, this being the main input for the basis of the DSMP.

In particular, DG EMPL provided input for two systems for this modernisation strategy. For the calculation of the baseline and latest known results of the degree of implementation of the digital strategy principles, the three most important IT solutions in terms of budget were chosen and the updated guidance provided in January 2021 was considered.

After compiling its contribution to the **Commission data inventory** in 2019, DG EMPL continued to assess in 2020 whether the key data assets are identified in the Commission data inventories and whether the entries are maintained. It also followed closely the inter-institutional process to implement the interim solution for the Commission data catalogue. Additionally, DG EMPL mapped-up its baseline situation on the application of the Commission data governance and data policy principles with the view of reaching the interim milestone in their implementation in 2022 and the target by the end of 2024.

All efforts regarding continuous improvements of **MyEMPLNet** as DG's main collaborative platform continued in 2020. Due to the pandemic, DG EMPL was focused on keeping colleagues informed about the latest developments at DG and corporate level. Feedback from DG HR showed that DG EMPL colleagues felt better informed than the Commission's average, and that the number of pageviews generated by MyEMPLNet in 2020 was above the Commission's average. DG EMPL kept promoting the collaborative sites of the units on **MyIntraComm collab** and **SharePoint** as the default tools for digital collaboration within the DG. At the end of 2020, 65% of units were using collaborative sites.

In regard **document management**, DG EMPL has continued creating new files with visibility opened to other Commission services except for the types of files identified as to be protected for legal reasons or for their sensitivity, in order to implement the corporate policy on data, information and knowledge management. DG EMPL has also pursued actions to facilitate access to and sharing of electronic files in order to move gradually to a paper-less Commission. DG EMPL actively contributed to the digitalisation of Adonis paper records project, which allowed DG EMPL to have the second most complete Adonis database in the Commission. DG EMPL has also continued promoting electronic workflows, the preservation treatment of electronic records and the early use of the Qualified Electronic Signature in 2020. The COVID-19 context did not allow the regular transfer of paper financial records to DG EMPL's intermediate archives. However, DG EMPL continued treating pre-edomec paper archives and reducing the accumulated backlog (more than 600 linear meters have been treated and 880 linear meters have been inventoried).

In regards to **data protection**, DG EMPL finalised the transfer of notifications to records within the deadline set out in the Action Plan; 10 notifications were transferred and 7 new records were created. In addition, the privacy statements for each record were updated based on the template approved by the data protection officer. Data Protection Impact Assessments for EURES and EUROPASS were drafted and approved by the data protection officer. DG EMPL's intranet pages on data protection have been updated, including on data breaches. DG EMPL's data protection coordinator, with the support of the European Data Protection Supervisor and data protection officer, has developed trainings for staff, which will be rolled out in 2021. As for the agreements with external processors, DG EMPL works with templates for contracts and framework contracts, which have the latest clauses on the data protection regulation and an interface generating all DG EMPL contracts so that the latest model is used. Data subject requests are followed up via an excel file in DG EMPL.

The current data protection legislation allows international transfers of personal data in principle if the EU standards for the protection of the rights and freedoms of the data subject are guaranteed also after the transfer.

Moreover, the invalidation of the EU-U.S. Privacy Shield (the Schrems II judgement) poses concrete challenges for the services transferring personal data to non-EU countries or using international cloud services. DG EMPL will continue to assess its processing activities in light of the requirements of the Schrems II ruling and will coordinate with relevant Commission services and IT governance bodies, as well as the Data Protection Officer, to be able to draw from horizontal approaches to similar situations. The Commission services, coordinated by the Data Protection Officer, replied to a request from the European Data Protection Supervisor (EDPS) to all EU institutions to identify and map their international transfers and to report certain categories of transfers and are awaiting the EDPS' reaction. The goal is to minimise the risks linked to ongoing and future international transfers of personal data, notably by informing all data subjects of the legal situation in which such transfers take place, in order for operations undertaken by the Commission services to comply with EU data protection law.

2.2.3 Sound environmental management

In 2020, DG EMPL used **40% less office paper**, thanks to the reduction of personal printers but also as a consequence of the COVID-19 outbreak and the teleworking measures. It also tested centralized bins in its main two buildings, which house 90% of DG EMPL staff. In addition, three workshops on 'Zero Waste in the office' initiative have been organised for DG EMPL's staff

DG EMPL also took other measures but for which the results could not be measured due to the COVID-19 pandemic, such as the production of labels for the reduction of paper towels usage. Moreover, due to the COVID-19 outbreak, DG EMPL was not in the position to organise 'Zero Waste Challenge'; it will however attemp to organise it in 2021.

The catalogue of **green stationary** was promoted among all the units.

Following the initiative of the Office for Infrastructure and Logistics, DG EMPL switched off the heating and the air ventilation in half of its buildings, which contributed to the substantial **decrease of the energy use**.

To **reduce emissions**, DG EMPL encouraged its management to assess the relevance of each mission and check whether the same results can be achieved by using videoconference equipment. For this purpose, DG EMPL enacted a note on 30 January 2020 that reminds the staff of these rules and resulted in modifications of the validation chain for missions to ensure consistency across units; as a result, the missions within EU borders were validated by directors while those outside EU needed the approval of the Director-General. Besides the measures taken to contain the COVID-19, the new rules and the consistent application contributed to a decrease in the number of missions from 2 913 in 2019 to only 583 in 2020. Besides the reduction in carbon footprint, the COVID-19 measures and the changes in DG EMPL also brought significant savings of EUR 2 million.

The staff was informed that the number of missions and meetings with external partners organized and financed by DG EMPL will be reduced as part as the so-called 'new normal' after the lifting of the confinement measures. A permanent reduction in carbon footprint and budgetary expenditure is an objective which the DG will pursue.