STUDY

Requested by the CONT Committee

European Parliament

Lessons learned from the implementation of crisis response tools at EU level

Part 1: Assessing implementation and implications

Policy Department for Budgetary Affairs
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Abstract

As the EU grapples with successive crises, there is mounting pressure to develop swift and robust crisis response mechanisms. This study, divided into two parts, aims to enrich this discourse by examining four instruments – SURE, CRII, CRII+ and REACT-EU – introduced as a response to the pandemic. This paper forms the output of the first phase of the study and aims to distil lessons learned from the design and implementation of these instruments.

This document was requested by the European Parliament's Committee on Budgetary Control.

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LIST OF ABBREVIATIONS

CRII	Coronavirus Response Investment Initiative
CF	Cohesion Fund
CPR	Common Provisions Regulation
CRII+	Coronavirus Response Investment Initiative Plus
ECA	European Court of Auditors
ESF	European Social Fund
ESIF	European Structural and Investment Funds
FEAD	Fund for European Aid to the Most Deprived
FI	Financial Instrument
GDP	Gross Domestic Product
JR	Job Retention
NGEU	NextGenerationEU
OP	Operational Programme
REACT-EU	Recovery assistance for cohesion and the territories of Europe
RRF	Recovery and Resilience Facility
STW	Short-time work
SURE	Support to mitigate Unemployment Risks in an Emergency
TFEU	Treaty on the Functioning of the European Union

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EXECUTIVE SUMMARY

In an ever-more intertwined world, crises are occurring with increasing frequency and complexity, stretching beyond domestic borders to affect diverse dimensions of society. The COVID-19 pandemic serves as a stark example of the dramatic impact that such crises can have on the economy, companies, and people. Against this backdrop, the European Union is confronted with two main challenges: Firstly, mounting pressure to develop swift and robust crisis response mechanisms at EU level, and secondly, increasing calls on the EU budget to direct its resources to new areas, where it can potentially add higher value.

There is a broad consensus that addressing such demands will be vital for the EU to maintain its relevance and visibility among EU citizens. However, doing so is not straightforward and could yield unintended consequences. Hence, evaluating the use of EU funds in addressing recent crises becomes vital in informing the political discourse on the use of EU budget resources for crisis response.

This study, divided into two parts, aims to contribute to this debate. It does so by analysing the key instruments that – besides the RRF – were originally envisaged as the main redress to the economic and social fallout resulting from the COVID-19 pandemic.

This study examines four different EU crisis response instruments:

- Coronavirus Response Investment Initiative **(CRII)**
- Coronavirus Response Investment Initiative Plus **(CRII+)**
- Recovery assistance for cohesion and the territories of Europe **(REACT-EU)**
- Support to mitigate Unemployment Risks in an Emergency **(SURE)**

SURE is fundamentally different, in both nature and its objectives, from the others. However, they all shared an overarching goal: mitigating the pandemic's impact on the economy and society.

This study has several objectives:

1. Extracting valuable insights for handling future shocks and emergencies, focusing on achieving an optimal balance between simplifications and flexibilities in crisis-related actions on the one hand, and sound financial management on the other.
2. Exploring the conditions necessary for measuring performance, allowing for accurate monitoring and control over implementation, and conducting thorough evaluations of crisis-related measures.
3. Investigating the cost-effectiveness of expenditure and addressing challenges related to Member States' administrative capabilities when dealing with the allocation of these funds alongside 'traditional' EU spending.
4. For the SURE initiative, examining the legal and economic options and limitations involved in making this instrument a permanent part of the EU's financial framework.
5. For REACT-EU and CRII/CRII+, assessing the effectiveness of either adapting cohesion policy to accommodate these additional crisis-response-oriented features or creating new policy and funding mechanisms to face future crises.
6. Developing recommendations on how to exercise parliamentary oversight and control over such measures.

This is the first part of the study and covers the first four of these objectives.

Instruments in focus

SURE offered financial support to job retention schemes[1] through the creation of a new financial assistance facility with a capacity of EUR 100 billion to be distributed in the form of loans to the countries that requested it. SURE had an inherently countercyclical nature by design in that it financed support schemes to prevent worker layoffs during lockdowns.

CRII/CRII+ and REACT EU adapted cohesion policy to help EU funds effectively reach companies and households hit by the pandemic. **CRII/CRII+** were designed to offer flexibility and simplicity in utilising structural funds. **REACT-EU** was intended to bridge immediate and medium-term needs and constituted an attempt to add a countercyclical feature to cohesion policy.

Sound financial management and performance tracking

The relaxation of monitoring and reporting obligations resulted in serious limitations in the ability to monitor the outcomes and even some of the non-financial outputs of the instruments within the scope of the study. In the case of CRII/CRII+ and REACT-EU, the voluntary use and incomplete uptake of COVID-specific indicators meant that the available information was not complete. Moreover, issues with different indicator definitions used across Member States complicated the comparability of data. In SURE's case, the absence of comprehensive reporting obligations related to the uptake of the schemes supported by SURE led to incomplete (albeit improving) data provided to the Commission services. Importantly, since SURE consisted of EU loans, Member States fully bore the instrument's implementation risks[2] , hence accurately measuring the uptake of the employment support measures should have been above all a national priority.

This study concludes that notwithstanding limitations stemming from the pandemic's impact on national administrative capacities, as well as the novelty of some of the instruments and the need for swift crisis relief, the performance tracking system put in place applies a proportionate approach to monitor the instruments' main outputs. In the case of cohesion policy, at least to a certain extent, it also provided a glimpse of the results. However, in both cases **these limitations put increased pressure on the *ex-post* evaluations,** necessitating additional resources to data collection.

The study's findings reveal **no systemic adverse effects associated with crisis-related flexibilities and simplifications on the principles of sound financial management and the protection of the EU's financial interests.** While the rapid adoption of these measures and the need to ease the burden on national and regional administrations, as well as beneficiaries, could lead to trade-offs between speed and sound financial management, our research did not uncover evidence that the EU's financial interests were compromised.

Was the crisis response successful?

Accurately assessing the success of these instruments is significantly constrained by data availability. Besides inherent limitations to SURE's monitoring system, data on job retention schemes and the voluntary reporting of COVID-specific indicators under CRII and CRII+, full information on the cohesion policy response at the time of writing is incomplete. This is especially the case for REACT-EU, which only recently ended and where data on both expenditure and physical indicators are still being processed. However, a few conclusions can be drawn.

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1 For the sake of accuracy, SURE provided financial assistance in the form of loans from the EU to beneficiary Member States to primarily finance sudden increases in public expenditure on short-time work schemes or similar measures and on some health-related measures in the workplace, as a secondary objective.

2 Financial risks are shared between Member States (providing guarantees) and the EU budget.

The overall assessment of the crisis response measures in scope is positive. Given the nature of the crisis, the interventions and features, such as simplicity, faster processes, and flexibility in reallocation, were highly relevant. **The response was fast**, with SURE and CRII/CRII+ introduced within a few weeks after the announcement of the first lockdown. While the adoption of REACT-EU was slower due to its size and complexity, it was still relatively quick. Furthermore, in line with its objective to serve as a bridge between immediate and medium- to long-term responses, the REACT-EU adoption timeline aligns with expectations and needs.

Based on the available (though incomplete) information, **the instruments can generally be considered to have achieved their objectives to contribute to mitigating the socio-economic impacts of the pandemic.** CRII, CRII+ and REACT-EU have broadly contributed to easing fiscal pressures on national and local administrations and have allowed for multifaceted challenges resulting from the pandemic to be addressed. However, incomplete data on the COVID-specific indicators (especially in the case of REACT-EU) makes any conclusion over whether the instruments mitigate the economic, social and health consequences of the COVID-19 pandemic still preliminary. Certain side effects (e.g. a reduction in total cohesion spending) and trade-offs (e.g. due to reallocations) require further investigation.

An interesting finding of the study is that **employment support was at the very centre of both the SURE and cohesion policy approaches.** While only SURE was primarily focused on job retention schemes, enterprise support – one of the key priorities of the cohesion policy response – also entailed similar measures. The most salient examples relate to funding for short-time work (STW) schemes (or more broadly job retention (JR) schemes) and wage subsidy schemes provided through the European Social Fund (ESF). However, working capital support through the European Regional Development Fund (ERDF) was often – even if indirectly – aimed at job retention, with some national measures even explicitly requiring firms to maintain employment levels during the period when support was provided.

Commentators widely agree that SURE, and its objective to support STW schemes, was a fitting response to the COVID-19 crisis. Three points deserve to be mentioned. Firstly, a substantial body of literature highlights that **STW schemes are inherently counter-cyclical**, making them well-suited as a temporary crisis response mechanism. Secondly, the tool was particularly effective in light of the unique nature of the COVID-19 crisis. The temporary and mandated shutdown of the economy meant that as lockdown measures eased, businesses could swiftly resume operations with their workforce made again readily available through job retention schemes. Thirdly, unlike unemployment schemes primarily focused on income stabilisation, STW schemes aim to maintain labour market attachment, which has longer-term social and economic advantages, despite its temporary nature. This results in lower future costs related to unemployment benefits. Additionally, evidence suggests that while some Member States had already implemented similar measures during the financial crisis, others, especially Eastern **Member States typically lacking social safety nets, resorted to using job retention schemes after SURE was approved**. **This hints at the fact that SURE incentivised the adoption of such schemes.**

The direct causal link between SURE and jobs saved is not a straightforward one to measure. However, a micro-level analysis based on the EU Labour Force Survey suggests that **SURE helped Member States adopt job retention schemes and increased their uptake**, corroborating the above finding. SURE was largely used by countries with rather weak labour market institutions (i.e. Spain and Italy) allowing more disadvantaged workers (e.g. low-educated workers) to benefit from protection through the schemes. Furthermore, **the scope of job retention schemes appears to be broader in Member States that benefitted from SURE**, as for instance the self-employed have been important recipients of these schemes in these countries. Finally, given that academic literature generally tends to support

the positive labour market effects of job retention schemes and the fact that the uptake of these schemes appears to have increased with SURE, this study concludes that the instrument had an overall positive effect on the labour market. Empirical evidence also points to **a higher probability for the beneficiaries of SURE-financed schemes to remain employed after the support measures were withdrawn.**

Trade-offs between short-term crisis relief and long-term structural investments

This study points to **multiple trade-offs between long-term planning and short-term crisis relief.** This includes the use of generic and horizontal (sectoral) support measures rather than more targeted ones, lower compliance with some horizontal principles, and resorting to less complex projects potentially to the detriment of more high-quality long-term investments. The use of 100 % EU co-financing allowing projects to be fully covered by the EU budget without any national contribution increased the risks of moral hazard and could have been detrimental to a project's quality.

One of the questions analysed by this study is how the use of cohesion policy for crisis response affected its primary objective to drive long-term transformation that boosts competitiveness and reduces disparities. Given the trade-offs identified, it appears that **the strategic orientation of cohesion policy has, at least temporarily, shifted from long-term to short- and medium-term objectives.** The (re-)allocations that resulted from the pandemic response have been, contrary to some of the prevailing perceptions, substantial.

Despite its (under normal circumstances) well-developed conditionality, cohesion policy expenditure remains largely demand-driven. In a pandemic context where uncertainty makes long-term investments particularly unattractive, **a rigid approach would have been counterproductive overall** and would have resulted in a very low absorption rate of funds at the end of the eligibility period. Therefore, the absence of crisis-related flexibilities is likely to have adversely affected the very regions that constitute the main target of structural funds.

Notwithstanding the above, **the light-touch conditionality attached to the EU support raises doubts about the extent to which such expenditure was merely a vehicle to keep firms afloat without introducing any orientation towards the creation of long-term public value, beyond avoiding a deep recession.** These questions come amidst increasing calls on the EU budget to concentrate spending in areas where the EU can bring real added value.

Looking forward

As a string of temporary instruments have sprung up during and after the pandemic and the ensuing Ukraine refugee and energy crises, the need for a stronger and more stable framework to respond to emergencies has become increasingly evident.

The study argues that **the use of cohesion policy in its current form to mitigate the impact of successive crises comes with considerable trade-offs**. The tensions between short- and long-term goals identified by this study form a useful starting point for the discussion on where strengthening the crisis-related conditionality of cohesion policy would be necessary while maintaining timeliness and effectiveness.

Regarding SURE, an emergency instrument, it was purposefully created to address a specific challenge resulting from public health measures. Its success is clear evidence of the need for such an instrument at the very least in the context of the pandemic, but perhaps also for future crises that have the potential to severely affect employment. However, its temporary nature means that should the need arise, a new *ad hoc* instrument will be required even if the needs behind it are similar.

At least two of SURE's key added values – incentives for job retention schemes and the EU becoming a first issuer of common social bonds – are specific to the COVID-19 crisis and seem to be 'one-off' advantages which might no longer exist in the future. While advantageous loans thanks to the EU's high credit rating created additional fiscal space for Member States in distress, such an advantage was heavily dependent on the prevalent market conditions at the time the instrument was introduced and the EU's credibility as a borrower. Therefore, **considerations for a permanent SURE, or the use of SURE as a blueprint for future crisis response mechanisms, would require careful consideration of the conditions under which the advantage exists, and the criteria for triggering the mechanism.**

Lastly, **the scope and coverage of such an instrument matter.** SURE's success relied largely on the adequate *ex-ante* identification of the need for job retention schemes, e.g. an extension to small companies and the self-employed to offset the specific adverse effects of public health measures on employment. Whether this would be the optimal choice in the future largely depends on the nature of the next crisis.

The second part of the study will further explore the implications of the findings from this first phase and concentrate on the way forward.

1. INTRODUCTION

Since 2008, the EU has been shaken by major shocks. These include the far-reaching impacts of the financial crisis, the global disruptions arising from the COVID-19 pandemic, the ongoing conflict in Ukraine, and the energy crisis, among others. These occurrences have prompted a thorough re-examination of one of the EU's core objectives: the promotion of cohesion – economic, social and territorial – among its Member States.[3] At the heart of this issue lies a fundamental question regarding the attainability of this objective in scenarios where the EU must also use its resources to aid Member States in responding to these challenges in the context of unfolding crises. Indeed, the EU has been compelled to display its adaptability and innovative capacity in the face of these challenges, all while operating within the confines of the existing framework and limited resources. In some cases, creativity led to the reallocation of EU funds from traditional cohesion objectives.[4]

Even with Next Generation EU and SURE, both unprecedented tools created as a common response to economic fallout resulting from the COVID-19 pandemic, calls for EU funding as a response to crises are increasing. The war in Ukraine and the energy crisis have led to the creation of new initiatives making use of already existing funding streams (including cohesion policy and REPowerEU). In a similar vein, the US Inflation Reduction Act (IRA) and the debate about a proper EU response to it may further increase the call for using EU funds for a purpose that deviates from its original one.

There is a widespread consensus that responding to such calls will be important for the EU to remain (visible and) relevant to EU citizens. Yet this may prove challenging and could lead to unintended effects. Therefore, the assessment of how the EU funds were used to respond to recent crises has an important bearing on the debate and ultimately the political decisions about the future of the EU crisis management framework.

This study aims to contribute to this debate. It does so by analysing the key instruments that (besides the RRF) were originally envisaged as the main vehicles intended as a redress to the economic and social fallout resulting from the COVID-19 pandemic. The central thematic scope of the study thus includes:

- Coronavirus Response Investment Initiative (CRII)
- Coronavirus Response Investment Initiative Plus (CRII+)
- Recovery assistance for cohesion and the territories of Europe (REACT-EU)
- Support to mitigate Unemployment Risks in an Emergency (SURE)

The central thematic scope of the study will revolve around cohesion policy instruments, namely CRII, CRII+, REACT-EU and SURE. Given their relevance and, in some cases, size (notably the Recovery and Resilience Facility – the RRF) the study will include in its peripheral scope other crisis response instruments, to the extent they are important in assessing the effectiveness of the instruments within the central scope of the study.

The study has several objectives:

1. Extracting valuable insights for handling future shocks and emergencies, with a particular focus on the optimal balance between simplifications and flexibilities in crisis-related actions on the one hand, and sound financial management on the other.
2. Exploring the conditions necessary for measuring performance, allowing for accurate monitoring and control of implementation, and conducting thorough evaluations of crisis-related measures.

[3] Laid down in Article 3 TEU

[4] See e.g. the ECA report on CRII, CRII+ and REACT-EU

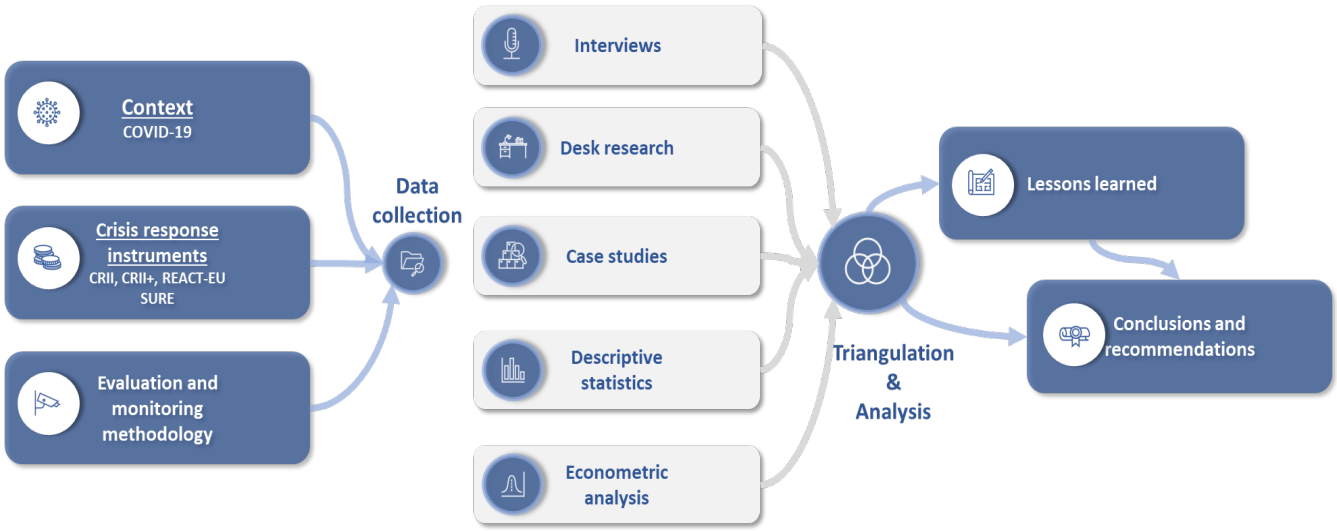
3. Investigating the cost-effectiveness of expenditure and addressing challenges related to the administrative capabilities of Member States when dealing with the allocation of these funds alongside 'traditional' EU spending.
4. For the SURE initiative, examining the legal and economic options and limitations involved in making this instrument a permanent part of the EU's financial framework.
5. For REACT-EU and CRII/CRII+, assessing the effectiveness of either adapting cohesion policy to accommodate these additional crisis-response-oriented features or creating new policy and funding mechanisms to face future crises.
6. Developing recommendations on how to exercise parliamentary oversight and control over such measures.

The current report – representing the first part of the study – addresses the first two points.

1.1. Methodology

The approach for conducting the study is centred around nine research questions. These questions, along with the necessary data collection activities, were converted into different research tasks, yielding overall seven main sections in this report (see a summary overview in Figure 1 and how the sections match the research questions in Table 1).

Figure 1: Overview of methodology



Source: Own elaboration.

The study is conducted in two phases. The first phase focuses on research questions 1 to 5 while touching on RQs 6 to 9, which will be at the centre of the second phase.

Table 1: Research questions and sections they are covered in

Research question	Covered in section
Q1. To what extent has the SURE and REACT-EU overarching objective of mitigating the social and economic impact of the COVID-19 crisis been fulfilled? Given that unemployment was a general concern throughout the EU, why was SURE used only by some Member States and not others?	2, 3
Q2. To what extent has a balance been achieved between speed and flexibility and sound financial management and performance control for both SURE and cohesion policy changes related to the response to the COVID-19 pandemic?	3
Q3. What are the main challenges and bottlenecks encountered so far by Member States and the Commission as regards SURE and REACT-EU implementation and evaluation?	3
Q4. To what extent have Member States' absorption capacities been adequate in dealing with SURE and REACT-EU disbursements, coming as they do in addition to traditional MFF funding sources and the RRF? To what extent is there an element of competition or prioritisation among SURE, REACT-EU and traditional MFF funding when it comes to implementation?	3
Q5. What lessons can be drawn from REACT-EU implementation, more specifically as regards the aim of fast-tracking and bridging resources to repair capacities impaired by the COVID-19 crisis?	2, 3 and 4
Q6. How can the risks related to the fact that the repeated use of cohesion policy to address crises may impact its primary strategic goal, including as regards audit, control, and sound financial management, be addressed and mitigated? What is the impact of any recommendations and policy options put forward in the second part of the study on the long-term objective of cohesion policy of promoting economic, social, and territorial cohesion within the EU?	4
Q7. What can be done to address the main challenges and bottlenecks encountered so far by Member States and the Commission as regards SURE and REACT-EU implementation and evaluation?	4, 5 and 6
Q8. What ex-ante and ex-post measures could be envisaged to improve the balance between speed and flexibility, on the one hand, and sound financial management and performance control, on the other, for both SURE and cohesion policy changes related to the response to the COVID-19 pandemic?	3, 4, 5 and 6
Q9. What forward-looking legal and economic policy options and recommendations can be mapped to ensure such a balance should SURE be established as a permanent feature of the EU policy landscape?	5 and 6

Source: Own elaboration

Research methods common to all or several tasks (sections) include desk-based work covering literature reviews, interviews with a variety of stakeholders and case studies. Other horizontal data collection activities have also taken place.

Literature review

The literature review, using academic and grey literature, aimed to establish the state of affairs on (i) the crisis instruments' main features, success factors, and effectiveness; and (ii) forward-looking

recommendations on the design of future crisis response instruments. Subsidiarily, the literature review also examined the heterogeneous impact of the pandemic at the regional level.

Interviews

Interviews were conducted with key stakeholders familiar with the implementation of SURE, REACT-EU and CRII/CRII+. In particular, the following stakeholders were consulted:

European Commission (DG REGIO – four interviews with six officials, DG ECFIN – two interviews with five officials), academia (one interview with one expert), national authorities (one interview with one official).

Case studies

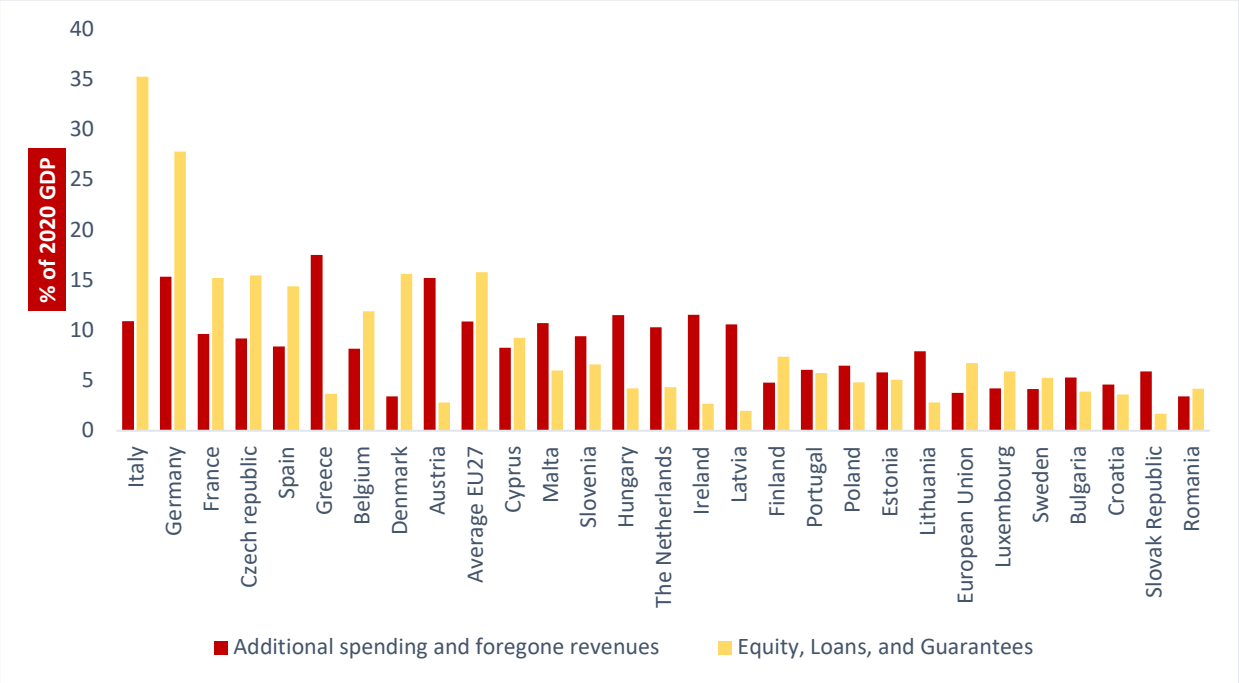
Case study research was chosen due to the need for an intense, contextual understanding of the experience of selected Member States with crisis instruments. These case studies complement and feed into virtually all other sections related to the first part of this study, but especially Research Questions 1-5. The case studies were used in a targeted manner to shed light on specific dimensions of crisis response and to nuance findings where an EU-level overview would otherwise hide significant underlying differences.

Four Member States were selected as case studies: Italy and France for cohesion policy, and Spain and Romania for SURE. France and Italy were selected because they are among the largest beneficiaries of REACT-EU. Moreover, Italy is often mentioned as a good example for data reporting on cohesion, hence offering the opportunity for more in-depth analysis. Spain was chosen because it is one of the largest beneficiaries of SURE and already had STW schemes in place before SURE was established. By contrast, Romania did not have in place any job retention measures and faced issues in absorbing SURE funds. While evidence from other countries has also been included in the body of evidence underpinning the analysis, data and examples from these four countries feature more prominently throughout the study. For the full case studies, see Annex III.

2. OVERVIEW OF CRISIS RESPONSE: COHESION POLICY AND SURE

National governments have been at the frontline of the economic response to the pandemic crisis. The size of the national fiscal measures in response to the COVID-19 outbreak was unprecedented (European Fiscal Board, 2020). Member State response was accompanied by significant EU-level action right from the outbreak of the pandemic.

Figure 2: Discretionary fiscal response to the COVID-19 crisis in the EU27



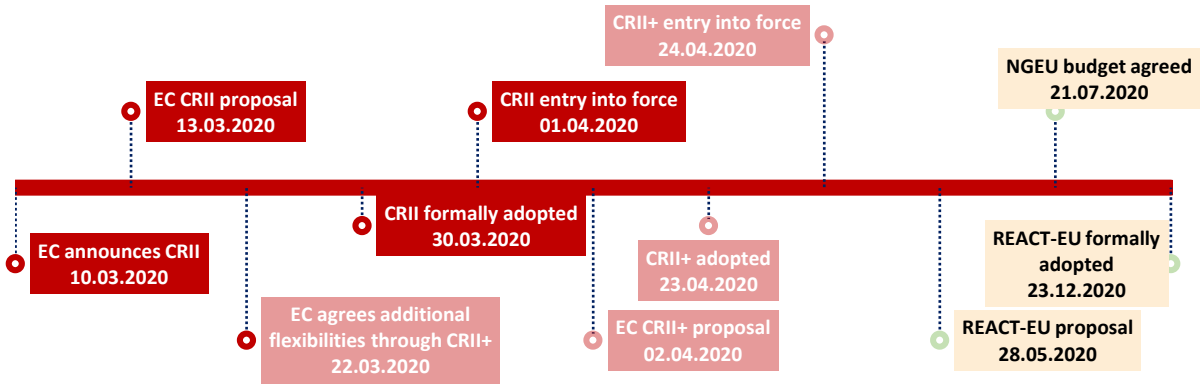
Source: IMF Fiscal Monitor: Database of Country Fiscal Measures in Response to the COVID-19 Pandemic

EU-level monetary and banking measures were adopted smoothly and rapidly; however, on the fiscal side, the EU response was more fragmented. While temporary changes to the EU fiscal governance framework (through the activation of the escape clause of the Stability and Growth Pact) and the relaxation of state aid rules to create leeway for support at the level of Member States were immediate, the fiscal response at the level of the EU and of the euro area has been much slower. The lack of EU fiscal capacity significantly constrained EU institutions' room for manoeuvre. Notwithstanding this fact, between March and May 2020, the EU put in place measures aimed at supporting Member States in tackling the pandemic crisis.

2.1. Cohesion policy and NGEU

The Coronavirus Response Investment Initiative (CRII) was the first package of measures proposed by the Commission in March 2020. It aimed to mobilise EUR 37 billion of European public investment to respond to the COVID-19 pandemic. CRII provided Member States with an upfront cash injection from unspent 2014-2020 EU cohesion funds, which normally would have to be repaid to the EU budget. CRII allowed these funds to be used for healthcare expenditure, for support for companies facing financial shocks, for national short-time work (STW) schemes, and for aid for fishermen and aquaculture farmers. In April 2020, CRII was complemented by CRII+, which further simplified program implementation and introduced more flexibility measures.

Figure 3: Timeline for adoption of CRII, CRII+ and REACT-EU



Source: Own elaboration

The Recovery Assistance for Cohesion and the Territories of Europe (REACT-EU) initiative, part of the Next Generation EU programme, followed CRII and CRII+ in 2020, with a budget of EUR 50.6 billion. It aimed to provide targeted support to areas most affected by the crisis based on economic and social indicators.

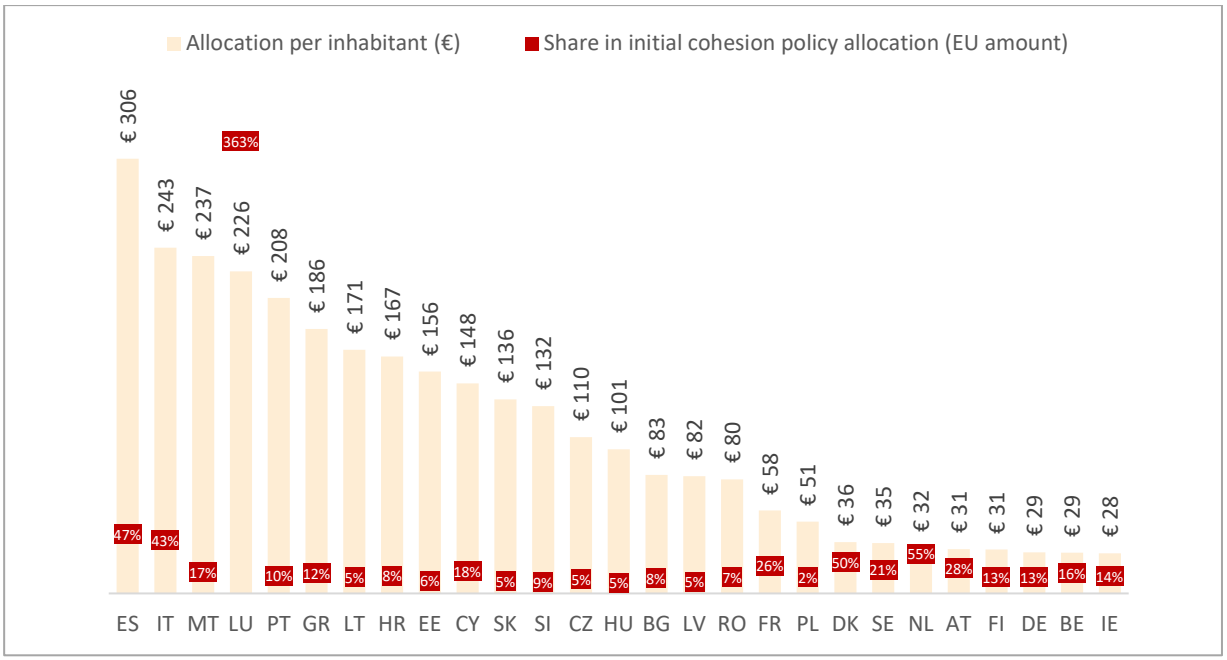
Figure 4: Key crisis measures under CRII, CRII+ and REACT-EU

	CRII	*CRII Plus*	*REACT-EU*
Liquidity	No additional funds, but non-recovery of €7.9bn of unspent pre-financing and acceleration of 2020 pre-financing	100% EU co-financing rate for 2020-21	€ 50.6bn Higher pre-financing (11% in 2021) 100% EU co-financing rate
Exemption from thematic concentration requirements	No	Yes	Yes
Flexibility for transfers/programming	Between priorities	Between funds and categories of regions	Between funds and categories of regions
Eligibility	Retroactively for crisis-related measures SME working capital and public health service crisis response capacity	Retroactively for crisis-related measures	Retroactively for completed operations
Reduced administrative burden	Faster re-programming Wider scope for financial instruments	Including deadline implementation, audit and financial instrument use simplifications	Including no ex-ante conditionalities, no performance reserve or communication strategy requirement
Monitoring and accountability	COVID-19 specific indicators (voluntary) and dedicated dashboards	COVID-19 specific indicators (voluntary) and dedicated dashboards	New thematic objective No new common indicators but Member States had to use the off-the-shelf COVID-19 indicators set up for CRII and CRII+ where relevant Dedicated dashboard

Own elaboration based on Regulations (EU) 2020/460, (EU) 2020/558 and (EU) 2020/2221, ECA (2023) and European Commission (2023)

For some Member States, REACT-EU allocations represented a considerable top-up in relation to their initial cohesion policy allocations (see Figure 5). Most importantly, Spain and Italy were already in the top three largest recipients in absolute terms at the outset of the programming period. The additional funding constitutes (close to) a quarter of the initially planned amounts and the two benefit from the highest per capita allocations under REACT-EU. Other countries with salient shares compared to allocations planned at the outset of the period - namely Luxembourg and the Netherlands – had relatively low levels initially assigned.

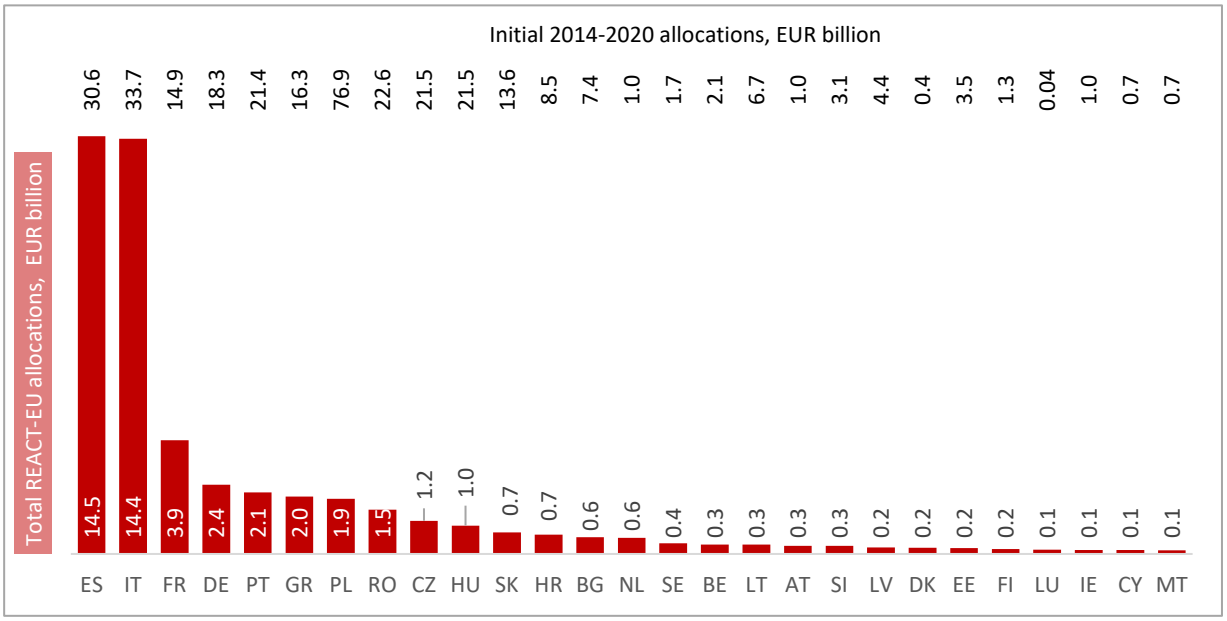
Figure 5: REACT-EU allocations per capita and share in initial allocations



Source: Own elaboration on European Commission data

In absolute terms, Spain and Italy benefitted from the largest allocations by far (~EUR 14.5 billion), followed by France. The overall figures show the impact of the REACT-EU allocation key, as the largest beneficiary (in absolute terms) of initial 2014-2020 allocations (Poland) only ranks 7th.

Figure 6: Total REACT-EU and initial allocations

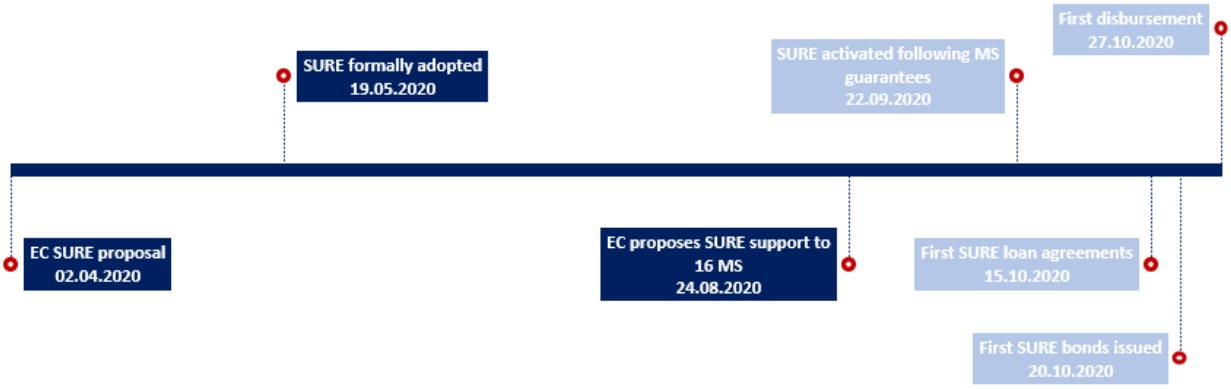


Source: Own elaboration on European Commission data

2.2. SURE

In response to the outbreak of the COVID-19 pandemic, EU Member States put various tools in place to support employment, from traditional short-time work (STW) schemes and wage subsidy (WS) schemes to new income support schemes for self-employed and atypical workers. The EU offered financial support to these schemes[5] through the creation of a new financial assistance facility – temporary Support to mitigate Unemployment Risks in an Emergency (SURE) – with a capacity of €100 billion to be distributed in the form of loans to the countries that requested it.

Figure 7: SURE timeline



Source: Own elaboration based on ECA and European Commission sources

SURE was formally adopted in May 2020.[6] From a legal perspective, it is based on Article 122 of the Treaty on the Functioning of the European Union (TFEU), which allows the EU to provide, "in a spirit of solidarity", temporary financial assistance to Member States in difficulty due to exceptional circumstances beyond their control. The SURE Regulation allows the Commission to borrow up to a maximum of EUR 100 billion, on capital markets or with financial institutions, on behalf of the Union. Such borrowing is backed by guarantees of (at least) EUR 25 billion from Member States, in line with their respective shares of the total gross national income (GNI) of the Union, with the rest backed by the EU budget[7]. This aims to provide a buffer to the EU budget against the risk of potential Member State defaults, as well as to ensure a high credit rating and thus shore up investor confidence in the instrument (ECA, 2023; European Commission, 2023b).

The favourable borrowing terms achievable by the Commission are then passed on directly to Member States via back-to-back lending. These guarantees are irrevocable, unconditional, and callable, i.e. if a Member State fails to honour a call on time, all the other Member States will be called – on a pro-rata basis – up to the overall amount of guarantee contributed by each. As stressed by Moody's assessment

[5] For the sake of accuracy, SURE provided financial assistance in the form of loans from the EU to beneficiary Member States to finance sudden increases in public expenditure primarily, of short-time work schemes or similar measures and, as an ancillary, of some health-related measures, in the workplace.

[6] Regulation (EU) 2020/672.

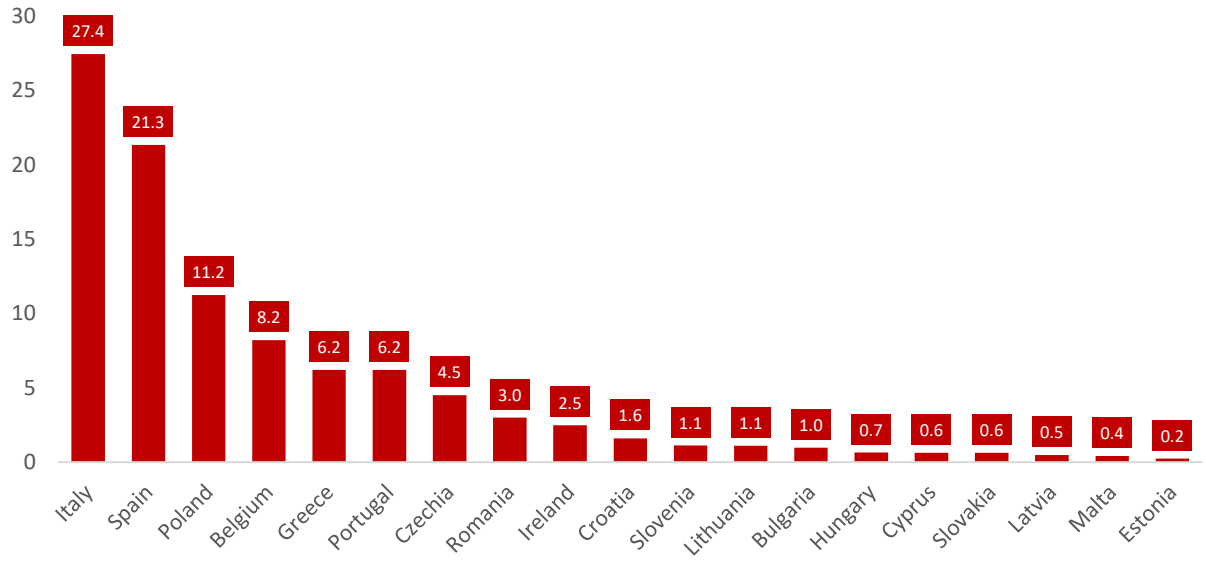
[7] Given the limit of 10% for the maximum amount of borrowings by the Union that can fall due in any one year (Art. 9 of the Regulation), the amount of guarantees required from Member States (EUR 25bn) was set to cover 2.5 years of EU exposure. Overall, this implies Member States' guarantees representing 25% of the maximum amount of the Instrument, which is usually considered a prudent approach for lending to sovereigns. This is different from NGEU, which is guaranteed by the temporarily increased Own Resource ceiling.

of the SURE credit standing (2020), the 'AAA' rating reflects the fact that Member States' guarantees are to some extent a form of solidarity.

With respect to the procedures established for the setting up and use of the national guarantees, the Financial Regulation clarifies that the Commission was the main actor responsible for SURE governance. The Commission was mandated to conclude agreements with Member States on the guarantees to be given, and to manage calls for guarantees. In addition, the Commission was in charge of assessing whether a Member State's request for assistance was compliant with the conditionality of SURE to cover actual or planned public expenditure on the deployment of short-time work schemes and similar measures. Based on this assessment, the Commission presented a proposal for financial assistance and its conditions to the Council, which then adopted them by way of an implementing act. Finally, as stated above, the Commission was mandated to borrow and agree on the loan agreement and possible refinancing or restructuring financial conditions with the requesting Member State. Again, the centralisation of SURE in the hands of the Commission further strengthened the supranational nature of the solidarity intervention.

By December 2022, when the facility closed, the EU had provided EUR 98.4 billion in back-to-back loans to 19 Member States which had asked to benefit from the scheme (see Figure 8). As of today, SURE remains a temporary mechanism linked to the pandemic. For future crises, there is no similar EU mechanism in place to provide immediate support to countries in need.[8]

Figure 8: SURE loans requested and disbursed (€ billions)



Source: European Commission

[8] See Alcidi and Corti (2020) on this point.

3. THEORETICAL FRAMEWORK: RECONSTRUCTING THE INTERVENTION LOGIC

Before examining whether the instruments analysed have achieved their intended objectives and can therefore be deemed 'fit for purpose', this section introduces the main analytical concepts through which the study will judge their success. The approach borrows from EU evaluation methods for assessing whether spending instruments are fit for purpose. The Better Regulation Toolbox defines evaluations as using 'evidence to judge how well the intervention has performed so far compared to earlier expectations prior to implementation or compared to earlier projections made' (Better Regulation Toolbox, 2023).

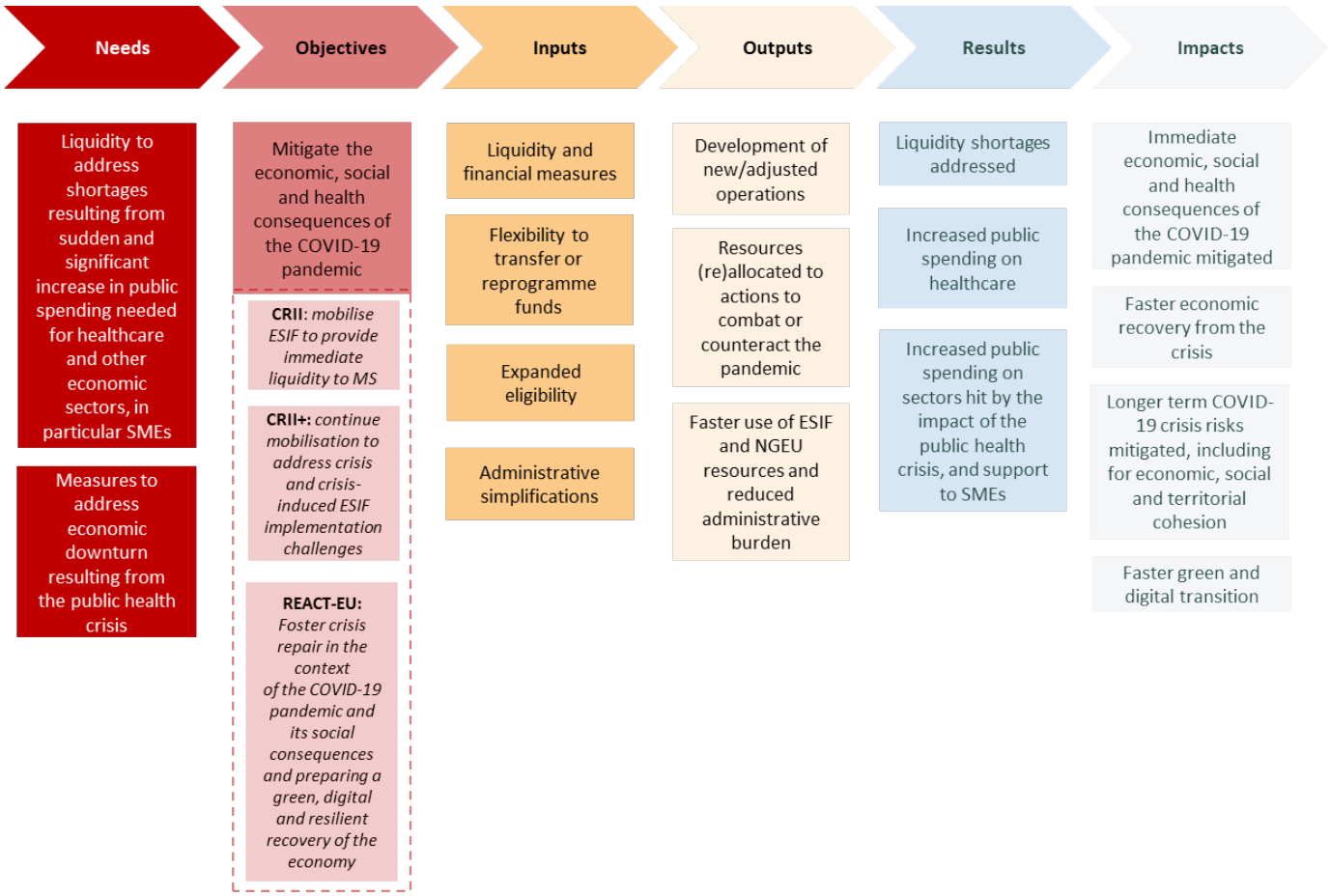
The purpose of this study is not to conduct full evaluations.[9] These exercises are currently being undertaken by DG REGIO and ECFIN for cohesion policy and SURE, respectively. However, methodological tools typically used in evaluations here help to clarify what would be considered an 'effective' response. This, in turn, helps clarify whether the performance tracking framework to monitor the achievement of objectives can be considered adequate. They therefore serve to guide the analysis undertaken in this section.

The main tool used for this purpose is the intervention logic analysis. Intervention logics frame the purpose, actions, and outcomes of policy interventions. Hence, they allow for a more precise definition of the rationale and scope of the instruments, as well as outlining the expectations for what they should achieve. For the purpose of this analysis, the three cohesion policy crisis instruments can be brought together under the same intervention logic.[10] The needs underpinning them, as well as their expected impacts, can by and large be assumed to be the same (see Figure 9).

[9] Hence the use of distinct terminology – 'success' rather than the traditional evaluation criteria (effectiveness, relevance, coherence, efficiency, EU added value).

[10] It should be noted that given the more in-depth analytical needs of the ongoing evaluation of all these instruments in DG REGIO and ECFIN, it is likely that the respective studies will take a more detailed approach than what is depicted here.

Figure 9: Reconstructed (preliminary) intervention logic for CRII/CRII+ and REACT-EU

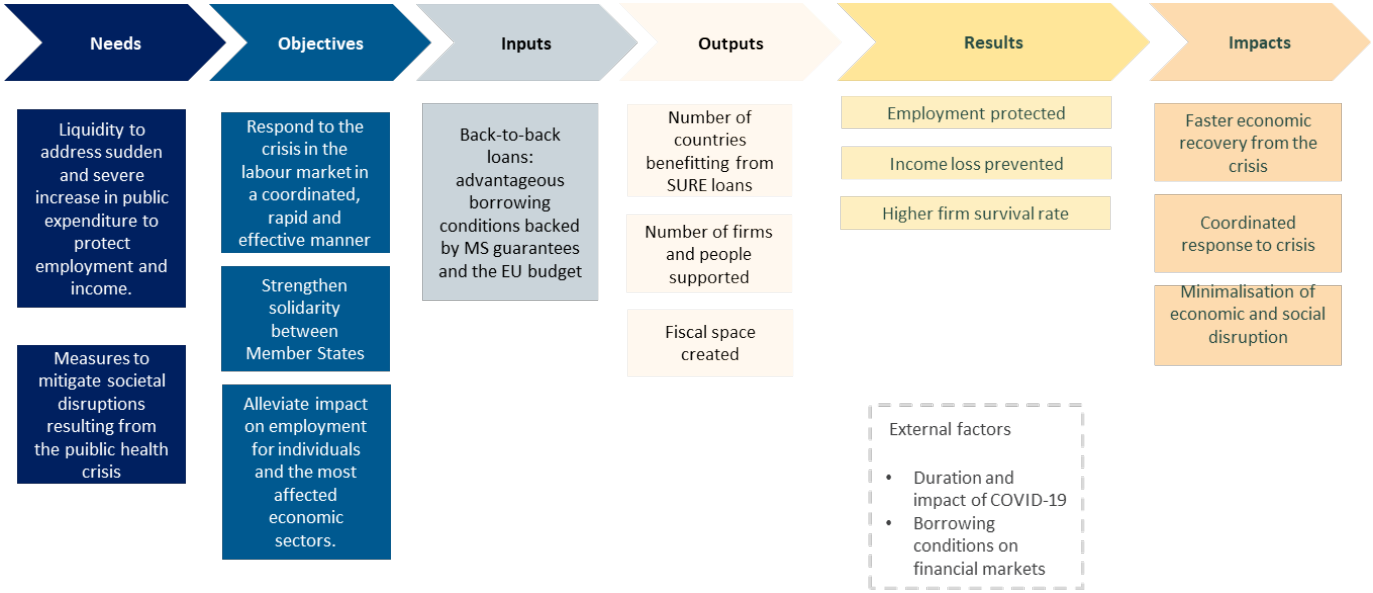


Source: Own elaboration based on Regulations (EU) 2020/460, (EU) 2020/558 and (EU) 2020/2221 and ECA (2023).

As illustrated above, the measures were designed with the main purpose of addressing liquidity shortages (needs) and broadly contributing to addressing the economic downturn driven by the health crisis (objective). This was done primarily via new liquidity and financial measures, more flexibility applied to funds, expanding eligibility, and simplifying administrative processes (inputs). These policy measures were expected to reallocate resources and accelerate access to funds (outputs) resulting in funds mobilised for public investment (results) and hence mitigate the negative impacts of the crisis and foster rapid recovery (impacts).

In the case of SURE, the intervention logic is quite different. Crucially, SURE was established *ex-novo* and with a strong countercyclical feature, targeting the labour market (see Figure 10).

Figure 10: Reconstructed (preliminary) intervention logic of SURE



Source: Own elaboration based on Regulation 2020/672 and European Commission

As illustrated above, the EU intervention was deemed necessary to provide assistance to Member States experiencing rapidly increasing public expenditure. Support to income and employment was needed because of the effects of policy-mandated lockdowns of the economy, which in turn was prompted by public health imperatives (needs). This intervention had the objective of responding in a fast and coordinated way, and strengthening EU solidarity, in the face of a major, common shocks (objectives). The EU offered cheap back-to-back loans to Member States, to support short-time work schemes and similar measures (input). This was expected to incentivise national governments to set up job retention (JR) schemes when they did not yet exist, and potentially expand the scope and generosity of those already in existence (outputs). Such labour market measures were expected to prevent unemployment from rising, hence reducing income losses, but also support firms by mitigating post-lockdown rehiring costs and by fostering survival (results). Overall, the expected outcomes were reduced disruption in the labour market and a faster recovery (impacts).

4. SOUND FINANCIAL MANAGEMENT: ARE CONTROL AND PERFORMANCE TRACKING OF CRISIS EXPENDITURE ADEQUATE?

While inextricably linked to the success of implementation, it is important to assess whether the design of the instruments duly considered the need to ensure sound financial management by imposing appropriate monitoring and reporting requirements. Given the crisis-related nature of all instruments under scope, they all gave significant leeway to national authorities to decide how to use the funds and none included an ex-ante assessment. Therefore, their ex-post assessment is of vital importance.

A starting point for what 'sound financial management' entails is the definition given in the Financial Regulation (see box below).

Box 1: Sound Financial Management in the Financial Regulation

> Appropriations shall be used in accordance with the principle of **sound financial management**, and thus be implemented respecting the following principles:
>
> (a) the principle of **economy** which requires that the resources used by the Union institution concerned in the pursuit of its activities shall be made available in due time, in appropriate quantity and quality, and at the best price;
>
> (b) the principle of **efficiency** which concerns the best relationship between the resources employed, the activities undertaken and the achievement of objectives;
>
> (c) the principle of **effectiveness** which concerns the extent to which the objectives pursued are achieved through the activities undertaken.

Source: Regulation 2018/1046, Article 33. Highlights by authors.

A first point to take into account when looking at reporting and monitoring issues is that, from an EU budget control perspective, the two types of instruments are very different. Crisis response instruments under cohesion policy are EU budget funds implemented under shared management (Article 63 of the Financial Regulation). They must be implemented in accordance with the applicable sector-specific rules, which impose – among other things – specific obligations in terms of monitoring and reporting. Conversely, SURE loans are macroeconomic financial assistance loans backed by the EU budget (Article 220 of the Financial Regulation). While Member States must use the proceeds from the loans according to certain pre-defined conditions, they are not subject to detailed reporting obligations as is the case when using funds from the EU budget.

4.1. Performance tracking: CRII, CRII+ and REACT EU

The performance tracking setup for cohesion policy instruments – CRII, CRII+ and REACT-EU – shows a mixed picture. Overall, assessing the performance of REACT-EU is easier than that of CRII/CRII+. This conclusion is supported by the supposed intention of legislators: while there is an article requiring mandatory evaluation in the REACT-EU Regulation, the ones introducing CRII and CRII+ contain no such clauses.[11] The Commission's evaluation will, nonetheless, cover all of the above instruments[12].

[11] It should be noted that since the legislation on CRII and CRII+ is about the flexibility of the Cohesion funding, the evaluation will be part of the standard evaluations foreseen for Cohesion Policy.

[12] See terms of reference for Work Package 12 (Crisis Response) of the evaluation covering the 2014-2020 programming period here.

Box 2: Performance indicators in the 2014-2020 cohesion policy framework13

Programme monitoring indicators for cohesion policy can broadly be categorised into financial and performance indicators. Financial indicators show the eligible expenditure entered into the accounting system.

Performance tracking relies on two types of performance indicators: outputs and results. Output indicators are linked to actions funded through programmes and should be direct products of the programmes. Result indicators are linked to the specific objectives of the programmes. In other words, they intend to capture the changes to which the programme (or priority) is expected to contribute.

Output indicators can be easily aligned with the intervention logic presented in Section 3 for CRII/CRII+ and REACT-EU. For instance, the intervention logic output 'Resources (re)allocated to actions to combat or counteract the pandemic' can be monitored through COVID-specific indicators such as '*Value of ESF actions to combat or counteract the effects of the COVID-19 pandemic*' or '*Value of medicines purchased linked to the testing and treatment of COVID-19*' (see discussion below on COVID-specific indicators). However, in the general understanding of intervention logic elements, 'result' indicators over the 2014-2020 period reflected programme impacts.[14] Therefore, the COVID-specific result indicator '*Number of participants gaining a qualification upon leaving supported in actions combatting the effects of the COVID-19 pandemic*' is aligned with the intervention logic impact 'Longer-term COVID-19 crisis risks mitigated, including for economic, social and territorial cohesion' identified in the intervention logic.

The original monitoring framework for the 2014-2020 programming period was insufficient to adequately track the response to the pandemic, notably because the relevant indicators did not exist. In May 2020, the Commission published a non-paper[15] proposing a voluntary list of programme-specific indicators to be applied across Member States to identify all the national operational programme changes and track the actual use of funds. These indicators can be grouped into four broader categories reporting on:[16]

- **Financial values**, e.g. CV1: Value of personal protective equipment purchased. The original monitoring system could be used to monitor transfers between funds, therefore these indicators (reported on in this study) do not form part of this category. Similarly, the number of modified programmes (e.g. making use of the 100% EU co-financing) could be tracked through the original system.
- **People supported** e.g. CV31: Number of participants supported in combating or counteracting the effects of the COVID-19 pandemic.
- **Entities supported**, e.g. CV24: Number of SMEs receiving non-financial support (advice, etc.) in COVID-19 response.
- **Items purchased or newly created**, e.g. CV63: Vaccination doses purchased or CV8: Additional bed space created for COVID-19 patients.

Since the adoption of these indicators was made voluntary for Member States, the Commission acknowledges that it is difficult to trace the exact amount of resources that have been redirected towards COVID-19-related expenditures.[17] The Court of Auditors noted that CRII/CRII+ measures cannot be distinguished from other expenditures. In some cases, Member States have used the original

[13] See the CPR (Regulation (EU) No 1303/2013), Polverari (2016), Nigohosyan and Vutsova (2018), Begg et al. (2023) and SWD(2021) 198 Final for more details.

[14] See 2023 Better Regulation Toolbox Tool #46 and SWD(2021) 198 Final.

[15] The original non-paper was updated in February 2021 to include indicators linked to vaccination.

[16] Slightly modifying the categorisation of FGB, Applica and Ockham IPS (2022).

[17] See relevant remarks in the ECA report and the CRII/CRII+ dashboard. This has also been confirmed through an interview.

monitoring system or their own specific (national) COVID-19 indicators, thus making it impossible to aggregate data. In its response to the criticism of the ECA referred to above[18], the Commission pointed to the fact that a dedicated dashboard for data related to CRII/CRII+ was set up under the name 'Coronavirus Dashboard: EU Cohesion Policy Response to the Crisis'. Importantly, the Commission strongly encouraged the introduction of indicators put forward in the above-mentioned non-paper (henceforth non-paper indicators) when discussing programme amendments.

As with any voluntary measure, the usefulness of these indicators is largely dependent on (and also indicated by) their uptake by national authorities. Following the publication of the non-paper in May 2020, the use of indicators has seen a steady increase. An independent study conducted in March 2023 on behalf of DG EMPL and aimed at supporting the preliminary evaluation of how ESF and FEAD funds were implemented under CRII and CRII+ notes that by September 2020 only 16% of ESF operational programmes adopted the non-paper indicators .[19] The most recent data[20] suggest that this ratio has reached 84%[21], providing an overall high coverage and evidence of the perceived value attached to these indicators by national authorities.[22] The ratio for ERDF programmes is considerably lower and stands at 54%.[23] Yet, these ratios cannot capture the quality of reporting nor the number of indicators per programme and therefore paint a misleading picture of actual indicator uptake. Determining the quality of reporting based on publicly available data is not straightforward, but there is evidence that 2020 values were underreported (see dashboard on aggregated non-paper indicators).[24]

Besides general issues with aggregation and the voluntary – and thus incomplete – nature of COVID-specific indicators, other factors hinder the comparability of statistics. Given the uncertainty on actual needs stemming from the crisis, the Commission decided not to include definitions in the non-paper to leave sufficient flexibility to managing authorities to establish what is covered[25]. Diverse national monitoring systems and sometimes ambiguous definitions have already led to comparability issues at the outset of the 2014-2020 period (Vignetti et al., 2022).[26] Leaving definitions open regarding the use of COVID-specific indicators has inevitably resulted in ambiguity in their scope, as well as divergence in their interpretation by managing authorities. Through a detailed analysis of the COVID-19 programme-specific indicators, FGB, Applica and Ockham IPS (2022) have also identified other shortcomings. The report points to unclearly defined indicators resulting in diverse interpretations of scope, for instance, what specific age group 'young people' denotes. Risks of double recording and measurement units going against the required practice (percentage or ratio as opposed to absolute values) have also been identified.

REACT-EU made use of the system of COVID-specific indicators, effectively making them mandatory for expenditure benefitting from these funds. Recital 23 of the REACT-EU Regulation notes that 'to facilitate the availability of comparable information at Union level, Member States should be required, where

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18 Chapter II, Section 3. Document available here.

19 Atkinson et al. (2023) Study supporting the preliminary evaluation of the support provided by ESF and FEAD under the Coronavirus Response Investment Initiatives (CRII and CRII+).

20 Downloaded in February, 2024'

21 Up from 80% in September 2022, when data for calculations was downloaded the evaluation study team (See Atkinson et al., 2023).

22 Survey data from Atkinson et al. (2023) also confirm the positive assessment of (ESF) managing authorities regarding the utility of COVID-19 specific indicators.

23 As of February 2024'

24 Moreover, at the time of writing (end of February 2024), for in the 2020-2022 period, 46% of non-paper indicators that had targets assigned to them (other than 0) had reported implemented values of '0'. Given the practice not to record these values before project completion, actual reporting quality cannot be adequately determined yet.

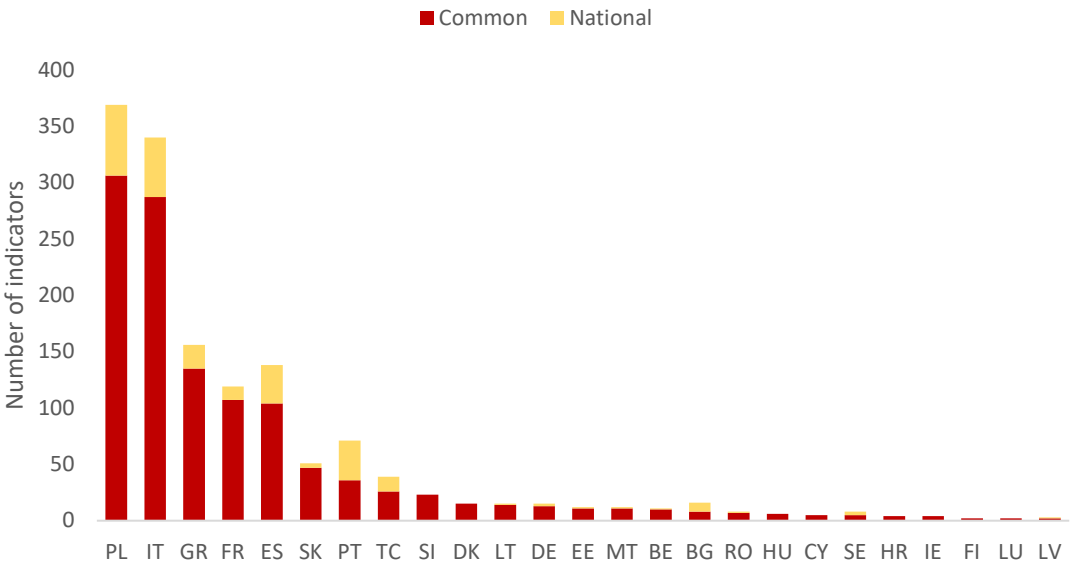
25 See the Q&A related to the non-paper, as well as Written by FGB, Applica and Ockham IPS (2022).

26 Study on the monitoring data on ERDF and Cohesion Fund operations, and on the monitoring systems operated in the 2014-2020 period.

appropriate, to make use of the COVID-19 programme-specific indicators made available by the Commission'.

Importantly, REACT-EU also introduced a distinct cross-cutting thematic objective for the resources made available under it. Recital 13 of the Regulation notes that it 'is appropriate that the REACT-EU resources are focused exclusively under the new thematic objective'.[27] This makes it possible to track REACT-EU operations. As also remarked by ECA (2023), this makes for a better setup for monitoring and evaluation, while also building on the monitoring structures established for CRII/CRII+. Moreover, similarly to CRII and CRII+, a dedicated dashboard titled 'REACT-EU: Fostering crisis repair and resilience' contains information relevant to REACT-EU. In addition, there is another dashboard that aims to integrate REACT-EU and CRII/CRII+[28] data.

Figure 11: Uptake of coronavirus-specific indicators for CRII/CRII+ and REACT-EU



Source: Own elaboration on European Commission data (2023 December)

Building on the above, the concept of evaluability is a useful tool for assessing whether the performance tracking system is fit for purpose. Evaluability denotes 'the extent to which an activity or project can be evaluated in a reliable and credible fashion'.[29] Such an assessment involves looking at the availability and quality of information to be used for the programme evaluation.[30] The reconstructed intervention logic presented in Section 3 forms the basis for determining the extent to which the adjusted monitoring system for CRII, CRII+ and REACT-EU allows for an assessment of the achievement of programme objectives.

Monitoring is necessary for evaluations as it tracks the implementation of interventions and thus provides information on whether objectives are being achieved. In the context of cohesion policy, the role of indicators is 'to aggregate information across all programmes in order to track overall performance […] on what cohesion policy resources are spent on and what benefits it delivers.'

[27] TO 13: Fostering crisis repair in the context of the COVID-19 pandemic and its social consequences and preparing a green, digital and resilient recovery of the economy.

[28] Titled 'Overview of Cohesion Policy Coronavirus Indicators'.

[29] ECD (2002), *Evaluation and Aid Effectiveness No. 6 - Glossary of Key Terms in Evaluation and Results Based Management (in English, French and Spanish)*, OECD Publishing, Paris, https://dx.doi.org/10.1787/9789264034921-en-fr.

[30] See Peersman et al. (2015) Evaluability assessment for impact evaluation.

(SWD(2021) 198). The COVID-specific indicators can be used to track developments – to a certain extent, at least – on all outputs and results identified in the intervention logic. For instance, in the case of the three **outputs**:

- 'Development of new/adjusted operations' can be monitored through the original system.
- 'Resources (re)allocated to actions to combat or counteract the pandemic' can be tracked by e.g. COVID-specific indicators CV1-5, CV60, CV20-21 and CV30, or reallocations after 2020 through the original system.
- 'Faster use of ESIF and NGEU resources and reduced administrative burden' – faster use can be tracked through absorption rate developments; however administrative burden is difficult to grasp; the uptake of 100% EU co-financing and extent of fund transfers only offer a limited understanding of this dimension.

Similarly, COVID-specific indicators linked to amounts spent on health or target groups hit by the pandemic (CV1-5, CV60, CV20-21 and CV30) offer evidence on two **'results'** noted in the intervention logic, namely 'Increased public spending on healthcare' and 'Increased public spending on sectors hit by the impact of the public health crisis, and support to SMEs'. Evidence of the result 'Liquidity shortages addressed' can be gauged through the amounts of pre-financing not recovered, reallocations under CRII and CRII+ and additional expenditure through REACT-EU. Finally, there are two ESF indicators[31] that add evidence on some of the **impacts** (related to two out of five in the intervention logic).

On this basis, it can be argued that even with the shortcomings described above, the performance tracking system put in place by the Commission and national authorities for CRII/CRII+ can provide at least an overview of progress in achieving crisis response objectives. Yet, the framework does not sufficiently provide for detailed and comparable data. Incomplete uptake and reporting result in considerable limitations for EU-level evaluation work. This, therefore, can only be done by detailed country (and programme)-level analysis, requiring considerable effort.

The aim of evaluation work is to judge how well the intervention fared in achieving initial objectives (compared to expectations) and go beyond 'what' happened by establishing causality and the extent to which change can be attributed to an EU intervention (Better Regulation Toolbox Tool #45, 2023). In the case of crisis response instruments, even establishing what happened requires considerable effort due to the abovementioned data limitations. Therefore, one of the results of the non-mandatory and flexible nature of performance tracking for CRII and CRII+ has been to put more pressure on *ex-post* evaluation work to gather evidence.

Publicly available documentation suggests that a detailed, country-level analysis is planned by Commission services for the ongoing ex-post evaluation of the 2014-2020 programming period[32], although the extent to which the longer-term impacts and inherent trade-offs will be investigated remains unclear. Yet this analysis is critical in assessing the appropriateness of cohesion policy as a budgetary crisis response tool[33]. Given the option to track expenditure for REACT-EU separately, the above limitations do not apply to this instrument.

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31 Namely CVR1: Number of participants maintaining their job 6 months after the end of support and CVR2: Number of participants gaining a qualification upon leaving supported in actions combatting the effects of the COVID-19 pandemic

32 As evidenced by the terms of reference for 'Work Package 12 – Study on Crisis Response', available here

33 ECA recommendation in Special report 02/2023, which was accepted by the Commission. In the tender specifications of the supporting study, there are no evaluation questions specifically addressing this issue. However, it is worth noting that specifications for a supporting study might not contain all areas relevant for the analysis conducted by Commission services in their staff working document.

4.2. Performance tracking: SURE

In the case of SURE, the European Commission submitted to the European Parliament, the Council, the Economic and Financial Committee, and the Employment Committee five bi-annual reports (the last one was published in June 2023, see European Commission, 2023b), which present the operations and use of the instrument during its life and review its overall socio-economic impacts. The five reports were used as a tool to monitor the use of SURE financial assistance. To address the concerns of the European Court of Auditors (ECA), the last report included an analysis of national control and audit systems and evidence confirming the reliability of the number of people and firms covered by SURE. Article 34 of the Financial Regulation requires the Commission to provide an independent evaluation presenting an assessment of SURE. By Q3 2024 the Commission will publish an ex-post evaluation of SURE as recommended by the European Court of Auditors (ECA)[34] and as legally required under the Financial Regulation to draw lessons for future decision-making.

In terms of data availability, unlike REACT-EU and CRII/CRII+, SURE was a newly set up stand-alone, back-to-back loan instrument. Given this feature, monitoring in terms of access to loans was easy and detailed. However, Member States had no obligation to report on the number of firms supported by STW schemes funded by SURE nor on the number of workers (though the Commission gave some guidance). In practice, the Commission's monitoring was entirely based on data provided by Member States. In the initial phase of SURE, while some countries provided accurate administrative data, most offered estimates only[35] (European Commission, 2023b). This has led the ECA to conclude that such data is not always comprehensive. However, reporting improved over time. The Court noted that while Member States have provided more data over time, due both to explicit requests and guidance from the Commission side[36] as well as increased data availability, this has resulted in variations in the information reported and use of multiple sources. For instance, there were considerable fluctuations in the number of people supported across successive bi-annual reports. Overall, the fact that reporting data became increasingly available during the lifetime of SURE points to the existence of a learning curve – both for Commission services and Member States – following the introduction of this new instrument. The ECA also found that the Commission limited checks to broad consistency and 'plausibility' assessments. However, it is important to frame these findings in the pandemic context. Limits to administrative capacity (see longer discussion in section 5.2) have often hampered national authorities' ability to adapt to new reporting requirements. In some Member States (such as Romania) where such limitations were particularly pronounced due to shortages in financial and human resources, and JR schemes were never used before, local authorities faced major implementation challenges, which also resulted in delays in reporting accurate data.

The reconstructed SURE intervention logic (Figure 10) indicates the expected 'outputs' and 'results' of the instrument. Given that outputs consider the number of countries, firms and people supported through SURE loans, the available data is adequate for monitoring purposes. The output 'Fiscal space created' is not easy to monitor[37], however, interest rate saving data can be used to shed some light on the SURE contribution. Monitoring data on 'results' – namely estimates on jobs saved and firm survival

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[34] See the ECA's Special report 28/2022 on Support to mitigate Unemployment Risks in an Emergency (SURE).

[35] Unlike in the case of cohesion policy where DG REGIO set up dedicated dashboards to communicate data on the pandemic response, detailed data on SURE were not made public. Aggregate country data, the only made available to the Commission, are also available in the bi-annual reports (available here). It should be noted that the accurate counting of beneficiaries of job retention schemes is difficult. For instance, since the duration of the scheme can vary (lockdown measures were mandated at the local level) within the same country and the same worker could access a scheme more than once in the same year, the production of the total figures is a complex exercise. Most administrations were simply unable to do it.

[36] For instance in the last survey conducted by the Commission, Member States were explicitly requested to indicate the source of the data.

[37] While fiscal space is usually defined as the capacity for a government to spend (reduce taxes) without jeopardising fiscal sustainability, its measurement is a rather complex exercise.

– provide helpful information to judge success[38], but are not sufficient to conclude on them. This is reinforced by the limitations on data reporting described in the previous paragraph. Uncovering the actual impact of SURE on employment (after the end of the lockdowns) is a challenging task.

Overall evaluating the extent to which SURE has achieved its objectives is likely to be more complex than in the case of cohesion policy crisis instruments, as the data available is primarily related to immediate outputs rather than the results of the initiative. However, as pointed out previously, issues related to limitations in data monitoring should be read through the lens of the allocation of fiscal, management and legal responsibility between the EU and Member States. As a temporary and repayable crisis response instrument, the approach used for tracking the performance of SURE is deliberately a simplified one. Thus, despite its inherent limitations on evaluability, the nature of the Instrument and the consistent improvement in Member State reporting and successively more detailed analytical insights provided by the bi-annual reports indicate that the system achieves a balance between crisis-induced simplifications and performance tracking.

4.3. Protection of EU´s financial interests: did crisis-related instruments increase the risks of fraud and irregularities?

Another element to take into account is whether the use of crisis-related instruments resulted in a general relaxation of the controls on EU spending and ultimately to higher risks of fraud and irregularities. Again, a distinction may be made between crisis-related EU cohesion policy instruments (CRII, CRII+ and REACT EU), which provided EU budget funds under flexible conditions, and SURE, which consisted of loans guaranteed by the EU budget.

In its report on cohesion crisis response instruments, the ECA noted that despite Member State pressure[39] – bar an exception on sampling – the Commission did not relax the rules relating to management and control systems as part of its anti-crisis measures.

Although not specific to either CRII, CRII+ or REACT-EU, in its report on the implementation of the EU budget for the 2022 financial year, the ECA pointed to increasing error rates over the past years[40]. Error rates indicate an estimate of the share of EU money that was not used in compliance with Union or national rules. The error rate[41] was especially high in the budget heading of cohesion policy[42] in 2022. An increase in error rates over the period of the pandemic is hardly surprising given that emergency spending generally runs a higher risk of exposure to irregularity, misuse or even fraud[43]. Moreover, while the Court warned that CRII/CRII+ and REACT-EU flexibilities entail an increased risk of irregularities or fraud[44], it underlined the Commission's proactivity in reducing and mitigating these risks.[45] There is therefore no evidence indicating that the balance between crisis-related flexibilities and sound financial management was compromised when it comes to controls on spending.

A survey of cohesion policy managing authorities conducted in December 2020[46] revealed different views on the potential implications of CRII, CRII+ and REACT EU for fraud prevention and control. Some

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38 Different sources include companies, self-employed and social security institutions.

39 And from regions, see for instance the CEMR recommendation ' to better implement the Coronavirus Response Investment Initiatives'

40 2.7% in 2020, 3% in 2021 and 4.2% in 2022. Irregular spending above the 2% threshold can be considered 'material'. See 'EU spending: more errors and greater risks'

41 6.4% in 2022. Source: ECA (2023) Annual report on the implementation of the EU budget for the 2022 financial year, p. 251

42 MFF heading 'Cohesion, resilience and values'

43 See publications on the topic from the beginning of the pandemic, e.g. from the IMF ('Budget Execution Controls to Mitigate Corruption Risk in Pandemic Spending), or the ECA related to the crisis response measures (Opinion No 3/2020)

44 Opinion No 3/2020 and Opinion 4/2020

45 See ECA (2023) Adapting cohesion policy rules to respond to COVID-19 Funds used more flexibly, but reflection needed on cohesion policy as a crisis response tool

46 Viktoriya Dozhdeva V. and Mendez, C. (2020)

regional authorities did not foresee major impacts in terms of fraud, given the low uptake of CRII flexibilities in their territory and the absence of major changes in the control and audit of the projects (except for the use of non-statistical sampling methods for auditing). Others recognised a potentially increased risk related to different factors: time pressure, application of simplified and accelerated procurement procedures in some sectors - especially healthcare-, the participation of companies with minimal or zero financial or operational capacity or the existence of additional funds and pressure to implement without a strengthening of organisational structures in charge of managing the funds.

With regard to SURE, it should be noted that it consists of back-to-back loans and hence the risks of misuse and fraud are largely borne by the Member States requesting support. It is nonetheless an EU-level instrument managed by the European Commission and (part of it) constitutes a contingent liability for the EU budget and there are clear reputational risks if measures financed under it are perceived as inefficient or are more prone to fraud.[47]

There are indications that some funded schemes have been associated with cases of abuse. The European Labour Authority (ELA), whose main mission is to combat undeclared work, held meetings with Member States to unveil cases of abusive practices related to short-term financial support schemes, especially employment retention schemes.[48] The ELA concluded that only a few surveys had been conducted on the extent of abuse of these schemes, with France being an exception[49], hence pointing to limited information available. While STW schemes are not immune from abuse, it is the Member States' main responsibility and their interest to identify and combat those cases.

In its report on SURE, also the ECA[50] highlighted that JR schemes are prone to misuse. As explained at the outset of Section 4 and underlined by the ECA report, the legal responsibility of the Commission for fraud and irregularity is less extensive than for grants (e.g. cohesion policy). As a result, SURE laid down minimum requirements for control and audit in line with EU rules[51], with Member States bearing the legal responsibility. The Commission launched two ad hoc surveys on national audit and control systems. Interestingly, Member States consider SURE-supported measures to be generally at low risk of irregularities and fraud. This is due to the perceived clarity of eligibility conditions carefully controlled ex-ante (European Commission, 2023b). All Member States have reported the detection of irregularities[52] and having recovered funding. The amounts to be recovered, which in the view of the Commission can be taken as a proxy for irregularities and fraud, have remained in most cases below 2%, the limit considered 'material' by the ECA. Given the consistency of replies between the two surveys and the fact that Member State audit and control systems seem to be able to detect such cases and recover the necessary amounts, the Commission concluded that beneficiary countries fulfil their legal obligations (European Commission, 2023b). The ECA audit has not found major issues with the approach of the Commission either.

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47 See ECA Special Report 01/2023, as well as the Commission's replies to the report

48 See ' Report from the Platform webinar on COVID 19: combating fraud in short-term financial support schemes.', available here

49 In France, where more than a million companies submitted a partial activity request for over 13 million employees, specific surveys were conducted to detect whether employers claiming support for the temporary suspension of employment contracts were employing workers (for whom they are claiming support) on a 'bogus part-time' basis. In 2020, a survey of 34,000 people revealed that 31% had continued normal working despite being in total partial unemployment or sick.

50 https://www.eca.europa.eu/lists/ecadocuments/sr22_28/sr_sure_en.pdf

51 Notably in line with Article 220(5) of the Financial Regulation, see Article 13 of the SURE regulation on 'Control and Audit'. As the Fifth bi-annual report explains, 'under the Loan Agreement, each Member State benefiting from SURE should regularly check that amounts borrowed under the Facility are used in accordance with the SURE Regulation, the CID and the Loan Agreement and ensure that appropriate measures to prevent irregularities or fraud are in place. In case of irregular or improper use of the amounts borrowed, the Member State should take legal actions to recover such amounts. This is complemented by the obligation on the Member State to investigate and treat cases of fraud, corruption or any other illegal activity detrimental to the EU's financial interests, in relation to the management of the loan'.

52 In the second survey.

5. WAS THE CRISIS RESPONSE SUCCESSFUL?

5.1. Were the instruments fit for purpose?

There has been much academic and broader policy debate about the EU's response to the pandemic. Many articles address its unprecedented scale and nature (see e.g. Alcidi and Corti, 2022), while there is much focus on the NextGenerationEU instrument, and in particular its centrepiece, the Recovery and Resilience Facility. Modelling exercises by different services of the Commission (notably DG ECFIN through QUEST in Pfeiffer, Varga and in 't Veld, 2022 and DG REGIO through RHOMOLO in Conte et al., 2020) have contributed to understanding the impact of the coordinated fiscal stimulus package rolled out by the EU. Other response mechanisms related to fiscal policy have also attracted interest, for instance, the impact of the Temporary Framework for State Aid on the geographical distribution of aid and the level playing field (Agnolucci, 2022).

Given their anti-crisis nature, the speed of adoption and entry into force of the instruments is a critical dimension in determining the effectiveness of the response itself. Observers[53] have lauded the prompt reaction of the EU institutions[54] in deploying CRII, CRII+ and REACT-EU. This is particularly true for the CRII and CRII+ proposals, which were developed in a very short time and took only 20.5 days from the Commission proposal until entry into force. The adoption of REACT-EU took considerably longer[55] as it was part of the broader NextGenerationEU package. However, it was in line with CPR amendment timelines, which generally had a more restricted scope (ECA, 2023).

Similarly, SURE was adopted very swiftly. 20 days after the WHO declared COVID-19 a pandemic (11 March 2020), the Commission had already tabled a proposal, which was then adopted in 47 days. This is a remarkable speed for a new tool (ECA, 2023b), a feat that was facilitated by previously ongoing discussions about setting up a similar instrument.[56] The first loans were disbursed in October (see SURE timeline in section 2.2). While the fast reaction of the Commission was undeniably critical in providing timely support to struggling Member State budgets, the fact that there was no off-the-shelf instrument meant that countries with steeply rising expenditure on JR remained under increasing fiscal pressure until the first SURE disbursements have arrived. The need for such financing is well-documented by the uptake of the expanded scope of ESF to cover STW, which in effect is likely to have acted as an immediate support to bridge the financing gap until SURE was put in place. 16 Member States made use of this flexibility, covering existing schemes and funding new ones. Yet, the considerably larger size of SURE – which was deemed an accurate assessment of the actual needs of Member States by the ECA – compared to what was available under ESF points to this funding being clearly insufficient to cover the needs on the ground (European Commission, 2023).

5.1.1. Cohesion policy

This section looks at the cohesion policy crisis response in more detail. It does so by reviewing the 'inputs' listed in the intervention logic (Figure 9).

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53 Notably the ECA in Special Report 01/2023. The Commission's own evaluation of CRII and CRII+ under ESF have reached the same conclusion.

54 In each case, the proposals of the Commission had to be adopted by the European Parliament and the Council.

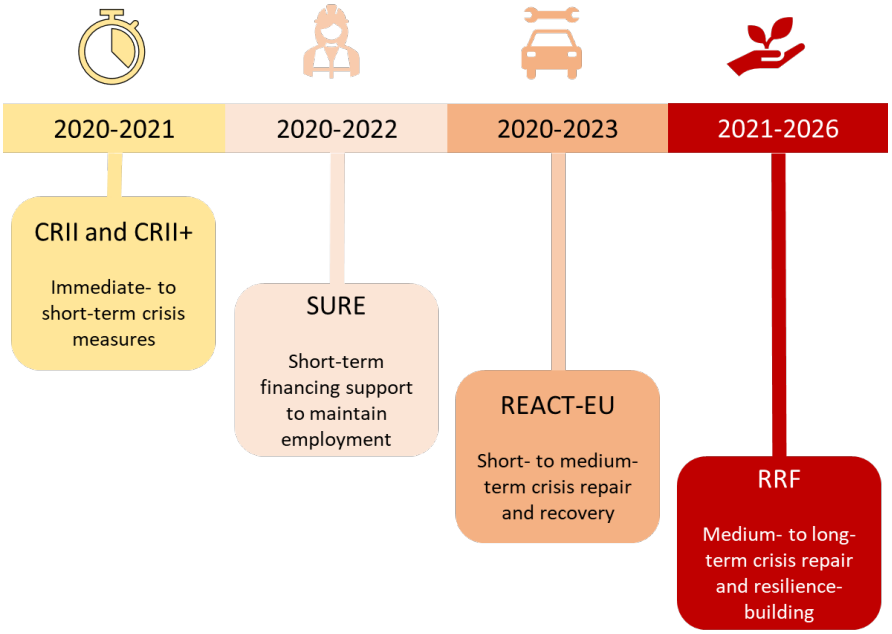
55 209 days from proposal to adoption.

56 The European Investment Stabilisation Function (EISF), proposed by the Juncker Commission in 2018, though never adopted was designed with the possibility for the Commission to offer back-to-back loans to countries facing asymmetric shocks they could not manage on their own. And like the EISF, SURE operates under the "margin available under the own resources ceiling for payment appropriations".

a. Liquidity and financial measures

Looking at cohesion policy instruments, the primary objective of CRII, CRII+, and REACT-EU was to inject additional liquidity by increasing co-financing, enabling financial transfers among programmes, and providing extra resources. CRII and CRII+ were conceived as immediate, short-term crisis response measures. While CRII and CRII+ provided only limited additional funding, they have enabled the transfer of funds and allowed for 100% EU co-financing, easing the fiscal burden on national budgets. The REACT-EU package, on its end, was designed to inject further liquidity for cash-strapped national and regional budgets, especially those hit hardest by the pandemic. The EUR 50.6 billion in additional funding is a significant top-up to the original cohesion policy envelope, amounting to close to 14% of the initial amount. The significance of this additional funding is especially pronounced in a few Member States that due to the allocation key (based on the impact of the pandemic) have received additional funding close to or even above half of their initial allocations.[57] This influx of additional cash came with a short timeframe, as spending under REACT-EU was subject to the N+3 rule[58] of the 2014-2020 programming period and therefore could be spent until the end of 2023. Crisis-repair and resilience-building actions under REACT-EU focus on labour market measures (EUR 12.8 billion), enterprises and business development (EUR 8.1 billion), healthcare systems (EUR 7.8 billion), and the green (EUR 8.5 billion) and digital transitions (EUR 3.1 billion).[59]

Figure 12: Timeframe and purpose of anti-crisis instruments



Source: own elaboration

Reallocations and additional funding through CRII, CRII+ and REACT-EU are primarily aimed at enterprise support, and social and labour market interventions, but have also directly contributed to health actions. These are generally in line with the main expenditure categories funded by Member States and comparable (advanced) economies.[60] The active role of national and local authorities in

[57] Namely Italy at 43%, Spain at 47%, Denmark at 50%, the Netherlands at 55% and Luxembourg at 363% of their initial allocations.

[58] A requirement to spend by the end of the third year after allocation, in this case 2020.

[59] Amounts from the REACT-EU dashboard, as of February 2024.

[60] See e.g. Pappa and Vella (2022) 'Phase out of the crisis support measures: How successful are Member States in moving from broad support measures towards more targeted support?', building on the IMF Fiscal Monitor Database of Country Fiscal Measures in Response to the COVID-19 Pandemic; and OECD (2022) 'First lessons from government evaluations of COVID-19 responses: A synthesis'

identifying the areas with the most acute spending needs in the reorientation of funds in the case of CRII and CRII+ has certainly contributed to increasing the relevance of these instruments. In the case of REACT-EU, the main focus areas of CRII and CRII+ were followed up on, with more medium-term transformative investments targeting EU green and digital objectives.

Enterprise support was aimed at mitigating the effects of the demand shock and supply chain disruptions caused by the pandemic. At least EUR 11.9 billion of additional funding has been shifted to business support (EUR 3.8 billion from CRII/CRII+ and EUR 8.1 billion from REACT-EU), but there are estimates indicating considerably higher reallocations to this expenditure area.[61] The COVID-specific indicators show the focus of support to enterprises. SMEs benefitted from both financial and non-repayable (grant) support for working capital and technical assistance. Financial support entailed guarantees, micro-loans, and zero-interest loans. These resources were primarily channelled to sectors hardest hit by the pandemic, namely tourism, culture, retail, and hospitality. They were used for ad hoc instruments (e.g. 'business continuity vouchers'), partial unemployment schemes and covering costs of implementing new protocols to limit the spread of the virus (EPRC, 2021; Böhme et al., 2022).

Health actions constitute another priority area of expenditure of CRII/CRII+ and REACT-EU. They benefitted from a total of EUR 16.7 billion, with EUR 8.9 billion in additional investment from CRII/CRII+ reallocations and EUR 7.8 billion from REACT-EU. The type of actions supported include investments in healthcare infrastructure, purchase of PPE, increase in testing capacity, purchase of vehicles (e.g. ambulance) and R&D activities for COVID-19 treatment. REACT-EU resources have also focused on building resilience to future health crises, for instance by developing (the quality of) critical infrastructure and human, material, and instrumental capacities.

As referred to above, a third priority area included 'social' measures under the ESF and FEAD, namely to vulnerable groups, and action to support employment. CRII/CRII+ reallocations favoured actions under the latter primarily focused on job protection (for instance through STW schemes) and support for adapting to changes resulting from the public health crisis (Atkinson et al., 2023). This is also in line with the bulk of REACT-EU funding to labour market interventions (EUR 12.8 billion[62]) and social inclusion (EUR 2.5 billion).

b. Administrative simplifications

More than just an injection of additional liquidity, the crisis response measures under cohesion policy brought considerable flexibility and administrative simplification. Evidence from surveys conducted with managing authorities and other bodies[63] responsible for implementing cohesion policy, as well as interviews with experts, indicates an overall positive reception of COVID-19-related flexibilities and simplifications[64]. Flexibility in using funds is seen as contributing the most to the efficiency of the delivery system[65]. Simplification measures were also well-received, above all the faster re-programming that allowed for more practical and versatile responses to emerging challenges (ECA, 2023; European Commission, 2023; Atkinson et al., 2023).

Though arguably primarily a liquidity measure, the possibility of using 100% EU co-financing also contributed to administrative simplification and was used by a large number of Member States,

[61] For instance Böhme et al. (2022) calculate EUR 17bn for SME support

[62] Predominantly earmarked for 'Access to employment & labour mobility' and 'Adapting of workers, enterprises & entrepreneurs to change'

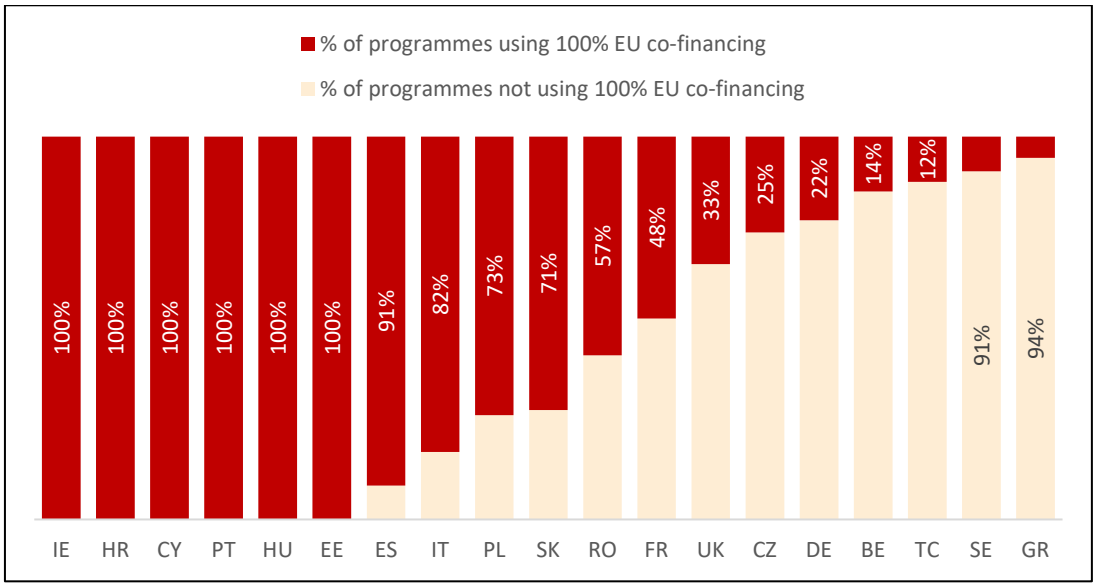
[63] Audit authorities, intermediate bodies, region/national authorities, etc.

[64] Atkinson et al. (2023); It should be noted that one of the two surveys referenced here (in Böhme et al., 2023) also refers to other crisis-response instruments under cohesion policy that are not within the scope of this study, namely: CARE and FAST-CARE.

[65] Böhme et al. (2023) 'The delivery system of Cohesion Policy now and in future', report for the COTER commission of the Committee of the Regions

although to a different extent (see Figure 13). As the Coronavirus Dashboard states, this option 'is one of the most popular measures with the majority of modified programmes'. This feature was particularly designed to ease the burden on national and local budgets in a context where the availability of co-financing was constrained (EPRC, 2021; Atkinson et al., 2023). There were, however, ten countries that did not make use of this flexibility[66], presumably due to either an already high level of funds committed, an overall low cohesion policy envelope or less budgetary pressure.

Figure 13: Uptake of the 100% co-financing option (CRII/CRII+)



Source: Own elaboration based on Coronavirus Dashboard data. 'TC' are Interreg programmes. Countries where no programme used this feature are not displayed.

While this option allowed for considerable savings for those countries that made use of it, the ECA noted that it has led to overall less funding towards cohesion policy investments. This is because the same amount of EU allocations does not attract additional national or private co-financing, thereby reducing the overall amount of funding (ECA, 2023). Moreover, the very purpose of requiring national co-financing is to instil a sense of ownership in national authorities. Therefore, this feature raises risks of moral hazard. While it is too early to assess the results of spending benefitting from 100% EU co-financing, it might be worth investigating how they compare with project spending subject to regular co-financing requirements.

c. Flexibility to transfer or reprogramme funds

An important flexibility measure introduced by CRII/CRII+ was the possibility to transfer funds between funding areas. This option has resulted in substantial changes, as 10% (EUR 35billion) of initial allocations (EUR 355billion) for the 2014-2020 period have been shifted between investment priorities[67]. This is all the more salient as 2020 marked the 7th year of the programming period when most cohesion policy funds had already been committed[68] to selected projects, leaving limited room for such transfers in many Member States. Importantly, national-level absorption statistics hide significant differences between programmes. For instance, although Italy had a relatively lower

[66] Bulgaria, Denmark, Lithuania, Latvia, Luxembourg, Malta, the Netherlands, Austria, Slovenia, Finland.

[67] According to ECA calculations.

[68] Investment progress data suggests that close to 91% of planned expenditure was already 'decided' (committed) by the end of 2019. However, these amounts are overestimated due to issues with aggregation and the practice of 'overprogramming' by national authorities. For more information, see the Cohesion Policy 2014-2020: tracking investment progress page.

commitment rate at the end of 2019, several of its programmes were already fully committed. Regions targeted by programmes with high commitment rates could make less use of CRII and CRII+ flexibilities compared to others where there was still room to reallocate uncommitted funds.

From a certain point of view, CRII and CRII+ can be seen as a 'second chance' for Member States (or rather, programmes) that were behind schedule in either spending or committing their 2014-2020 structural funds (Alcidi et al., 2022). In regions where the remaining enveloped was limited, the influx of additional REACT-EU resources helped incentivise further investment projects (see e.g. the example of Finland in Fonseca and Michie, 2022).

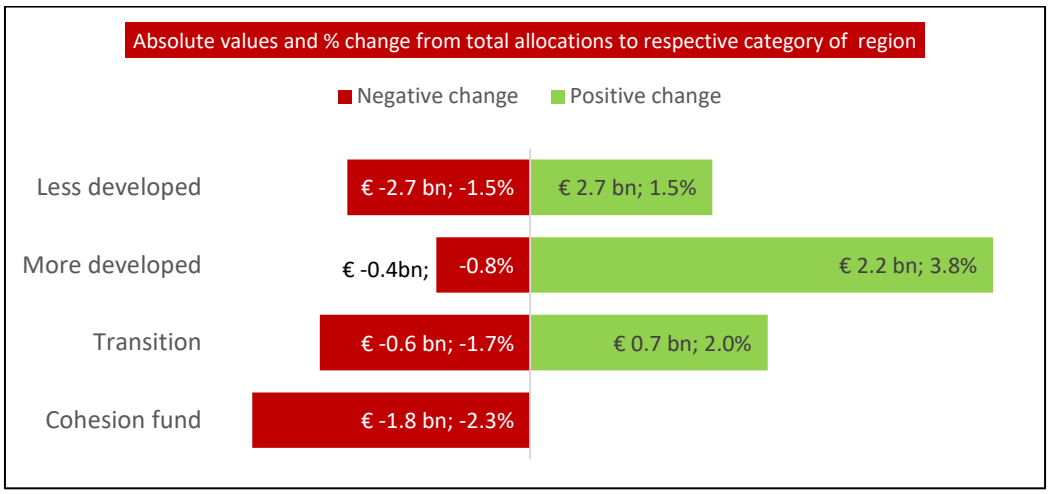
Regardless of the remaining envelope, there were significant differences between Member States. Some countries have made no or almost no transfers between their spending areas (LU, NL, FI), while others have made extensive use of this flexibility (e.g. ES, EL, IE, IT). While the literature – largely based on qualitative and anecdotal evidence - indicates that the primary reason for these differences lies in already high commitment rates pre-crisis (Dozhdeva and Fonseca, 2021; EPRC, 2021; Atkinson et al., 2023), we found no empirical evidence to support such a conclusion. However, data on both commitments and transfers is of insufficient quality to draw conclusions. Importantly, where funding for support crisis relief remained under the same priority, no financial shifts were recorded and thus such changes do not enter the tracking data on reallocations. Moreover, other explanations, such as national fiscal capacity and the size of cohesion policy envelope are also likely to have influenced uptake.

The high use of this flexibility – even with clear differences between Member States – provides strong evidence of its value to national authorities in channelling resources to deal with the public health crisis and its economic ramifications (Böhme et al., 2022; Böhme et al., 2021; Atkinson et al. 2023).

The approach towards reallocations was determined by pandemic impact, geography, and economic structures and largely driven by established political priorities and institutional frameworks. For instance, the flexibility introduced by CRII+ to shift allocations between categories of regions proved to be a highly sensitive question in many countries.

Nonetheless, data indicate that more developed regions have benefitted from a net increase of EUR 1.75 billion. Cohesion fund allocations, on their end, have been reduced by EUR 1.8 billion (Figure 14). Some of the most developed regions in the EU initially took the hardest hit, as businesses ran into liquidity problems, unemployment rose and GDP fell rapidly. This can be explained by the nature of the crisis, as urban areas – especially capital and large metropolitan areas – were more affected by the public health measures. The reallocation of resources towards more developed and transition regions therefore seems to logically follow. However, over time other territorial patterns emerged as the crisis affected regions with different vulnerabilities in distinct ways. For instance, the disruptions in international value chains have exacerbated pre-existing structural challenges across many industrial regions, while coastal areas and islands heavily reliant on tourism saw their income rapidly plummet. Rural and remote regions with an economic structure dominated by SMEs and traditional or low-skilled jobs were more vulnerable to business closures and job losses (Georgieva et al., 2021).

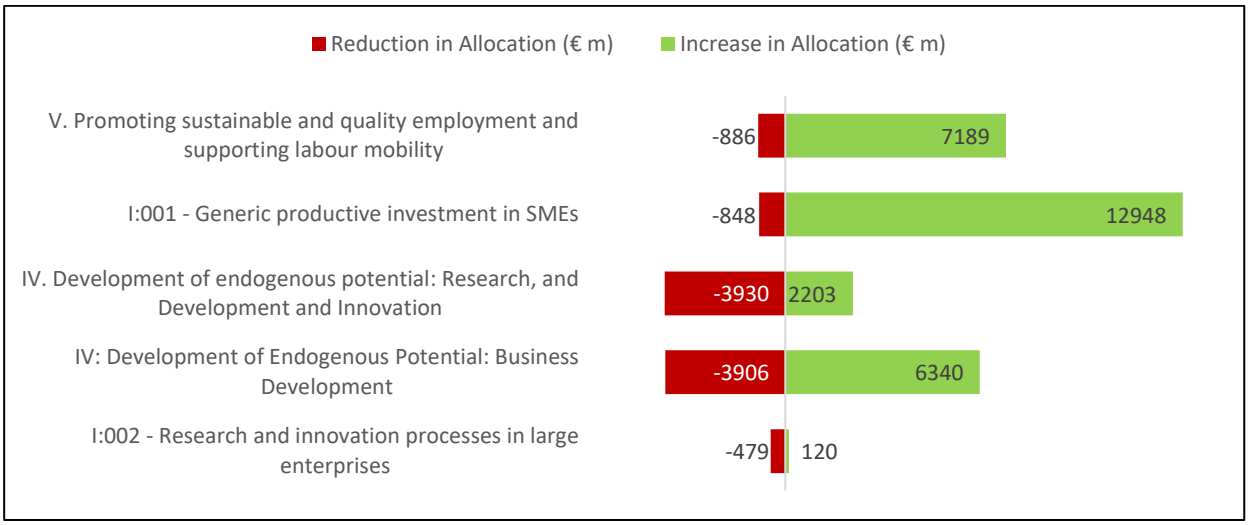
Figure 14: Transfers between categories of region



Source: Own elaboration based on Coronavirus Dashboard data. Cohesion fund is displayed separately as such allocations do not have regional categories assigned to them.

Looking at changes made to enterprise support planned pre-crisis in more detail, Member States shifted allocations from more complex intervention fields – for instance, related to research, development and innovation or environmentally friendly production processes – to more generic and thus flexible categories (see Figure 15).

Figure 15 : Changes in planned EU support (EUR millions)



Source: Own elaboration based on Coronavirus Dashboard data. Apart from Intervention Fields 001 and 002, data was aggregated based on the categorisation in Commission Implementing Regulation (EU) No 215/2014. See footnote[69] for further details.

[69] **IV. Development of endogenous potential: Research and development and innovation**: 056 - Investment in SMEs directly linked to R+I activities, 057 - Invest. in large companies linked to R+I activities, 062 - Tech-transfer & university-SME cooperation, 063 - Cluster support & business networks (SMEs), 064 - R+I processes in SMEs (vouchers, process, design .), 065 - R+I processes, tech-transfer & cooperation in firms on LCE. **IV. Development of endogenous potential: Business Development:** 066 - Advanced support services for SMEs, 067 - SME business development, entrepreneurship & incubation, 068 - Energy efficiency & demo. projects in SMEs, 069 - Support to enviro-friendly production processes in SMEs, 070 - Promotion of energy efficiency in large enterprises, 071 - Firms specialised in LCE & climate service, 072 - Business infra. for SMEs (incl. industrial parks & sites), 073 - Support to social enterprises (SMEs), 074 - Development and promotion of tourism assets in SMEs, 075 - Development / promotion of tourism services in/for SMEs, 076 - Dev. & promotion of cultural & creative assets in SMEs, 077 - Dev. & promotion of cultural & creative services in SMEs. **V. Promoting sustainable and quality employment and supporting labour mobility:** 104 - Self-employment, entrepreneurship & business creation, 106 - Adapting of workers, enterprises & entrepreneurs to change.

Böhme et al. (2022) find that the shifts have largely benefitted struggling SMEs, citizens and the healthcare sector. However, long-term strategic investment areas such as R&D, infrastructure and the environment have seen their allocations cut. An analysis of changes in common output indicator targets between 2019 and 2022 provides some nuance to the above conclusions drawn purely from financial reallocations. Some indicators[70] linked to R&I and the environment have seen targets reduced in 2020, but have in 2021 been considerably increased (Böhme et al., 2022).

Looking more specifically at reallocations under the ESF, Atkinson et al. (2023) find that employment, social inclusion and poverty-related actions have been the main beneficiaries of transfers, at the expense of education and training activities. Measures supporting vulnerable groups were found to be particularly important, including for homeless people, homecare, migrants and refugees, and victims of domestic violence (EPRC, 2021; Atkinson et al., 2023; European Commission, 2023).

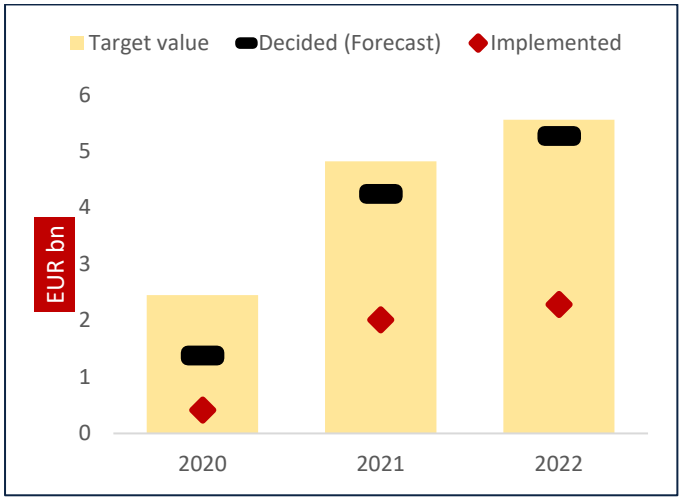
d. Expanded eligibility

CRII also extended the scope of eligible actions under the structural funds to allow for resources to be channelled into areas in most urgent need of support. This section briefly covers health expenditure that resulted from this extension of funding scope but looks first and foremost at enterprise support.

Given the nature of the crisis, an important new element brought by CRII was allowing for the funding of expenditures incurred as a response to the public health crisis.[71] These include, according to the data currently available and subject to the limitations discussed in section 4.1, 17,640 ventilators, 641 vehicles (incl. ambulances), 3.2 billion items of personal equipment and 220 million doses of vaccine purchased, with 520 laboratories supported for testing and 10,000 bed spaces created.

Targets for the (large majority of) the above COVID-specific indicators were not achieved as of February 2024. However, given that indicator reporting remains incomplete until project closure, this data is not indicative of success. Forecasts based on selected ('decided') projects show an expectation that these targets could be achieved, with a few exceptions. While financial values are overall underreported (i.e. according to the dashboard), aggregated financial data shows a similar picture across 2020-2022.

Figure 16: Total (public) health costs covered by COVID-19-specific indicators



Source: Own elaboration on European Commission data

[70] The study cites CO25 'Number of researchers working in improved research infrastructure facilities' and CO27 'Private investment matching public support in innovation or R&D projects' for R&I and CO30 'additional capacity of renewable energy production' and CO22 'Total surface area of rehabilitated land' for environment.

[71] CRII introduced an additional derogation in Article 65(10) CPR, namely that 'expenditure for operations for fostering crisis response capacities in the context of the COVID-19 outbreak shall be eligible as of 1 February 2020'. It also amended the ERDF Regulation Article 5(b) by including 'investment necessary for strengthening the crisis response capacities in health services'.

As shown in the sub-section covering transfers, enterprise support was at the core of the cohesion policy pandemic response. A particular area of focus was support for SME working capital. In the original framework for the 2014-2020 period, financial instruments could provide support for working capital, noting that *'such support shall target the establishment of new enterprises, early stage-capital, i.e. seed capital and start-up capital, expansion capital, capital for the strengthening of the general activities of an enterprise, or the realisation of new projects, penetration of new markets or new developments by existing enterprises'* (CPR, Article 37(4)). The term financial instrument is generally understood to refer to equity or quasi-equity investments, loans or guarantees, or other risk-sharing instruments.[72]

The crisis response through CRII and CRII+ followed changes introduced by the Temporary State Aid Framework. The Temporary Framework was introduced on 20 March 2020 and was subsequently amended seven times in total. Notably, it allowed for aid of EUR 800,000 per company[73] on top of the previous *de minimis* ceiling of EUR 200,000, a ceiling that was later further increased. An important amendment in January 2021 allowed the conversion of repayable instruments into direct grants.[74]

CRII and CRII+ – following the temporary changes made to state aid rules – brought both an extension of the scope of support and simplification in the use of structural funds. First, working capital could now be funded through grants and repayable assistance.[75] Second, eligibility for such measures was expanded as such support could be used *'where necessary as a temporary measure to provide an effective response to the public health crisis'* (CRII Regulation). Third, where financing to working capital was provided through financial instruments, no supporting documentation was required to justify that the funds were used for the intended purpose (see CRII+ Regulation). Fourth, CRII+ introduced an important simplification in the use of financial instruments, as it waived the requirement to conduct *ex-ante* assessments[76] to change or update financial instruments, thus considerably speeding up their deployment. The REACT-EU top-up to the ERDF also included support to working capital (see REACT-EU Regulation, Article 92b(8)).

Box 3: Example of a crisis response grant for SME working capital: Apoiar.pt[77]

Launched in November 2020, the Apoiar.pt programme was aimed at micro and small enterprises with turnover losses of more than 25% between January and September 2020 as a result of the public health measures. Through funding primarily from REACT-EU (ERDF), it provided non-repayable compensation of 20% of the loss incurred over this period. Its sectoral scope included wholesale and retail trade, accommodation, catering and restoration, tourist and cultural activities. In exchange, beneficiaries had obligations to maintain employment, not to distribute any profits or dividends and to maintain activity for the period between the grant application and 60 working days following submission of the final payment request.

As already demonstrated by the overall redirection of allocations towards enterprise support, these measures were instrumental in channelling resources towards SMEs. The two relevant COVID-specific

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72 As defined in Article 2 (29) of the Financial Regulation (Regulation 2018/1046) and referred to in CPR Recital 37.

73 Except for those active in in primary production of agricultural products and the fishery and aquaculture sector.

74 See 'State aid: Commission prolongs and further expands Temporary Framework to support economy in context of coronavirus outbreak'

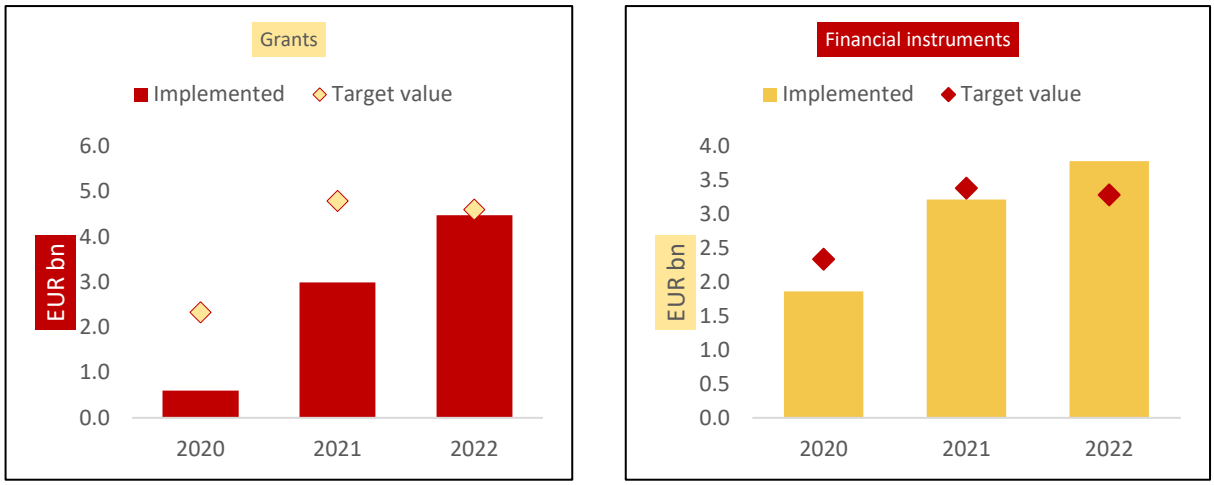
75 This is not obvious from the CRII Regulation (see Article 3(1) modification to the ERDF Regulation), which uses the word 'financing' which would generally be better understood within the context of financial instruments (versus 'funding' for grants). However, the Commission has explicitly stated that such support is possible in the CRII Q&A platform, see here. This was made possible through the changes made to state aid rules by the Temporary Framework for State Aid referred to before.

76 See Article 37(2) of the CPR: 'Support of financial instruments shall be based on an ex-ante assessment which has established evidence of market failures or suboptimal investment situations, and the estimated level and scope of public investment needs, including types of financial instruments to be supported.'

77 See Ordinance No. 271-A/2020 establishing the programme.

indicators[78] allow – to the extent that managing authorities reported on them – for tracking the expenditure on working capital. Figure 17 shows that the uptake of financial instruments was considerably faster than that of grants. In fact, grants fell short of the targets set until 2022, when this support was delivered through REACT-EU resources and the retroactive eligibility of similar measures under SAFE (Supporting Affordable Energy), an instrument put in place to combat the adverse effects of the energy crisis as part of the REPowerEU Plan[79]. However, as noted above, implemented values still paint an incomplete picture as data are only progressively becoming available.

Figure 17: Value of SMEs support to working capital – grants and financial instruments



Source: Own elaboration on European Commission data (CV20 and CV21)

The pivotal role played by financial instruments in delivering crisis relief to struggling SMEs is even more salient when looking at financial instrument uptake. Financial instruments were, already before the crisis, largely geared towards SME competitiveness[80] and were therefore prime candidates for delivering such support in the crisis context. Moreover, financial instruments are delivered by financial institutions (e.g. banks) that are often already familiar with the final recipients. This is likely to have been another key lever in ensuring the fast disbursement of funds. Financial institutions operate nationally or regionally and therefore possess a wealth of detailed and up-to-date information on (local) market needs. Finally, following a sluggish period between 2014-2019, financial instrument absorption rates were low, leaving managing authorities with a considerable margin of manoeuvre.

As a result of the above, the use of financial instruments picked up in earnest in 2020 and 2021. The number of recipients supported over the two years almost increased fivefold, with disbursements more than tripling in volume. Figure 18 shows that, at least in the case of ERDF/CF financial instruments, much of this uptick has taken place in 2020. The increase was no less dramatic for ESF and YEI financial instruments[81].

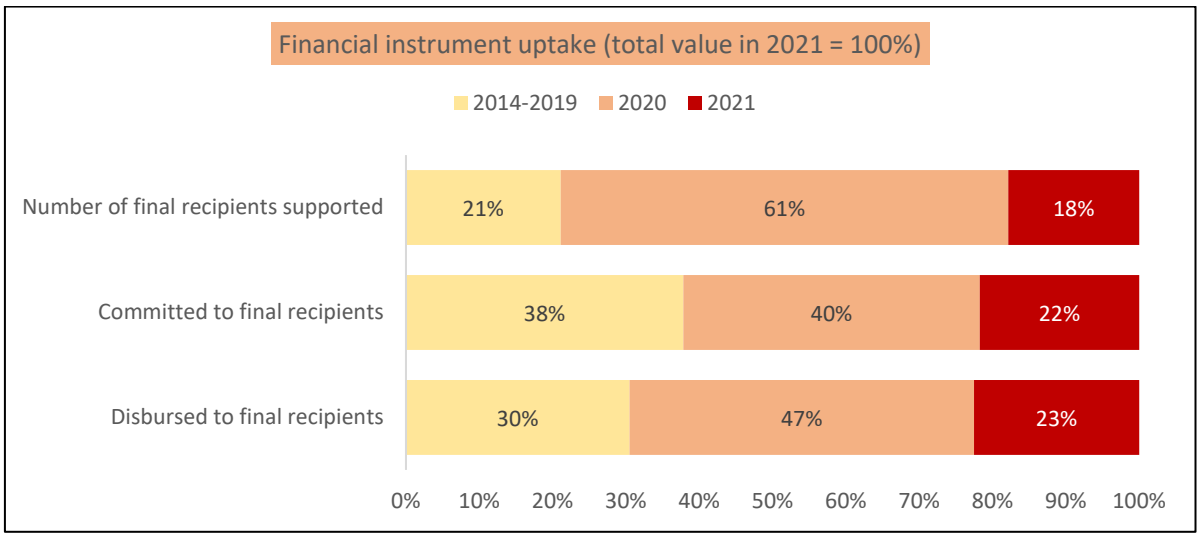
[78] CV20: Value of non-repayable financial support to SMEs for working capital (grants) in COVID-19 response (total public cost) and CV21: Value of financial support to SMEs for working capital other than grants (financial instruments) in COVID-19 response (total public cost).

[79] The modifications to the CPR in the REPowerEU package (REGULATION (EU) 2023/435) devote considerable attention to the eligibility of working capital. SAFE is only included in the peripheral scope of this study, as the uptake figures here are affected by it, but is not discussed in detail.

[80] 57% of commitments were made under Thematic Objective 3 (SME competitiveness) at the end of 2019. This ratio has increased to 71% by the end of 2021.

[81] The number of financial recipients supported more than doubled from 4175 at the end of 2019 to 10822 in 2021.

Figure 18: ERDF/CF financial instrument uptake as share of 2021 total



Source: Own elaboration on data summary reports on ESIF financial instruments for 2020 and 2021.

Regarding ERDF and CF financial instruments, two-thirds of the 678 0000 final recipients at the end of 2021 were microenterprises. A further one-fifth entered the small or medium-sized company definition[82], adding up to a total of 87% for SMEs[83]. ESF and YEI financial instruments almost exclusively supported SMEs and individuals[84] (European Commission – DG REGIO, 2021, 2022 and 2023).

Box 4: Example of a crisis response ERDF financial instrument: Prêts Rebond FEDER85

As part of the national emergency support plan for businesses affected by the COVID-19 pandemic, ERDF co-financed zero-interest loan schemes were set up across French regions to support SME cash flow and investments. The specific conditions varied from region to region, but they were generally provided for a 7-year period, required no collateral and ranged between EUR 10,000 and 300,000. The scheme was set up through Bpifrance, a public sector investment bank, which also provided advisory services.

Conditionality was light-touch and support could be requested online, with indications for time to disbursement for loans requested under EUR 50,000 between three to five days, but larger ones were also to be decided upon within a maximum of ten days.

Eligibility was wide, as it covered for instance:

- Intangible investments such as recruitment and training costs or advertising expenses;
- Physical investments with low collateral value: equipment designed/made by the company for its own needs or computer equipment;
- Cashflow support.

By the end of 2021, 15 regions had made use of this instrument.

82 Micro enterprises have a staff headcount of <10, and a turnover of ≤ € 2 m. Small enterprises have a staff headcount of <50, and a turnover of ≤ € 10 m, while medium-sized ones have a staff headcount of <250, and a turnover of ≤ € 50 m. For a more detailed definition of SMEs, see C(2003) 1422.

83 The largest users were Italy, Hungary, Poland, Greece and Spain in terms of amounts paid by the end of 2021.

84 52% of final recipients were SMEs, the remaining 48% were indivdiuals, with only one large enterprise at the end of 2021.

85 Schemes were set up separately by each region in collaboration with Bpifrance. See general infographic on the scheme here, and specific examples for Ile-de-France, Auvergne-Rhône-Alpes or Guadeloupe.

To better illustrate the structure – and diversity – of ERDF projects supporting working capital, we analysed project-level data for 17 programmes in Italy. The programmes were selected as they heavily leveraged both grants or reimbursements for working capital, as well as financial instruments as a method of funding.[86, 87]

While calls with a large volume of funding typically only contained a few projects funded, the calls supporting a large number of projects typically had an overall relatively low funding volume. Significantly more resources are allocated to national or regional guarantee funds which then undertake the task of supporting SMEs, compared to SME support originating directly from the funds (and hence noting beneficiaries directly in the project database).

Table 2: Five largest calls in terms of number of projects funded.

Name of project call	Number of projects funded under call	EU Funding for call[88]	Region	Operational programme
Microcredit COVID-19	10 301	EUR 3 546 6520	Friuli-Venezia-Giulia	Friuli-Venezia Giulia - ERDF
DGR No. 783 of 06/16/2020 - Action 3.1.1 - Contributions to support micro and small businesses affected by the COVID-19 epidemiological emergency in the trade, administration and personal services sectors	8 046	EUR 10 277 719	Veneto	Veneto - ERDF
COVID-19 Emergency – Digitalisation of micro, small and medium enterprises	2 532	EUR 4 390 343	Liguria	Liguria - ERDF
COVID-19 Emergency – Adaptation of SME processes	1 612	EUR 7 092 652	Liguria	Liguria - ERDF
COVID-19 Emergency Culture Crea Plus	1 180	EUR 20 842 889	National	Campania - ERDF

- The call supporting the largest number of projects at over 10,000 is the micro-loan scheme by the autonomous region of Friuli-Venezia-Giulia. The scheme grants loans to microenterprises exhibiting lower revenue between January and October 2021 than from January to September 2019. The loan amounts are based on the enterprise's turnover and have to be repaid within 60 months, with a 20% discount on the loan for the last 12 instalments.

[86] 2014IT16RFOP019, 2014IT16RFOP009, 2014IT16RFOP007, 2014IT16RFOP022, 2014IT16RFOP004, 2014IT16RFOP015, 2014IT16RFOP013, 2014IT16RFOP021, 2014IT16RFOP018, 2014IT16M2OP002, 2014IT16RFOP010, 2014IT16RFOP011, 2014IT16RFOP003, 2014IT16RFOP001, 2014IT16M2OP006, 2014IT16RFOP020, 2014IT16RFOP012

[87] OPs covering the following regions: Provincia Autonoma di Trento, Italian Minstry of Culture, Regione Liguria, Regione del Veneto, Regione Puglia, Regione Campania, Regione Autonoma della Sardegna, Ministero dei Beni e delle Attività Culturali e del Turismo, Regione Marche, Regione Abruzzo, Regione Lazio, Regione Umbria, Regione Autonoma Friuli-Venezia Giulia, Ministero dello Sviluppo Economico, Società Regionale per lo Sviluppo Economico dell'Umbria - Sviluppumbria S.p.A., Regione Basilicata, Regione Autonoma Valle d'Aosta, Regione Lombardia, Regione Calabria.

[88] Showing funds committed, not spent

- The scheme outlined in "Contributions to support micro and small businesses affected by the COVID-19 epidemiological emergency in the trade, administration and personal services sectors" on the other hand constitutes direct liquidity support for enterprises in sectors affected by the pandemic and being either micro or small. The amount of funding is determined by the number of employees of the enterprise in question, with the maximum being EUR 3,750.
- "COVID-19 Emergency – Digitalisation of micro, small and medium enterprises" by the Liguria region similarly presents a non-repayable grant, albeit only in the form of a reimbursement of up to 60% of eligible expenses. The expenses relate thematically mostly to increasing the sustainability or digital capabilities of enterprises and are only limited to SMEs. The call next down the list is effectively an extension of the preceding call by the Liguria region, with almost equal funding criteria and conditions.
- The nationally funded "COVID-19 Emergency Culture Crea Plus" grants non-repayable contributions to SMEs in the cultural sector, which can show a negative impact on turnover during 2020, compared to the year before. The basis of the expenses is the working capital.

Given the above changes in eligibility, part of the ESF support was explicitly earmarked for supporting JR schemes. According to the relevant COVID-specific indicator[89] target, this support intended to keep one million jobs[90] and included wage subsidies[91] and short-time work schemes. Regarding the latter, 16 Member States[92] made use of ESF to support STWs (European Commission, 2023). Some of this support has been substantial. For instance, Romania devoted EUR 300 million to this from its ESF envelope.[93] Given that data reported at this stage on the relevant result indicator is incomplete, no conclusions can be drawn on the extent to which initial targets were achieved.

e. Summary

Building on the understanding of the cohesion policy pandemic response instruments outlined in the intervention logic (Figure 9), the analysis in the above sub-sections focused on their contribution through their key features – additional liquidity, flexibilities, administrative simplification, and extension of eligibility. Overall, the assessment of the contribution of CRII, CRII+ and REACT-EU to crisis response can be considered positive. The consensus in the literature[94] is that the measures have contributed to easing fiscal pressures on national and local administrations and have allowed for addressing the multifaceted challenges resulting from the pandemic. However, incomplete data on the COVID-specific indicators – especially in the case of REACT-EU – makes the overall conclusion on the achievement of the overarching objective of the intervention logic (*Mitigate the economic, social and health consequences of the COVID-19 pandemic*) still preliminary.

Such assessments can, however, be made for CRII and CRII+ already, where the evidence presented in the previous sections suggests that these initiatives have successfully mobilised ESIF to address the crisis and implementation challenges. Much like in the case of the overarching objective, it is too early for a definitive assessment of the REACT-EU objective (*Fostering crisis repair in the context of the*

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89 CVR1: Number of participants maintaining their job 6 months after the end of support

90 970,855 as of the end of February 2024. See 'CV indicator - latest cumulative targets in Overview of cohesion policy coronavirus indicators dashboard

91 See e.g. the sectoral wage subsidy scheme in Hungary (GINOP-10.1.1-21), which provided non-refundable support in the amount of 50 percent of the gross wages in specific sectors, as well as its results here.

92 BG, CY, CZ, DE, EL, ES,, HU, IT, LT, LU, LV, MT, PL, PT, SI, SK

93 See answer of Commissioner Schmit to Parliamentary question E-003998/2020(ASW)

94 See articles cited in this section, notably ECA, 2023; Atkinson et al., 2023 ; European Commission, 2023 ; Böhme et al., 2022, Böhme et al., 2021; Böhme et al., 2023; EPRC, 2021; Atkinson et al., 2023 as well as Rubio (2020); Valenza and Brignani (2023) and Crist (2023)

COVID-19 pandemic and its social consequences and preparing a green, digital and resilient recovery of the economy). The discussion in this section noted its role in bridging investment gaps between immediate needs and longer-term crisis repair and resilience-building, in bolstering support for critical areas such as health, buttressing struggling enterprises through working capital and JR incentives, as well as supporting vulnerable groups. Its results in crisis repair – an area where results do not materialise immediately – can only fully be uncovered once more data becomes available. This is especially the case with green – particularly climate – and digital investments. There is country-level evidence that REACT-EU has contributed to increasing resilience to future crises[95], though assessments are far from unequivocal on its effectiveness[96] and to date only provide limited coverage of the overall support.

Certain side effects (e.g. reduction in total cohesion spending) and trade-offs (e.g. due to reallocations) remain unclear and require further investigation. These questions will be discussed in more detail in the subsequent section of this report.

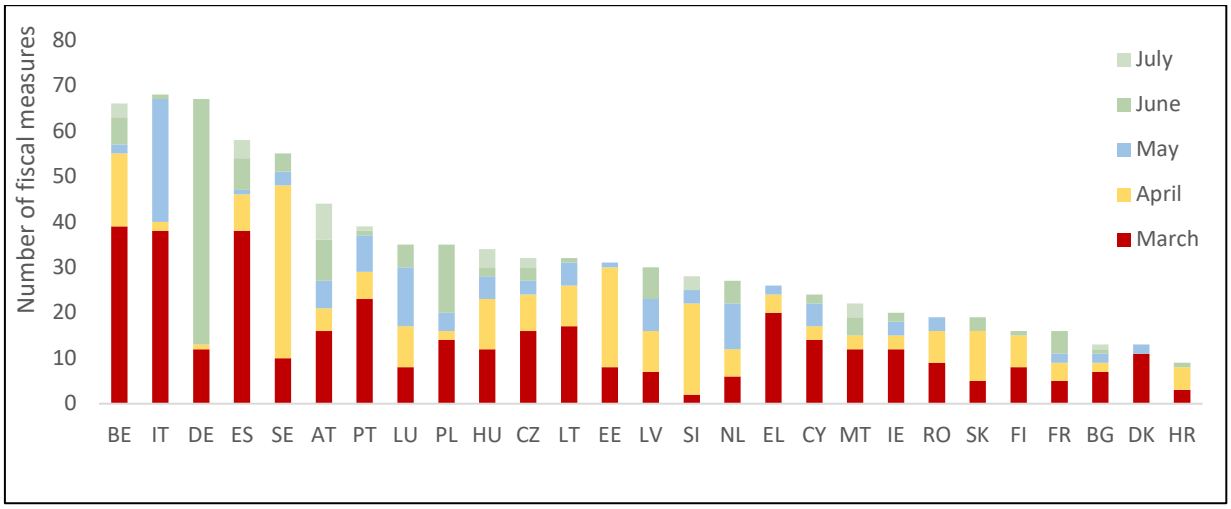
5.1.2. SURE

This section delves into SURE. Unlike in the case of cohesion policy measures, where a detailed assessment was done following the 'inputs' listed in the intervention logic, this sub-section follows the 'objectives' of the SURE intervention logic (Figure 10). The choice for a different approach is due to the different nature of the instruments. In the case of SURE, the policy 'input' is in the form of back-to-back loans and does not allow for meaningful conclusions on the successfulness of the intervention. By contrast, the focus on the outputs and results seems more sensible. Therefore, this section (broadly) follows these elements of the intervention logic.

a. Countries benefitting from support, financing provided and interest savings (outputs)

As the intervention logic analysis shows, one of the important considerations behind the introduction of SURE was to provide support to Member States that experienced a 'sudden and severe increase in public expenditure'[97]. Figure 19 (below) shows the number of fiscal measures that were adopted in the first five months after the onset of the crisis in 2020. Belgium, Italy, Spain and Portugal, which are the countries with the highest number of fiscal measures, are also among the largest beneficiaries of SURE.

Figure 19: Number of fiscal measures across EU27 Member States by adoption date (2020)



Source: CEPS, 2020

[95] E.g. the national evaluation of REACT-EU support to healthcare in Czechia

[96] See e.g. the study done by Ministry of Interior of Slovakia (Hodnotenie dopadov v oblasti podpory iniciatívy REACT–EU) or the evaluation of the REACT-EU support to the Dutch ESF programme (Evaluatie ESF deel van REACT-EU 2020-2024).

[97] Recital 5 of the SURE Regulation

Overall, of the 100 billion made available, the Council approved a total of EUR 98.4 billion in financial support to 19 Member States. The entire amount was disbursed in back-to-back loans to the 19 EU Member States which asked to benefit from the scheme. While the disbursement of the loan is only a pre-condition for the success of the measure and not a sufficient indicator of success, it is still worth mentioning that at the same time SURE was agreed, the European Stability Mechanism (ESM) designed a Pandemic Crisis Support to help ESM members with the financing of healthcare costs related to the COVID-19 crisis. This support was available at very low interest rates,[98] yet no loans were requested. Seen from this perspective, disbursements are still important.

The ECA (2023b) report estimates that Member States collectively saved EUR 8.5 billion in interest payments compared to funding the same interventions by borrowing from capital markets independently. The benefits are concentrated in some of the most indebted countries, notably Greece, Italy, and Spain, but have also hugely benefitted Poland and Romania.

b. Number of people supported (outputs)

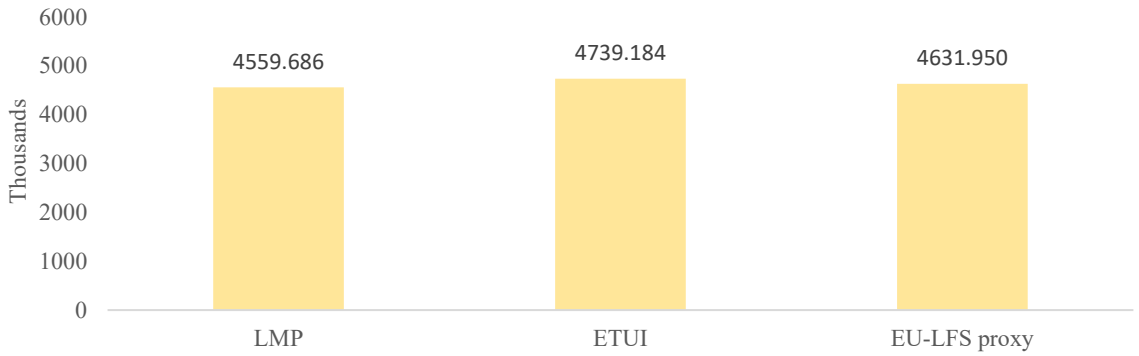
The uptake of short-time work or similar schemes funded by SURE is an important indicator, as it clearly signals the need for EU support measures.

According to Müller and Schulten (2020), by early May 2020, nearly 42 million workers – or 26.8 % of EU employees – had applied for access to programmes covered by SURE, far exceeding the number of allowances paid out during the 2008-2009 crisis (see Arpaia et al., 2010). In Italy, the National Institute for Social Security (INPS) reports that while 1.1 billion hours of temporary layoffs were authorised between 2008 and 2009, this number increased to 5.2 billion between March 2020 and April 2021. At the EU level, exact figures about the uptake measured by the number of beneficiaries are not available. Besides potential reposting issues, the main reason is the fact that the duration of the scheme is variable, and the same workers may have benefitted from the schemes at different points in time linked to the COVID-19 waves and the relative lockdowns.

Figure 20 below illustrates the estimates generated by Corti et al. (2023), based on the EU Labour Force Survey (EU-LFS) compared to Müller and Schulten (2020), based on the Labour Market Policy database (LMP in Figure 20), and European Trade Union Institute for Research (ETUI) numbers. Interestingly, all sources seem to converge to an average number of 4.5 million workers over 2020.

[98] According to the term sheet of the programme, the cost of ESM loans would have been determined by the base rate, which is based on the ESM's funding cost, plus a margin of 10 basis points annually, an up-front service fee of 25 basis points and an annual service fee of 0.5 basis points. Although the ESM did not borrow to finance the programme, its high credit rating (AAA by most rating agencies) suggests that the base rate should be assumed to be the same or lower than that of the EU. Overall, the applicable ESM rates may have been higher than the EU ones, due to the fees, but for several Member States still lower than market rates.

Figure 20: STW schemes in Member State beneficiaries of SURE – 2020 Annual averages



Source: Own elaboration. Based on the LMP database, ETUI country fiches and the EU-LFS. Annual averages of monthly (LMP and ETUI) or quarterly numbers (EU-LFS). The numbers for the EU-LFS include self-employed and are based on workers reporting being absent from or on reduced hours due to slack work for economic reasons. This corresponds to the "restrictive" definition of workers on JR schemes. See Box 5 for details on the EU LFS methodology. Data for LV is not available.

c. The effectiveness of job retention schemes and the SURE incentive (results)

An important question when assessing the success of SURE relates to the choice of the instruments it supported. The European Commission's *ex-ante* assessment that JR schemes were the most appropriate tools to tackle the economic effects of lockdowns was built on the experience of the Great Recession[99] and a large set of empirical evidence suggesting the positive effect of these schemes. The most recent literature focussing on COVID-19 seems unequivocal about the positive impact of JR schemes in mitigating the effects of the lockdowns on labour markets, as well as their role in facilitating the restart of the EU economy. Empirical studies suggest that had such schemes not been put in place, unemployment rates could have reached considerably higher levels. Estimates range from 2.5 percentage points in 2020 (Ando et al., 2022) to 3 percentage points (Lam and Solovyeva, 2023; Aiyar and Dao, 2021) and even 6 percentage points (in the OECD – OECD, 2021). The effect of JR schemes is not only confined to maintaining labour market attachment, either. Country-level evidence indicates that it protected workers' income and helped avoid further contraction of consumption. Aiyar and Dao (2021) estimate that in Germany, the contraction in consumption could have been 2 to 3 times larger in the absence of *Kurzarbeit*, the country's JR programme.

The fact that SURE appears to have nudged Member States to use JR schemes as a crisis-response measure can therefore be considered not only appropriate but also as an added value of the instrument. Nine countries without pre-existing STW schemes have indicated that the introduction of SURE encouraged them to adopt their own schemes, while others have noted that it allowed them to be more ambitious in the use of these instruments (European Commission, 2023b). The role of SURE in providing incentives to establish the schemes seems supported by the experience of Romania.[100] Like many other Eastern EU countries, Romania did not have in place the STW scheme at the time SURE was agreed. However, between the summer and autumn of 2020, national authorities managed to establish an eligible scheme. Furthermore, while detailed empirical evidence is missing, some commentators have also highlighted that the extension of the STW scope to small companies and self-employed is likely to have been favoured by access to cheap funding granted by SURE. This seems to be especially relevant for countries where the schemes already existed, but the scope was narrower. Additional evidence supporting the positive impacts of SURE on JR schemes is presented in Section e.

[99] See e.g. Boeri and Bruecker (2011) or Brey and Hertweck (2020)

[100] See the ETUI review titled 'Job retention schemes in Europe: Romania', available here

d. The macro approach to estimating the SURE employment effect (results)

The European Commission, in its five reports assessing the implementation of SURE, highlights that the success of SURE could be estimated by the difference between the observed unemployment rates and those that would have ordinarily resulted from the abrupt fall in GDP across Member States.

In the fourth bi-annual report, the Commission attempted to estimate this impact at the macro level. The approach consisted of producing a first estimate of the 'expected' increase in the unemployment rate given the decline in output growth in 2020[101]. This expectation was then contrasted with the actual observed changes in the unemployment rate in SURE beneficiary countries. The difference suggested that the actual change in unemployment was much lower than the expected value. Generating a scatterplot of funding and the size of the gap between expected and actual changes in unemployment, the bi-annual report found a mildly negative *correlation*[102] – the more funding, the smaller the real change in the unemployment rate compared to expectations.

This analysis, based on a standard macroeconomic approach, is sensible, but has two main limitations: Firstly, the estimates may be biased due to a mis-specification of the model, particularly because it is a static model, instead of a dynamic one. Focusing only on the initial amount of funding received and the final changes in the unemployment rate offers little insight into the intermediary processes that led to these outcomes, and when and how such funding was used. Second, and above all, the methodology identifies a correlation between higher SURE funding and lower unemployment rates, not a causal effect. The macro level of the analysis can hide large country differences, notably in terms of lockdown and response measures. During the period in which SURE was in place many other measures were also adopted and funds disbursed, which could also have contributed to contain unemployment increases. This makes it impossible to disentangle the direct impact of SURE. Furthermore, by using only a macro approach one cannot assess how SURE impacted the take-up of JR schemes. Corti, Ounnas and Ruiz de la Ossa (2023) show important country differences in the design of JR schemes, for instance in terms of their generosity (i.e. replacement rate and duration), eligibility or the actual type of the schemes (i.e. wage scheme (WS) versus STW scheme). SURE may have influenced these decisions, affecting the take-up and the labour market impacts of the scheme. To further understand the relationship between SURE and JR schemes, the following section makes use of individual-level data from the EU-Labour Force Survey (EU-LFS) to study in more detail the relationship between SURE and the design and take-up of JR schemes.

e. Towards a better understanding of SURE support for job retention – evidence from the EU-Labour Force Survey

Measuring workers on Job Retention Schemes in the EU-LFS

The methodology used to obtain a proxy measure for workers on JR schemes is sketched out in Annex I.a and more details can be found in Corti, Ounnas and Ruiz de la Ossa (2023). It is important to keep in mind that the EU-LFS does not provide a direct way to identify workers on JR schemes[103]. Rather, the EU-LFS provides a proxy estimate based on individuals who report being absent from work or being on reduced hours for economic reasons and who still receive compensation from their employers.

[101] The approach was based on Okun's law. Okun's law suggests a systematic negative relationship between output growth and the unemployment rate (Okun, 1962). Such a relationship was used to generate estimates of the expected increase in the unemployment rate, given changes in GDP, across beneficiary Member States without job retention scheme interventions. The output of the regression model supports a negative relationship between the change in unemployment rates and real GDP growth that is statistically significant and in line with the literature. This suggests that Okun's law is a useful heuristic for estimating changes in the unemployment rate for Member States without job retention scheme interventions or SURE funding.

[102] This is reflected in a rather low R-squared of 0.3, which signals that other factors are also important to explain the limited observed increase in unemployment rates.

[103] It is however possible to do so in (some) national Labour Force Surveys. See Lafuente and Martinez (2022).

Whereas it is not possible to guarantee that these workers are actually on a JR scheme, they have maintained an attachment with their employers and receive some income, which constitute the core objectives of JR schemes.

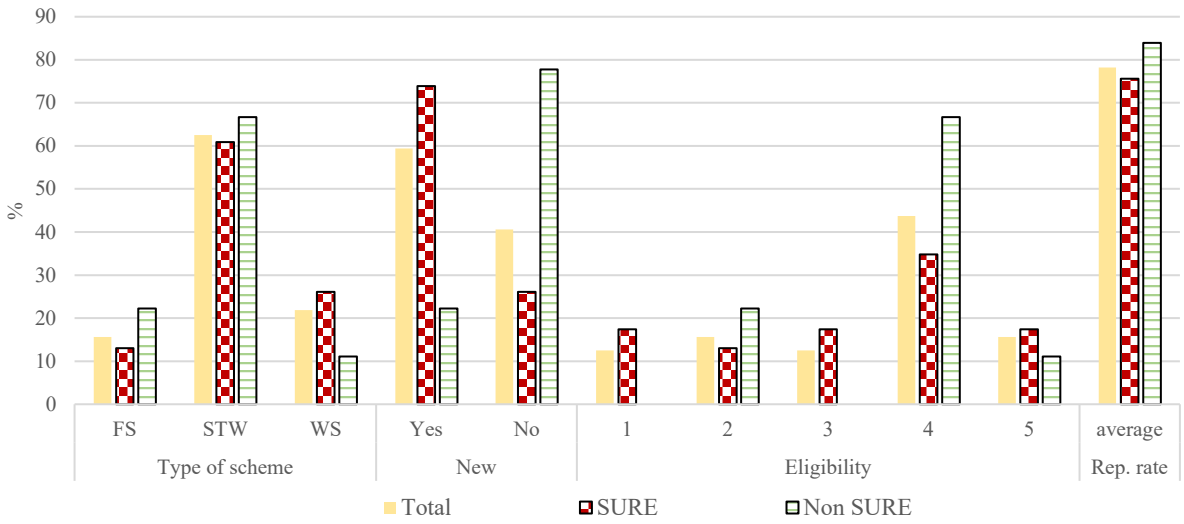
It should also be noted that the new Integrated European Social Statistics Framework Regulation (introduced in 2021) led to the discontinuation or modification of some key variables in the EU-LFS used to generate the proxies. As a result, EU-LFS data is only used to generate JR scheme numbers for the year 2020. Quarterly LFS data for Germany is also not available in 2020 and it is always important to remember that data collection was severely affected during the pandemic, in particular during the first half of 2020. Results for this period should therefore be considered with care. Annex I.b presents descriptive evidence on JR scheme participants based on the EU-LFS proxy.

SURE and Job Retention Schemes

Since SURE consists of back-to-back loans to Member States, its impact on the labour market can only be indirect, through support to JR schemes. This section provides additional evidence on this indirect relationship between SURE and JR schemes.

As briefly explained above (sub-section c), SURE is likely to have incentivised the adoption of STW schemes and raised the take-up of JR schemes in beneficiary Member States. Figure 21 provides evidence to support this claim based on the work of Corti, Ounnas and Ruiz de la Ossa, (2023), who mapped 32 JR schemes in place during the pandemic (see Table 3 in Annex I.b) and their characteristics (e.g. type, duration, replacement rate). These characteristics have been used to compare JR schemes in SURE and non-SURE beneficiaries (Figure 21). Although a relatively small number of schemes could be analysed (relative to the multitude of existing ones), and the difficulty of the mapping exercise aside, one key interesting takeaway is that close to 74% of schemes (17 out of 23) in SURE beneficiaries were new schemes whereas 78% of schemes (7 out of 9) in non-SURE beneficiaries existed before the pandemic. These results appear to support the evidence that SURE benefitted Member States that developed new JR schemes. By construction, this necessarily increased the take-up in these Member States and hence, at EU level.

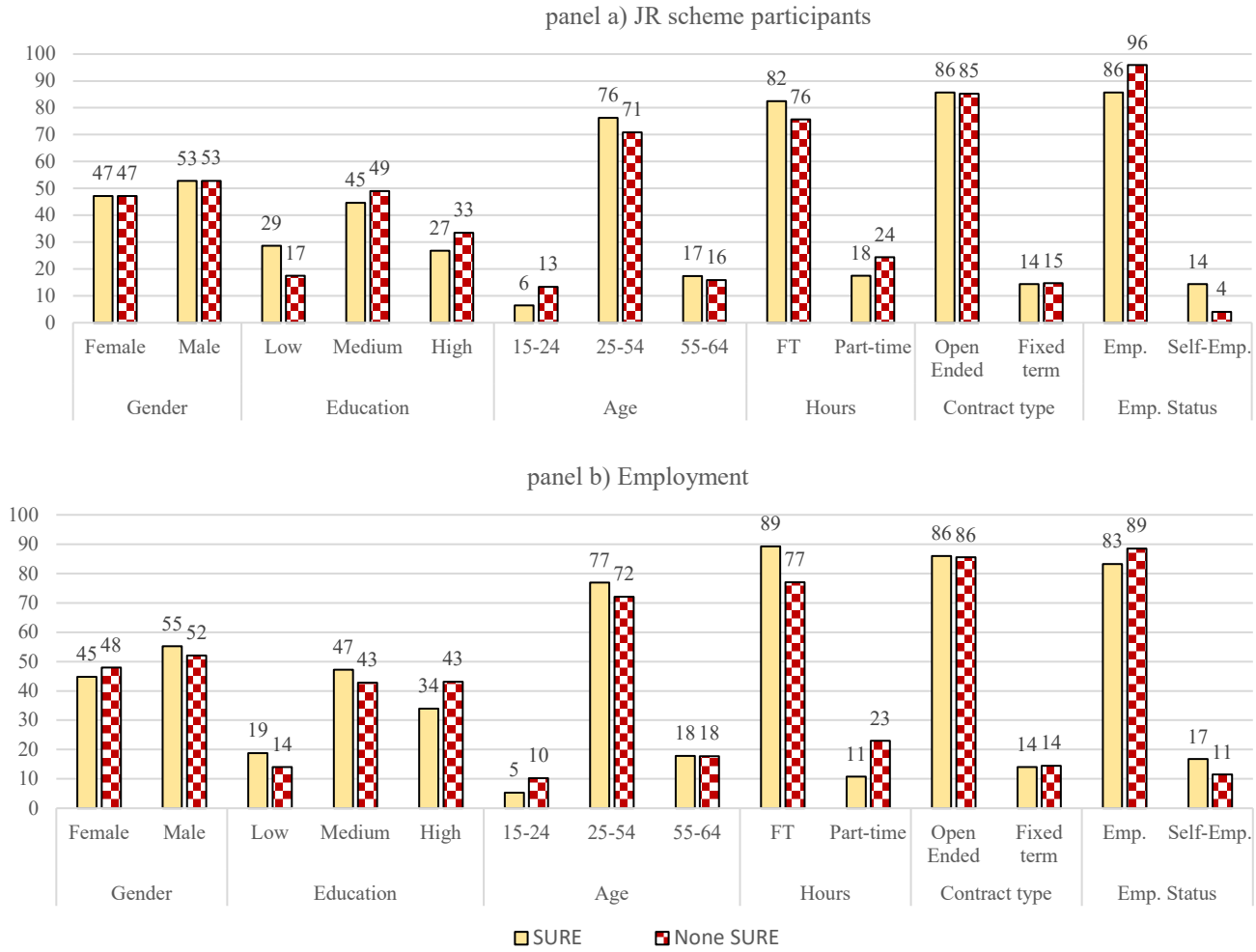
Figure 21: Design of JR schemes in SURE and non-SURE Member States



Source: Own elaboration based on Corti et al (2023). The Figure displays characteristics of JR schemes aggregated by SURE and non-SURE Member States. The "type of scheme" includes three different types of JR, namely Furlough Scheme (FS), short-time work scheme (STW) and Wage scheme (WS). "New" indicates whether the JR scheme already existed before the pandemic, "Eligibility" is a five-point scale ranging from "1: scheme covers open-ended employees" to "5: scheme covers all workers and self-employed". "Rep. rate" shows the average replacement rate. This number should be treated with care given that replacement rates are rarely unique and depend on the individual situation of the worker. The midpoint was taken if an interval was provided.

In addition, Figure 22 shows interesting evidence regarding the scope of JR schemes. Panel a) suggests that the share of self-employed workers benefitting from JR schemes was greater in SURE compared to non-SURE Member States (respectively, 14% and 4%) as was the share of low-educated workers (29% versus 17%). These differences are likely to be driven by structural factors as panel b) shows that the workforce in SURE beneficiaries Member States is more likely to be self-employed and less educated. Nevertheless, these differences appear to be greater when focusing on the stock of JR schemes participants, which therefore tends to support the idea that JR schemes in SURE beneficiaries were broader in their scope and more inclusive (e.g. towards low-educated but also part-time workers[104]).

Figure 22: Descriptive evidence on workers in JR schemes – (non) SURE beneficiaries - 2020



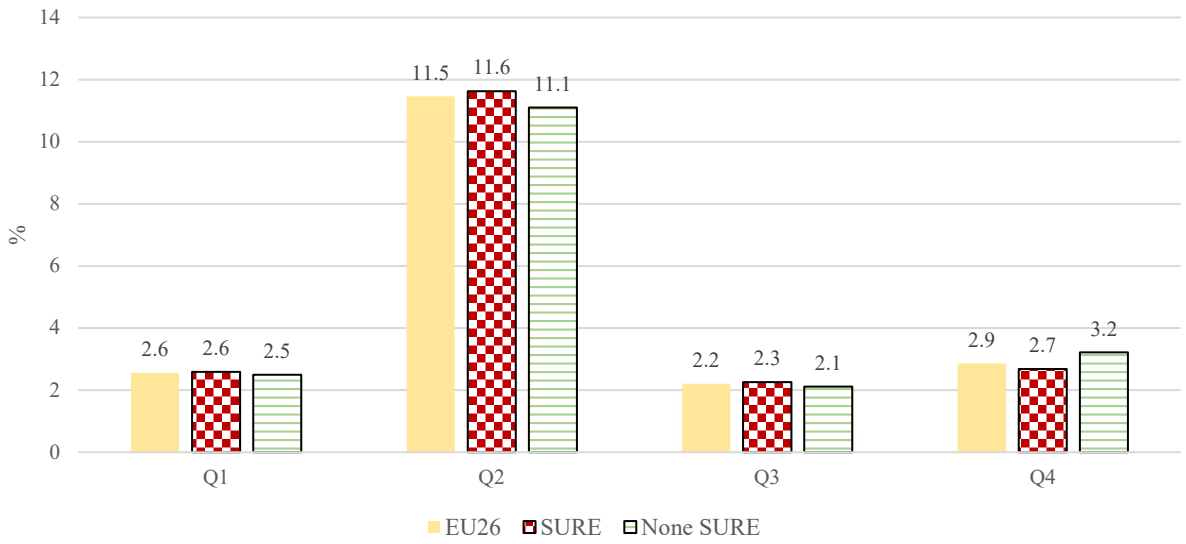
Source: Own elaboration based on EU-LFS data for 2020. The Figure displays the composition of the stock of workers on JR schemes by gender, education (three levels), Age (three age groups), Full-time vs Part-time workers and type of contract. The same numbers for the entire stock of workers are shown for comparison purposes. Numbers are expressed in percentages. See Box 5 for details on the EU LFS methodology to compute the numbers of workers on JR schemes.

Furthermore, if JR schemes in SURE beneficiaries have been broader in their scope, it could be expected that their take-up rate (i.e. the number of JR participants divided by the number of employed workers) would also be greater. An important caveat of the EU-LFS is that it can only cover 2020 and it is unclear whether SURE would already have an impact on the take-up at this early stage. Bearing this limitation in mind, Figure 23 displays JR schemes' take-up rates in SURE and non-SURE beneficiaries in quarter 1

[104] Part time workers represent 11% of the total workforce, as shown in Figure 22 panel b) and 18% of JR schemes participants in panel a). Note that the age compositions displayed in panel a) are similar to the age compositions in the total workforce for SURE and none SURE beneficiaries.

(Q1) to quarter 4 (Q4) of 2020. The Figure shows that take-up rates were similar in Q1 and Q3 but greater in SURE beneficiaries in Q2, corresponding to the height of JR scheme usage (11.6% and 11.1% respectively), and smaller in Q4, when the second wave of the pandemic hit (2.7% and 3.2% respectively). This evidence tends to be supported by our quantitative analysis of JR schemes take-up[105]. Estimation results indicate that in Q2 2020, the probability to be on a JR scheme for workers in Member States benefitting from SURE was around 1% (and up to 2% in some versions of the estimated model) greater than the same probability for workers in none SURE beneficiaries. In other words, workers in Member States benefitting from SURE were more likely to be on JR schemes in Q2 2020 when compared to workers in none SURE beneficiaries Member States. This effect can be considered small but it is important to remember that most SURE beneficiaries implemented new JR schemes (Figure 21). Hence, the novelty of the schemes could be associated with a learning curve related to their implementations, which could be expected to initially hamper the take-up. Overall, results from the quantitative analysis are in line with the evidence displayed in Figure 23 and indicates that in addition to incentivise Member States to create new JR schemes, SURE also had a small but positive impact on the take-up of the schemes. The potential broader scope of JR schemes in SURE beneficiaries and the possibilities offered by SURE to be more ambitious in the design of the schemes (see sub-section c) could explain this positive impact on the take-up.

Figure 23: Take-up rates for SURE and non-SURE beneficiaries



Source: Own elaboration based on EU-LFS data. Take-up rates are computed as the (proxy) stock of workers on JR schemes divided by the population in employment (i.e. employees and self-employed) and in Layoff.

f. Summary

Commentators[106] widely agree that SURE was a fitting response to the COVID-19 crisis. Based on the findings presented in this section, and the empirical analysis in Annex II[107], three key aspects can be emphasised. Firstly, a substantial body of literature highlights that short-time work schemes are

[105] These results are preliminary which support the conclusions obtained from the descriptive evidence discussed in this section, but additional explorations and investigations would be required to draw more robust conclusions. See discussion in Annex I.c for more information.

[106] Including the ECA, Corti and Alcidi (2020 and 2021), Müller et al., (2022), McDonnell et al. (2021). In addition, SURE won the European Ombudsman Award for Good Administration 2021.

[107] Annex II develops a more sophisticated methodology to measure the impact of the STW schemes on employment by constructing a counterfactual, enabling the estimation of the number of jobs saved in 2020.

inherently counter-cyclical, making them well-suited for crisis response. Secondly, the tool was particularly effective in light of the unique nature of the COVID-19 crisis. The temporary and mandated shutdown of the economy meant that as lockdown measures eased, businesses could swiftly resume operations with their workforce made again readily available through JR schemes. Thirdly, unlike unemployment schemes primarily focused on income stabilisation, STW schemes aim to maintain labour market attachment, which has longer-term social and economic advantages, despite its temporary nature. Additionally, while some Member States had already implemented similar measures during the financial crisis, others resorted to the schemes after SURE was approved. This suggests that SURE incentivised the adoption of the schemes. Furthermore, evidence indicates that the scope of the JR schemes was broader in Member States that benefitted from SURE and the schemes protected a wider range of workers, including low-educated and self-employed workers.

5.2. Challenges and implementation bottlenecks

While the above description focused on the success of the crisis response instruments in the focus of this study, it has paid less attention to the hurdles that hindered implementation and the additional challenges created by the instruments themselves.

This section maps the challenges related to the implementation of each instrument. Based on the evidence already available, the challenges for cohesion policy instruments seem somewhat different from those related to the implementation of SURE; however, there are common issues.

a. Administrative capacity

A common theme across all instruments is notably that the pandemic context has created practical difficulties for national administrations. Responding to the crises has created an additional workload for authorities in charge of implementing spending programmes. Besides an increase in the workload, administrative capacity was further impaired by changes in the authorities themselves, for instance, adjustment to the shift to a digital environment (Dozhdeva and Fonseca, 2021; Böhme et al., 2021). These factors have limited the effectiveness and/or timeliness of crisis response measures (European Commission, 2023).

As with any new instrument, the introduction of CRII, CRII+ and REACT-EU has resulted in an additional administrative burden related to new administrative requirements (e.g. Operational Programme modifications) and the time needed to familiarise with them. This was particularly the case as CRII and CRII+ were introduced at the outset of the pandemic when, as noted above, staff in managing authorities were already under pressure. This has also been the case for REACT-EU, which, however, came at a later stage. Evidence indicates that the additional burden was more than offset by time savings from the administrative simplifications (ECA, 2023; Dozhdeva and Fonseca, 2021; European Commission, 2023; Atkinson et al., 2023; EPRC, 2021).

Capacity issues have been in a few cases exacerbated by unclear guidance on the use of flexibilities and scope (Atkinson et al, 2023).[108] These issues have been mitigated by the timely support and dedicated Q&A database[109] of the Commission (ECA, 2023). Beneficiaries of funds have also struggled with capacity issues. This was partly because many were new to the procedures and monitoring framework of EU funds or suffered from other pandemic-related challenges (e.g. hospitals or SMEs). This created a further bottleneck to effective implementation (European Commission, 2023).

Besides limited administrative capacity, public support under cohesion policy has widely been plagued by implementation bottlenecks during the pandemic. These challenges were quite diverse and reflect the multifaceted nature of the public health crisis. For instance, recruiting participants or reaching

[108] Namely in terms of how funding could be reallocated, the application procedure to reprogramme funds and eligibility of beneficiaries.

[109] The Commission shared its answers to questions regarding CRII and CRII+ with all managing authorities through a dedicated website.

some target groups became harder due to the public health measures put in place to halt the spread of the virus. This was particularly the case for vulnerable groups, such as the homeless for example due to homeless centres being closed, or beneficiaries in remote rural areas where accessibility was drastically reduced (Atkinson et al., 2023). Similarly, with on-site work grinding to a halt, several infrastructure projects had to be temporarily shelved or suffered delays. Supply chain interruptions and border closures affecting cross-border projects also had a disruptive effect (Böhme et al., 2021). There is evidence that many projects have been completely cancelled as a result (ECA, 2023). In 2022-23 REACT-EU implementation has also been affected by inflationary pressures, with energy, raw material and other product prices rising rapidly. These developments have also caused delays in many projects and led to contract modifications and restructuring as planned expenditure no longer matched the incurred costs. The challenging macroeconomic environment and uncertainty are also likely to have reduced the appetite for engaging in ESIF-funded projects (Dozhdeva and Jabri, 2023; Dozhdeva and Fonseca, 2021).

b. EU fund absorption

Another issue[110] – specific to CRII and CRII+ – relates to already high commitment rates at the time when they were introduced. Therefore, the potential for reallocating funds had limited impact in countries where implementation was already more advanced. The funding had in many cases been exhausted extremely rapidly (EPRC, 2021; Atkinson et al., 2023; Dozhdeva and Fonseca, 2021). Yet EU fund absorption became challenging.

The introduction of NGEU has fundamentally altered the EU funding landscape and has raised concerns over absorption. The unprecedented scale of fiscal stimulus packages at both EU and Member State levels led to fears about whether the new resources could be spent within the short timeframe for which they were earmarked. REACT-EU provided a large volume of funds to be spent in a relatively short period. Moreover, as a result of its allocation key, countries hardest hit by the pandemic's economic repercussions were some of the largest beneficiaries of REACT-EU funds. Many of these were also the countries that exhibited the lowest absorption rates before the onset of the pandemic. For instance, the two largest recipients of REACT-EU funds, namely Italy and Spain, had only spent 29% of their 2014-2020 cohesion policy allocations by the end of 2019.

Moreover, risks related to higher decommitment rates for REACT-EU have also been identified. This was due to the pandemic-specific nature of some of the targeted sectors and interventions. With the economy recovering from the shock, such measures could see less uptake. Extending project timelines, contracting issues and inflationary pressures also contribute to this risk. As a result, managing authorities have resorted to the increased use of over-committing (overbooking), namely to award support volumes higher than the total planned costs of the programme. In 2021, the amounts decided were 112% of planned resources, with this ratio rising to 118 in 2022. This is seen as a prudent measure to avoid losing funds at the end of the period (Michie and Georgieva, 2021; dashboard: tracking cohesion policy investment progress).

Available evidence[111] suggests that pandemic measures did not significantly affect the absorption of 2014-2020 cohesion policy funds. The Commission's evaluation of CRII and CRII+ for ESF and FEAD states outright that 'the outbreak of the COVID-19 pandemic did not impact the financial performance of the ESF'112. In comparison with the preceding (2007-2013) programming period, structural fund

[110] Already discussed in section 5.1.

[111] Besides the studies cited below (e.g. ECA, 2023; Bachtler and Mendez, 2023, Böhme et al., 2022, etc.), a comprehensive assessment has been carried out on this issue by Ciffolilli et al. (2023) 'Absorption Rates of Cohesion Policy Funds'.

[112] P. 28.

absorption has been slower throughout the seven years. This can generally be attributed to the shift from the N+2 rule to N+3[113] (Böhme et al., 2022). Another explanation credits the possibility of shifting funding and other simplifications such as 100% co-financing (Ciffolilli et al., 2023). Finally, the ECA (2023) report also indicated that Member States had a strong pipeline of projects to benefit from financing that exceeded their initial cohesion envelope.

While absorption rates for the 2014-2020 period might not have considerably suffered, the combined effect of several funding streams and additional cash has strained the capacities of national administrations and is likely to have affected the current period (Dozhdeva and Fonseca, 2021). According to the European Court of Auditors, the parallel programming of the RRF and cohesion policy is problematic, as the delays traditionally associated with MFF programming were further prolonged. This was in part attributed to the involvement of managing authorities in programming REACT-EU, the RRF (to some extent), CRII, CRII+, CARE, FAST-CARE and SAFE[114]. Other authors have echoed similar concerns, focusing especially on Spain and Italy, which received some of the largest RRF allocations and have traditionally faced difficulties in effectively utilising and absorbing EU funding.[115] As a result, the preparation of the 2021-2027 partnership agreements and programmes has been delayed (ECA, 2023; Bachtler and Mendez, 2023).

Moreover, REACT-EU absorption has generally been slower. At the time of writing (end of February 2024[116]), absorption stood at only 65%, though as repeatedly pointed out, this data is still incomplete and not indicative of the final figures. The tight timeframe and substantial amount of funding under REACT-EU have already been highlighted as particularly challenging for national authorities. Moreover, REACT-EU programming often involves capital investment in projects with longer lead times, the purchase of specific equipment affected by supply chain disruptions or delays in production. This further exacerbates absorption pressures (Dozhdeva and Jabri, 2023).

In the case of SURE, once it was approved, the procedure for Member States to access the funds was fast. Absorption was not a major issue. The main challenge was the short timeframe within which the funds had to be spent, creating considerable pressure on national administrations, as well as the Commission. Absorption issues have only materialised in two cases. Romania was the more severe one, where in early 2022, one year prior to the end of the eligibility period, there was an absorption gap of EUR 3 billion out of the total of the EUR 4.1 billion envelope. Available evidence points to limited previous experience with similar schemes, an insufficient adaptation to the structure of the local economy, as well as a complex setup reducing participation as the primary reasons (Munteanu et al., 2021). Following close coordination with the Commission, the amount granted was reduced to EUR 3 billion, while also additional eligible expenditure was identified. In the case of Poland, the absorption gap identified at the beginning of 2022 was closed through the inclusion of two other SURE-eligible measures, both of which were health-related (European Commission, 2023b).

c. SURE as a special case

As mentioned above, SURE was a temporary instrument (it was deactivated at the end of December 2022) based on back-to-back loans (not grants like the other instruments). Two aspects, which make it inherently different from other EU budget instruments, deserve attention.

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[113] In 2007-2013, the requirement was to spend by the end of the second year after allocation. This has been increased by another year for the 2014-2020 period, effectively extending eligibility until 2023. The 2021-27 period relies on a mix of the two, with the N+3 rule applying with the exception of the last year (2027), where N+2 is applicable.

[114] European Court of Auditors (2023a).

[115] Núñez Ferrer and Ruiz de la Ossa (2023).

[116] Latest budget execution data obtained from dashboard on the 27th of February, 2023; latest data available here.

First, SURE was created *ex novo* and the design enabled the EU to borrow through guarantees offered by individual Member States. At the time SURE was proposed, it proved relatively easy to get Member States' support and commitment to offer guarantees for loans. However, this should not be taken for granted. In the setting that was used, the lack of support from one single Member State can jeopardise the availability of the instrument. If this approach were to be used in the future, lack of agreement on guarantees could represent major obstacles.

Second, while this is crucial to assess its impact of SURE on employment, this aspect has limited relevance from the point of view of the SURE design and its implementation in a narrow sense. The responsibility for the institutional design of the funded JR schemes and its impact does not fall on the Commission but on national governments. However, there is no doubt that if SURE loans are used to finance schemes that have no tangible impact or are susceptible to fraud, the EU value added by SURE would be strongly diminished.

6. SHORT-TERM CRISIS RELIEF AND LONG-TERM STRUCTURAL INVESTMENT: A BALANCING ACT?

The strategies for anti-crisis investments face a delicate balancing act. On the one hand, they have to reflect the prevailing economic and political circumstances that require short-term action prioritising areas with the highest impact on mitigating the negative consequences of the emergency. On the other, they must be targeted and aligned with broader strategic objectives, as well as adhere to sound financial management rules. The above spells out an inherent dilemma between achieving immediate and future objectives. In most cases, there are no obvious choices or easy solutions. Therefore decision-makers have to make use of resources while being aware of the existence of certain trade-offs (Allain-Dupré, 2011).

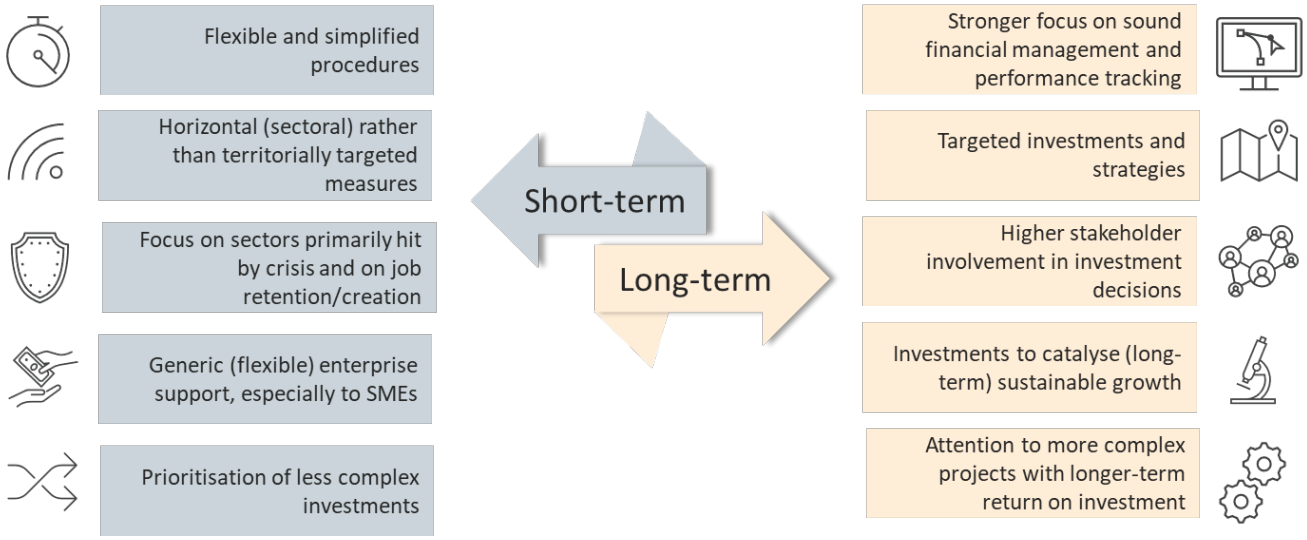
Concerns that using EU cohesion funds to address successive crises could endanger the policy´s long-term investment goals have been raised by some EU institutions. In its report on the cohesion policy response to the pandemic, the ECA concluded that 'there is a risk that the repeated use of cohesion policy to address crises may impact its primary strategic goal to strengthen economic and social cohesion between European regions'.[117] In November 2023, the General Affairs Council discussed the future of EU cohesion policy. In its conclusions, the Council reiterated that "cohesion policy is a long-term policy, not a crisis instrument" and concluded that "cohesion policy regulatory framework should be able to adapt to new developments and unexpected events while recalling the long-term transformational nature and structural objectives of cohesion policy".[118]

In this section, we discuss whether and to which extent the findings from our analysis reveal the existence of this trade-off. As shown in Figure 24, this trade-off can materialise in different ways: in the procedures for planning (continuous re-programming to adapt to changing circumstances vs. long-term planning), the procedures for implementation (use of simplified procedures vs focus on sound financial management), the types of sectors receiving support (sectors primarily hit by the crisis and providing short-term returns versus those whose development is crucial to support long-term sustainable growth) and in the type of projects prioritised (less complex versus more complex projects). Our analysis will focus primarily on cohesion policy. The temporary and inherently crisis-mitigation nature of SURE makes most of the trade-offs defined above irrelevant for SURE.

[117] Paragraph 85, p. 42.

[118] Council conclusions on the future of cohesion policy, approved by the Council (General Affairs/Cohesion) at its meeting 30 November 2023. Available at: https://data.consilium.europa.eu/doc/document/ST-14481-2022-INIT/en/pdf

Figure 24: Trade-offs between long and short-term investment objectives



Source: Own elaboration, building on Allain-Dupré (2011)

6.1. Does crisis response compromise the long-term strategic approach of cohesion policy?

a. Stability of planning

As demonstrated in Section 5, the crisis response measures under cohesion policy enhanced considerably the capacity of managing authorities to reallocate funds. As noted by various studies, the increased flexibility was largely welcomed by managing authorities and other bodies responsible for implementing cohesion policy (ECA, 2023; European Commission, 2023; Atkinson et al., 2023; Böhme et al., 2023) and was extensively used. Actual reallocation of resources however was limited by several factors. In the last year of the regular programming period, only uncommitted funds could be reallocated, and only towards pandemic-related interventions. In addition, the governance structures and principles overseeing the reprogramming remained unchanged, as managing authorities stayed the same. However, as noted by Atkinson et al (2020), the re-programming of funds under CRII and CRII+ was not always done in accordance with basic horizontal principles, which are essential to guarantee the long-term strategic approach of the structural funds.

Respect for the partnership principle, a cornerstone of cohesion policy, reportedly declined over the implementation of CRII and CRII+ (Atkinson et al., 2023; EPRC, 2021). While these instruments did not explicitly reference or exclude the application of this principle[119], it was not consistently upheld in practice: in some regions, social partners and other stakeholders were significantly involved in reprogramming processes but, in others, there was limited or no involvement. The weak engagement of stakeholders was often attributed to the necessity to respond quickly to the emergency.

A well-targeted and circumscribed capacity to re-programme EU cohesion funds in response to unforeseen circumstances does not inherently jeopardise the overall long-term strategic philosophy of EU cohesion funds. However, as experience has shown, **in emergency situations adhering to the principles guiding the use of EU cohesion funds can be challenging and may consequently be sidelined.**

[119] Rather than an 'abstract' principle, the partnership principle is detailed in the European code of conduct on partnership in the framework of the European Structural and Investment Funds as well as a Commission delegated regulation (Commission delegated Regulation (EU) of 7.1.2014)

Another indicator of the effect of the pandemic impact on the stability of planning hails from coherence with longer-term strategies and EU objectives. While reliance on longer-term strategies to accommodate immediate needs can reduce the tension between short- and long-term objectives (Allain-Dupré, 2011), in practice it presents challenges. During the pandemic, ERDF and CF funds were mostly reallocated from long-term strategic areas such as R&D, infrastructure and environmental initiatives to support SMEs, healthcare systems and citizens. Similarly, ESF investments were rerouted towards supporting individuals mostly affected by the crisis (i.e. vulnerable groups), and spending targeting upward convergence and structural inequalities, for example in education and training, were downscaled (Böhme et al., 2023; see also Figure 15 and the related discussion in Section 5.1). Such a reorientation cannot easily be matched with longer-term EU strategies, such as enhancing economic competitiveness or facilitating the green and digital transitions. However, by mitigating the asymmetric impact of the pandemic on more vulnerable target groups, these measures do seem to be aligned with the Treaty-based obligation of cohesion policy to reduce economic, social and territorial disparities[120], although with a longer-term 'hangover effect' on structural inequalities. **From this perspective, reallocations under CRII and CRII+ show (at best) a modest level of coherence with longer-term strategies.**[121] Nonetheless, reallocations towards more developed regions – especially when coming from less developed ones – could affect this Treaty-based obligation.

The aggregate data presented in this study hides important differences in national and regional approaches and therefore the extent to which such reallocations actually yielded a reduction in expenditure in some regions is unclear. It is possible for instance that reduced expenditure over the pandemic was compensated through national funding. Projects could also have been shifted to REACT-EU, the RRF or even the 2021-27 programming period.

In addition to being a continuation of short-term measures, including those introduced under CRII and CRII+, REACT-EU was also intended to serve medium-term objectives, which should be better aligned with EU and overall cohesion policy objectives. The latter include investments to promote education, skills development, and the digital and green transition. However, the evidence provided by the ECA that the 25% expected spending on climate objectives[122] is unlikely to be met casts some doubts over the extent to which such investments have actually been implemented.[123] At the time of writing, the latest data (February 2024) indicate that only 65% of the REACT-EU funds had been absorbed (i.e. paid to date), making it difficult to draw conclusions on the implementation of these investments.

b. Economic efficiency and crisis mitigation

As remarked by both the ECA and our own analysis, the implementation of CRII and CRII+ has resulted in a shift of 10% of the initial allocations even though the pandemic hit in the last (regular) year of the programming period when most funding was already committed. These shifts, described above (and in Section 5), indicate a clear strategic reorientation from long-term strategic areas to satisfying immediate needs. Looking specifically at the expenditure categories, it becomes evident that such shifts were aimed at addressing the public health crisis. These include allocating funds for working capital in SMEs, providing enterprise support for supplying PPE to the healthcare sector, and procuring ventilators or medicines for testing and treatment of COVID-19. There are two important caveats here.

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120 Article 174 TFEU

121 The Commission's evaluation of the use of CRII and CRII+ for ESF and FEAD (European Commission, 2023) had a positive take on coherence with 'long-term cohesion policy' measures, though based on the somewhat inconclusive evidence base behind this analysis, this seems to refer to alignment between these instruments and REACT-EU. REACT-EU, in turn, is a short- to medium-term crisis response instrument, and thus cannot be taken as a benchmark to conclude on long-term strategic alignment.

122 Expected, as it appears only in the recitals.

123 Uptake between October 2022 and September 2023 has been sluggish at best, as allocations increased from EUR 6.1 billion to EUR 6.6 billion over that period, roughly half of the expected spending on this objective. See ESIF Annual Summary Reports for 2021 and 2022.

First, only uncommitted funds were reallocated under CRII and CRII+. In practice, this means that no actual projects were selected to be funded through these amounts yet. Earmarking funds for certain investment areas does not necessarily guarantee that eligible projects of sufficient quality will materialise and therefore receive support. Thus, at least in theory, no actual projects were discontinued as a result of CRII/CRII+ flexibilities. Second, as shown by Böhme et al. (2022), several targets linked to long-term investments (e.g. R&D, environment) that suffered severe cuts in 2020 saw (sometimes considerable) upward revisions in 2021. This did not, however, offset the overall strategic reorientation of expenditure.

These shifts are largely in line with the logic of the trade-offs presented in Figure 24. Swift crisis response requires targeting sectors and beneficiaries that were the most vulnerable to the consequences of the lockdown measures. The same applies to enterprise support, notably SMEs, struggling to cope with staff becoming unavailable, a major demand shock and supply chain disruptions.

Trade-offs do not necessarily materialise regarding which target groups or sectors are best to support, as this is very difficult to judge *ex-ante* for long-term goals. The actual projects that support is spent on are more central to this discussion. Funding (or financing) working capital can provide important support to SMEs, in particular for early-stage capital or the development of new products or patents[124]. Nonetheless, the use of such support is risky in a crisis context when the scope of eligible expenditure is expanded to allow for fast absorption while at the same time controls are relaxed to ease the associated administrative burden[125]. Enterprise support during the pandemic – including through cohesion policy – entailed liquidity support (guarantees or subsidies) and working capital covering raw material, manufacturing, and labour costs[126]. In other words, it was used to cover bills, including staff (e.g. STW schemes, but not only) and to prevent large-scale company defaults due to lack of income. As a side effect, such support runs the risk of 'zombifying' the economy by buttressing unviable firms. Zombie firms siphon off valuable resources from their more competitive peers and represent a drag on growth (Anderson et al., 2021). More than a mere theoretical possibility, recent evidence suggests that the number of zombie firms has been on an upward trend since the pandemic (IMF, 2023b).[127]

While this may generally be the case, there is no evidence to indicate that the support provided through reallocated or new resources (i.e. through CRII/CRII+ or REACT-EU) has been used to prop up unviable firms or for investments with low profitability.[128] Nonetheless, the relatively light-touch conditionality on the reallocation of resources provided no guarantee that the support would be targeted to otherwise economically viable firms in the most severe need.

When considering such trade-offs, it is critical to pinpoint the source of the crisis. The economic fallout during the pandemic resulted from an exogenous, policy-imposed shock rather than economy-wide stress, as was in the case of the Great Recession. This policy-imposed nature severely constrains the ability of otherwise viable businesses to operate. Therefore, providing financial support to enterprises in distress becomes critical in avoiding a broader economic and social meltdown, with cascading firm failures triggering significant losses in employment. Even with considerable public support, these risks have widely amplified as the pandemic heightened the risk of insolvency for many firms (IMF, 2021).

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[124] See eligibility of expenditure for this category in 'Guidance for Member States on Article 37(4) CPR Support to enterprises/working capital'

[125] Note that such measures were widely introduced by Member States. This included simplification of public procurement rules and evaluation processes, streamlining the audit and control procedures, etc. As these did not result from the crisis response measures within the scope of this study, they are not discussed in more detail; for a discussion, see Dozhdeva and Fonseca, 2021.

[126] See reply on CRII Q&A platform on 'Financial instruments - Article 37(4) CPR (see also ERDF section)', found here.

[127] The paper cited shows that the number has been steadily rising over the past two decades, with a temporary dip between 2016-2019

[128] The relaxation of state aid rules has raised similar concerns, see Agnolucci (2022)

Importantly, a considerable share of support was provided to companies in the form of (repayable) financial instruments. These instruments strengthen the countercyclical dimension of aid, as the expectation is that recipients should repay these amounts once the crisis has passed. This feature also reduces potential risks of moral hazard. Moreover, the involvement of financial intermediaries (notably banks) helps contain adverse selection – i.e. mitigate risks of financing unviable firms – arising from insufficient information on the financial situation of supported enterprises (IMF, 2021).

To conclude, **there is no panacea to the conundrum of providing immediate support versus ensuring economic efficiency.** This is also clear from the fact that country-level pandemic responses offer examples situated at both ends of the scale (i.e. low to very stringent conditionality; Anderson et al., 2023). **Notwithstanding, longer-term, public-value-oriented economic thinking requires the introduction of (at least some level of) conditionality in how funds are to be used – or in the pandemic context, reallocated** (Mazzucato and Rodrik, 2023).

c. Opportunity costs of the (non-)use of ESIF

Although the crisis instruments examined would not have been sufficient to combat the negative effects of the pandemic (European Commission, 2023), the analysis in Section 5 has demonstrated their valuable contribution to mitigating the socio-economic impacts of the crisis. A strong argument in favour of such support considers the counterfactual – besides that of stronger conditionality – that the absence of CRII/CRII+ flexibilities to reallocate resources between funds would have led to no immediate EU-level support through the structural funds. While the EU budget does contain flexibility and special instruments[129] that could provide immediate crisis relief, they are relatively small in scale. Besides, at the end of the programming period, the possibility to front-load EU funds or use funds from the margins left unused in previous years was very limited[130]. Therefore, in the current budgetary framework – other than the creation of off-budget instruments or issuance of EU debt – there were no viable alternatives to using cohesion policy funds for short-term crisis relief. Therefore, such a counterfactual would either have led to a lack of support for the above groups, resulting in rising unemployment, bankruptcies and a widespread social crisis, or a higher burden on national budgets to cough up the resources necessary to fend off such 'doomsday' events. While the first scenario seems unlikely, given that budgets in the Member States making the most use of the instruments were already overstretched, **national interventions might not have had the same breadth and are likely to have either resulted in raising government debt levels across the EU and/or replicating the same trade-offs discussed in this section at the national level.**

6.2. Do anti-crisis measures put the quality of public investments at risk?

a. Performance tracking

Section 4.1 devoted considerable attention to the discussion of the performance tracking system introduced by cohesion policy instruments, while section 4.2 investigated that of SURE. The overall picture that emerges is that the relaxation of monitoring and reporting obligations resulted in serious limitations in the possibility of monitoring the outcomes and even some of the non-financial outputs of these instruments. In the case of cohesion policy, the voluntary use and in the case of the ERDF, relatively low uptake[131] of COVID-specific indicators reduce the completeness of information. Moreover, issues with indicator definitions complicate the comparability of data. For SURE, the light-

[129] See summary here

[130] Rubio (2020)

[131] Namely that only 54% of operational programmes use them

touch approach in reporting obligations related to the uptake resulted in incomplete (but consistently improving) data being provided to Commission services, with some Member States unable to provide complete and accurate administrative information. This situation makes it difficult to accurately assess the instrument's impact. Importantly, the fact that SURE consists of EU loans implies that the ability to correctly measure the uptake of the instrument should have been a national priority as much as a European one. Unlike with Cohesion Policy, Member States bear the implementation risks, hence it is reasonable that similarly tight reporting obligations are not imposed by the EU. Meanwhile, it is sensible to assume that appropriate data collection is done for domestic purposes. In practice, this proved challenging. This was especially the case during the initial stages because the schemes were entirely new in some Member States and immediate intervention was prioritised due to the necessity for timeliness, which is crucial for any positive impact of SURE. Later, the situation improved, although not all Member States showed the same capacity for tracking the instrument.

Overall, the two sections concluded that in view of pandemic limitations on national administrative capacities and the need for swift crisis relief, **the performance tracking system put in place applies a proportionate approach to monitor the main outputs of the instruments, and in the case of cohesion policy, at least to an extent, also to get a glimpse of results. However, in both cases, these limitations put increased pressure on the *ex-post* evaluations that have to devote additional resources to data collection.**

b. Procedures for implementation

As seen in Section 5, the crisis response measures under cohesion policy brought considerable simplifications to reallocate funds and speed up implementation. Most simplifications related to the EU-national interface rather than within national or regional procedures. The most important ones were the removal of obligations to notify or seek approval from the Commission to reallocate funds across programmes or priority axes. This helped Member States to act quickly and reduced the administrative burden for the Managing Authorities but, as explained above, it did not significantly change the fundamental architecture governing the planning and implementation of EU funds. Simplification procedures were not extended to the level of beneficiary organisations and, given the lack of capacity of some of them, this created an implementation bottleneck in some territories (Atkinson et al 2020).

A second finding from the study is that, despite pressures from Member States, the Commission did not relax the rules relating to management and control systems. The ECA has noted an increase in the level of errors in relation to the reallocation of funds. However, since pre-existing procedures were not modified, this is likely to be the result of increased administrative tasks for local authorities resulting from the implementation of multiple strands of EU funding, subject to different procedures, and time pressures to spend all the COVID-19-related money on time. Similarly, the data available suggests that SURE-financed measures were not subject to high ('material') error rates. **There is therefore no evidence indicating that the balance between crisis-related flexibilities and sound financial management was compromised when it comes to controls on spending.**

c. Absorption and project quality

It has already been noted that CRII and CRII+ measures, which added little additional cash but brought advantages, in particular to those Member States where the implementation of structural funds was lagging behind, could be conceived of as a 'second chance' to spend uncommitted resources. From this angle, the fact that reallocations and other flexibilities – notably the 100% EU co-financing – have significantly contributed to the faster absorption of funding can also be seen as a positive development. It is difficult to argue that the alternative would have been that these countries lose some

of their envelope (i.e. through decommitment) but spending their remaining allocations would certainly have resulted in considerable pressure at the end of the programming period. This is especially true because of the pandemic- and lockdown-related implementation problems cited in section 5.2 (such as difficulties in reaching some target groups, halt in on-site work, etc.), but also because the pandemic context and overall uncertainty made complex long-term investments unattractive. As a result, the uptake of ESIF would likely have suffered in the absence of flexibilities and reallocations. Moreover, these flexibilities and the additional funds from REACT-EU are also likely to have contributed to fast-tracking some of the investments that were already in the pipeline and might not have benefited from sufficient funding otherwise (see ECA, 2023). **A risk in all the above is that the quality of projects fast-tracked to facilitate absorption might not have reached the same level as investments before the pandemic.**

Crises offer no time to develop or implement complex projects, especially where the returns are expected to only materialise in an unforeseeable future. With pressure to provide crisis relief (CRII/CRII+) and to spend substantial new resources (REACT-EU), this results in a clear preference for the use of more 'generic' expenditure areas with an underlying portfolio of relatively easy-to-implement and/or off-the-shelf investments. The political appeal of prioritising short-term measures also seems unassailable. While short-term, generic measures lead to immediate results garnering the support of vocal and economically important constituencies, the beneficiary group of long-term projects is often difficult to discern. Such dynamics result in an incentive for policymakers to cut investment in favour of short-term interventions, every time a resource constraint arises (IMF, 2020).[132] Evidence at the aggregate level suggests a similar logic prevailing during the pandemic, with a shift towards generic expenditure categories and the prioritisation of transfers to enterprises and employment.

Even with strong evidence of the shifts to more generic expenditure categories, interview input and project-level data pointing in this direction, there is not enough information available to draw strong conclusions on the extent to which simpler projects were prioritised over more complex, high-quality ones. However, other indications, such as sometimes deficient application of the partnership principle – namely insufficient consultation with stakeholders, for instance, social partners – also suggest that implementation in many cases focused on absorption rather than quality. The involvement of these stakeholders is generally perceived to yield higher-quality projects that are more in line with the needs on the ground (Atkinson et al., 2023).

Finally, the trade-offs associated with the **100% EU co-financing** have already been discussed in Section 5. The first is that while this feature certainly eases the fiscal burden on national and local authorities and is very effective in ensuring absorption, it **reduces the overall amount of cohesion spending** (ECA, 2023). This is because EU funding is not matched by national or private co-financing, thus reducing the overall amount available for such investments. The second one concerns moral hazard. The purpose of co-financing – besides a 'multiplier effect' – is to instil a sense of ownership at the national level and a 'skin in the game' approach which should promote more responsible practices. Fully EU-funded projects entail minimal risk for national authorities and **potentially lead to moral hazard**. Yet such risks were more pronounced in the context of the pandemic where the urgency and complexity of the crisis yielded considerable uncertainty. Unpredictability coupled with expedited processes increased the risks of allocation of expenditure to non-essential or low-quality items. **The introduction of 100% EU co-financing placed such risks entirely on the EU budget.** It should be

[132] There is quite robust evidence that in times of crisis or recessions, public investment is the item of public expenditure that is typically cut to save fiscal space for other items like wages and pensions.

noted that the 15-20% national co-financing rate required in less developed regions was already low, and therefore switching to a completely EU-funded setup is unlikely to have disproportionately increased moral hazard risks in these regions – at least not in the short term, when pressure for effective crisis relief was high.

While there is evidence suggesting that lower national co-financing rates contribute to development (Darvas et al., 2019 – note that the minimum rate was 15%), there is no evidence that no co-financing would have the same effect. **The large-scale and repeated use of this feature raises theoretical concerns over its potential negative effect on project quality.** As this feature has been introduced across other crisis response instruments, notably CARE, FAST-CARE, SAFE and more recently STEP, further research into its implications would be warranted.

Moreover, **this feature is *de facto* regressive** in the context of cohesion policy. This is because higher co-financing rates are generally associated with lower GDP per capita levels. Whereas less developed regions provided only 15% of total eligible expenditure, more developed ones contributed as much as half from their own resources[133]. As a corollary, allowing programmes to benefit from the option to be fully reimbursed eased the requirements on developed regions more than on lagging ones. The relative importance of this regressive element is mitigated by the fact that the majority of cohesion policy funding is targeted to less developed regions.

[133] Taking the two most extreme cases. Less developed regions are those with GDP per capita below 75% of the EU-27 average, more developed ones have GDP per capita above 90% of the EU-27 average. See CPR Article 120 for more precise determinants of co-financing rates.

7. CONCLUSIONS AND LESSONS LEARNED

This study examined four different EU crisis response instruments: SURE, CRII/CRII+ and REACT-EU. SURE is fundamentally different in its nature and objectives than the others, making it difficult to derive common lessons. However, they all shared a primary goal: mitigating the pandemic's impact on the economy and society. The overall crisis response assessment is positive, though only with a few caveats.

Summary of findings

Given the nature of the crisis, the interventions and many of their features, such as simplicity, faster processes, and flexibility in reallocation, were **highly relevant**. The **response was fast**, with SURE and CRII/CRII+ introduced within only a few weeks. While the adoption of REACT-EU was slower due to its size and complexity, it was still relatively quick.

The instruments can generally be considered to have achieved their objectives of mitigating the socio-economic impacts of the pandemic.

An interesting finding of the study is that **employment support was at the very centre of both the SURE and cohesion policy approaches.** While only SURE was primarily focused on such job retention schemes, enterprise support – one of the key priorities of the cohesion policy response – also entailed similar measures.

Assessing the success of these instruments is significantly constrained by data availability. Besides inherent limitations to the SURE monitoring system, the limited data availability on job retention schemes and the voluntary reporting of COVID-specific indicators under CRII and CRII+, information on the policy response at the time of writing is incomplete. This is especially the case for REACT-EU, which only recently ended and where data on both expenditure and physical indicators are still being processed. However a few conclusions can be drawn.

The implementation of the crisis response instruments was hindered by pandemic-specific challenges. This included the need to adapt to a working environment (e.g. remote work), staff absences due to illness, suspension of on-site project work and increased burden on public administrations to deal with the effects of the crisis. While these issues severely strained Member States' administrative capacities, the pandemic did not appear to impact the absorption of 2014-2020 structural funds. However, the parallel programming of RRF and the 2021-27 cohesion policy period, along with the introduction of several crisis instruments, has delayed the start of the current period. Regarding SURE, issues in the two Member States (Romania and Poland) that faced absorption problems were resolved, and all planned expenditures have been executed.

There are **lingering questions** regarding **whether the crisis instruments proved to be the most cost-effective means of mitigating the crisis**. However, it is important to acknowledge that the sudden onset of the pandemic left no room for prior impact assessments and time was considered of the essence for effectiveness, potentially at the cost of efficiency. Furthermore, in 2020, the profound uncertainty surrounding the health emergency's effects on the population, lockdown durations, and their impact rendered the use of forecasts practically obsolete. Lastly, due to the nature of the crisis, the EU response was guided primarily by principles of solidarity, with efficiency taking a backseat.

Several trade-offs were identified between long-term planning and short-term crisis relief. This includes the use of generic and horizontal (sectoral) support measures rather than more targeted measures, lower compliance with some horizontal principles and resorting to less complex projects, potentially to the detriment of more high-quality long-term investments. The use of some features, for

instance allowing projects to be fully covered by the EU budget without any national contribution increases the risks of moral hazard and could be detrimental to a project's quality.

An important question is how the use of cohesion policy for crisis response affected its primary objective to drive a long-term transformation that boosts competitiveness and reduces disparities. Evidence suggests that **the long-term strategic orientation of cohesion policy shifted, at least temporarily, towards short- and medium-term objectives.** The (re-) allocations that resulted from the pandemic response have been, contrary to some of the prevailing perceptions, substantial.

Despite its (under normal circumstances) well-developed conditionality, cohesion policy expenditure remains largely demand-driven. **In a pandemic context where uncertainty makes long-term investments particularly unattractive, a rigid approach would have been overall counterproductive** and would have resulted in a very low absorption rate of funds at the end of the eligibility period.

Notwithstanding the above, **the light-touch conditionality of crisis measures** attached to support **raises questions about the extent to which such expenditure was merely a vehicle to keep firms afloat without introducing any orientation towards the creation of long-term public value** (beyond avoiding a deep recession). These questions come amidst increasing calls on the EU budget to strengthen its focus on delivering EU public goods[134]. The critical tone of the recently published report of the high-level group on the future of cohesion policy (European Commission, 2024) makes this shift in perception even more palpable.

Regarding the protection of the EU's financial interests, the study's findings reveal no systemic problems linked to crisis-related flexibilities and simplifications. While the speed of adopting these measures and the necessity to ease the burden on national regional administrations, as well as beneficiaries, could jeopardise financial management, we found **no evidence that the EU's financial interests were compromised**.

The possibility to track the performance of these instruments is limited by several factors, and generally allows for the monitoring of outputs, but not necessarily the results of the interventions. **While the setup is proportionate** to the need for simple and fast procedures in a crisis context, this **puts a higher burden on *ex-post* evaluations** to ensure appropriate data is available for a comprehensive assessment.

Lessons learned

In an ever-more intertwined world, crises are emerging with increasing frequency and complexity, stretching beyond domestic borders to affect diverse dimensions of society. The COVID-19 pandemic serves as a stark example of the dramatic impact that such crises can have on the economy, companies and people.

As the European Union grapples with the challenges posed by evolving crises, **the pressure for quick and effective EU-level crisis response mechanisms will increase**. As a string of temporary instruments sprang up during and after the pandemic and the ensuing refugee and energy crises, the need for a stronger and more stable framework to respond to emergencies has become palpable.

As shown by this study, the use of cohesion policy in its current form to mitigate the impact of successive crises comes with considerable trade-offs. The report from the high-level group on the future of cohesion policy argues that 'clear rules for combining long-term goals of the policy with in-

[134] See e.g. Begg et al. (2023) or Buti (2023)

built flexibility are needed'. These rules should focus on reducing tensions between short- and long-term objectives. **The trade-offs identified by this study form a good starting point for identifying areas where strengthening the crisis-related conditionality of cohesion policy would be necessary**.

On its end, **SURE was purposefully created to address a specific challenge** resulting from public health measures. It worked as an incentive to establish STWs where they did not exist and it is considered to have favoured the extension of the scope where they did. Its success is clear evidence of the need for such an instrument in the context of the pandemic and the importance of preserving jobs and labour attachment in a crisis driven by the temporary and mandated nature of the lockdowns. However, **its temporary nature means that should the need arise, a new *ad hoc* instrument will be required, even if the needs behind it are similar.**

SURE was set up with remarkable speed. Even so, six months elapsed between the Commission proposal and the first disbursement. Delayed responses can worsen the impact of the crisis, undermine market confidence, and prolong the recovery process. While such risks have been effectively contained, national governments faced considerable pressure over this period to finance and set up their job retention schemes. **Should the need arise, the need for *ad hoc* consent from each Member State to access guarantees could unduly delay the process.** This would be the case unless a permanent mechanism, with a different guarantee scheme, is in place. This notwithstanding, having a successful blueprint for an instrument to tackle labour market crises, and potentially also other impacts, is likely to act as a catalyst during negotiations.

The estimated EUR 8.5 billion interest savings associated with the EU SURE loans, compared to independent Member State borrowing from capital markets, provided a clear added value to SURE. Moreover, the instrument is likely to have provided an incentive to Member States to set up job retention schemes where they did not exist. Finally, as SURE was funded through the issuance of social bonds, the EU also became a significant ESG-label bond issuer.

From a forward-looking perspective, it is important to recognise that at least two of SURE's key added values – incentives for Member States to establish job retention schemes and for the EU to become the first large issuer of social bonds[135] - are specific to the COVID-19 crisis and **seem to be 'one-off' advantages which might no longer exist in similar future situations.** While advantageous loans thanks to the EU's high credit rating created additional fiscal space for Member States in distress, such an advantage was heavily dependent on the prevalent market conditions at the time the instrument was introduced and the EU's credibility as a borrower. Therefore, **considerations for a permanent SURE, or using SURE as a blueprint for future crisis response mechanisms, would require careful consideration of the conditions under which the advantage exists, and the criteria for triggering the mechanism. Finally, the scope and coverage of such an instrument matter.** SURE's success relied to a large extent on the adequate *ex-ante* identification of the need for job retention schemes, e.g. an extension to small companies and the self-employed to offset the specific adverse effects of public health measures on employment. Whether this would be the optimal choice in the future largely depends on the nature of the next crisis.

[135] It is worth noting that since SURE's introduction, green bonds have also been issued to finance the RRF.

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ANNEX I: QUANTITATIVE METHODOLOGY

a. Job Retention Schemes in the EU Labour Force Survey

The methodology used to obtain a proxy measure for workers on JR schemes is briefly sketched in Box 5 and more details are given in Corti, Ounnas and Ruiz de la Ossa (2023).

Two different quantities are computed; a more restrictive measure, and a broader one depending on the variables and answers used to compute the proxies, but only the restrictive measure is used in this study. It is important to keep in mind that our interpretation of 'JR scheme' is necessarily loose – the EU-LFS does not provide sufficient information for us to be able to isolate workers on JR schemes, such that our proxy variables are likely to include some workers not necessarily on JR schemes. The proxy variables are better thought of as capturing workers who maintained an attachment with their employers during the pandemic, which likely originated from a scheme supported by governments. In spite of this limitation, Corti, Ounnas and Ruiz de la Ossa (2023) present some evidence that the EU-LFS proxy is of good quality and Figure 20 tends to confirm this observation as the 2020 annual average is not very different from annual averages obtained from the LMP and ETUI databases[136].

There are several reasons to expect differences between administrative and survey data. Corti, Ounnas and Ruiz de la Ossa (2023) discuss these reasons in more detail, but it should be noted that estimates from quarterly survey data could be expected to be lower compared to monthly administrative data. The EU-LFS nonetheless has some advantages: for instance, it can ensure consistency between the measurements of JR schemes and the stocks of employees/unemployed. Cross-country comparisons should also be more relevant given the harmonisation in data collection imposed by the EU-LFS[137].

Box 5: A methodology to proxy STW scheme uptake from the EU-LFS

To build our proxy for the number of workers on Job Retention (JR) schemes, we use variables on absence from work ("NOWKREAS") and reasons for hours worked being different from usual hours ("HOURREAS"). These two variables contain a category "Slack work for technical or economic reasons". For absence from work, we further check for the continuing receipt of a salary through the variable "SIGNISAL".

Furthermore, some countries (e.g. ES, IT) can record individuals under the status of "Was not working because on lay-off", which implies that the worker is expected to be recalled and/or is still receiving pay from their employer. These individuals are, however, not considered employed and their labour force status is either unemployed or out of the labour force. Information on the continuing receipt of wages is available for these individuals and we therefore include them in our analysis. The three types of workers (absent, on reduced hours, and on layoff) could potentially be on JR schemes given that we focus on the reason "slack work for technical/economic conditions" and check that these workers still receive (a share of) their wages.

The remaining categories for the variables NOWKREAS and HOURREAS are unlikely to capture workers on JR schemes given that they are either very specific factors (e.g. Maternity/Paternity leave) or should not be correlated with economic cycles (e.g., bad weather).

One exception is the category "Other reasons" which is likely to aggregate workers absent from work/on reduced hours for different reasons, including those unsure about their answers. Furthermore, during

[136] See Table 4 in the annex for numbers by Member States, which show greater divergence across sources than what the aggregate numbers suggest.

[137] This point is probably less relevant for the LMP database as some effort is made to ensure better comparability between Member States' data.

the COVID-19 pandemic, many Member States activated schemes for workers who had to take leave or reduce their hours worked for care reasons. Eurostat explicitly recommended that such workers be recorded as absent from work/on reduced hours for "Other reasons". These schemes pursue the same goal as JR schemes since they avoid separation and maintain an attachment between workers and employers. The category "Other reasons" is used to create a broader measure of workers on JR schemes[138].

We have a total of five quantities that we can use to build our proxy:

1. Absent from work – slack work – continuous receipt of salary/wage
2. Absent from work – other reasons – continuous receipt of salary/wage
3. Absent from work – on layoff – continuous receipt of salary/wage
4. Reduced hours – slack work
5. Reduced hours – other reasons

Two STW proxies can be computed from these five quantities: (i) A restricted proxy, which only sums individuals on layoff or absent from work/on reduced hours due to "slack work" (categories 1, 3 and 4); (ii) a broader measure, which also includes the category "Other reasons" (categories 1, 2, 3, 4 and 5). Only the more restrictive proxy (i) is used in this study.

It should be noted that data collection was severely affected during the first part of 2020 and results should therefore be considered with care. Some country-specific problems also exist for DE and NL, but these countries are not SURE beneficiaries.

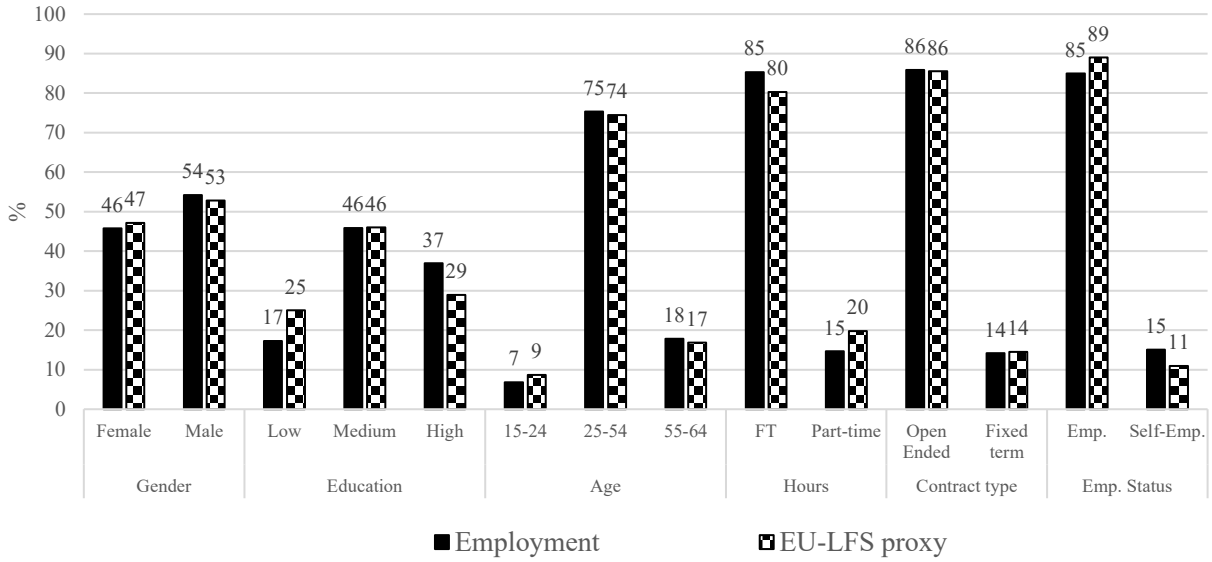
b. Additional evidence

Descriptive Evidence on JR schemes in the EU-LFS

One of the main EU-LFS advantage is the provision of detailed personal and job characteristics, which can be used to further analyse the take-up of JR schemes across demographic groups. Figure 25 displays the composition of the stock of workers on JR schemes for specified characteristics. This Figure indicates that workers on JR schemes tend to be similar to overall workers. For instance, the gender and age compositions do not differ substantially across the two types of workers (i.e. on JR schemes and overall), though low-educated workers tend to be over-represented among JR scheme participants (25% of JR scheme participants and 17% of workers). Furthermore, workers on atypical forms of employment also represent a high share of workers on JR schemes with 20% of beneficiaries working part-time (15% for overall employment), and 14% being on temporary contracts (14% in employment). These observations are consistent with evidence that the scope of JR schemes during the pandemic was broadened to include other forms of employment, as opposed to schemes used during the Great Recession that were usually restricted to regular employees (Corti, Ounnas and Ruiz de la Ossa, 2023). The significant share of self-employed workers among JR scheme beneficiaries (11%) also tends to confirm the wider scope of the schemes.

[138] In Corti, Ounnas and Ruiz de la Ossa (2023), the category "other reasons" is further adjusted, which is not the case in Figure 20.

Figure 25: Descriptive evidence on workers in JR schemes – 2020

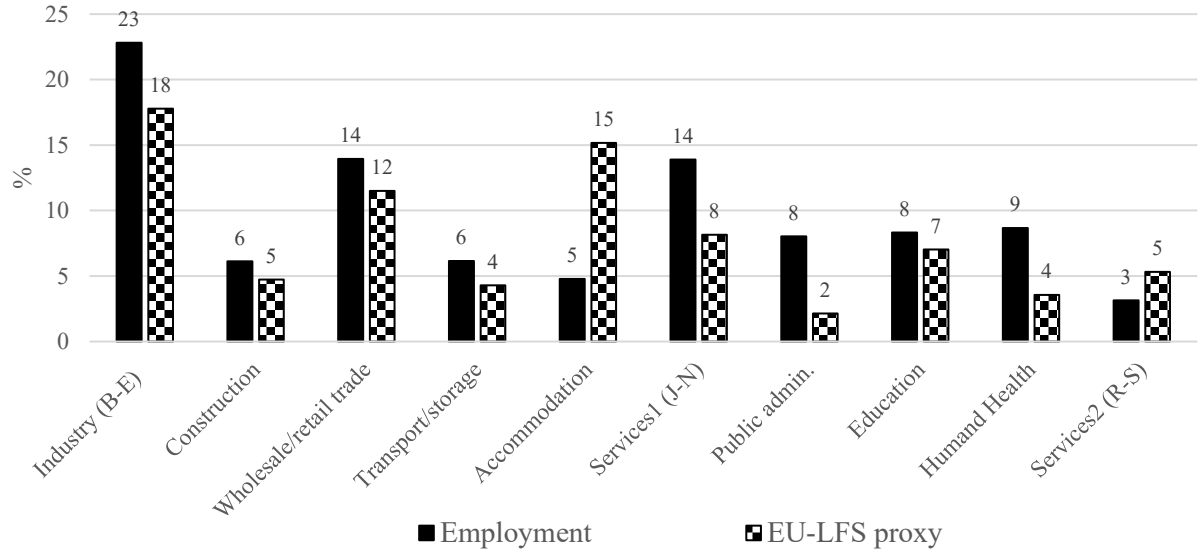


Source: Own elaboration based on EU-LFS data for 2020. The Figure displays the composition of the stock of workers on JR schemes by gender, education (three levels), age (three age groups), full-time vs part-time workers and type of contract. The same numbers for the stock of employees (as defined in the EU-LFS) are shown for comparison purposes. Numbers are expressed in percentages. See Box 5 for details on the EU LFS methodology to compute the restrictive proxy. Data for LV is not included.

Furthermore, the nature of the economic shock and the policy response that followed are also important to understand the effects of JR schemes on the labour market. Compared to a more "classic" recession, that tends to affect mainly the (male-dominated) sectors of manufacturing and construction, the pandemic had a widespread economic impact on all sectors, partly because of the lockdown measures taken by many governments. As a result, the service sector was also particularly affected. This is confirmed in Figure 26, which shows the sectoral composition of employees on JR schemes. This Figure indicates that workers in the sectors of accommodation/food service and arts/entertainment/other services benefitted substantially from JR schemes. They represented respectively 17% and 6% of workers on JR schemes, whereas these two sectors only account for 5% and 3% of employees. These sectors are also known for their prevalence of atypical forms of employment. On the other hand, the more high-skill service sectors (e.g. Information/communication, financial and insurance activities) appear to be under-represented among JR scheme beneficiaries[139] (9% versus 14% in total employment in Figure 26), as are the human health (essential activities) and public administration sectors. Finally, the sectoral shares in industry and wholesale/retail trade sectors are substantial but tend to be smaller than their shares in employment.

[139] The possibility to telework in these sectors could explain this observation

Figure 26: STW scheme sectoral composition



Source: Own elaboration based on EU-LFS data for 2020. The Figure displays the composition for employees (not self-employed) on JR schemes by NACE sectors. "Industry" aggregates NACE codes B (Mining) to E (Water supply; sewerage; waste management and remediation activities) and includes Manufacturing (C). "Services1" aggregates codes J (information/communication) to N (administrative and support service). "Services2" aggregates Art/entertainment/recreation (R) and Other services (S). The same numbers for the stock of employees (as defined in the EU-LFS) are shown for comparison purposes. Numbers are expressed in percentages. See Box 5 for details on the EU LFS methodology to compute the proxy. Data for LV is not included. Percentages do not necessarily sum to 100% due to missing values and/or person on lay-off not being asked the question on the sector of work. Numbers for Agriculture are not shown because of the small sample size.

This brief discussion of worker and job characteristics is useful to get a first picture of the workers who benefitted from JR schemes. Ignoring the distinction between SURE and non-SURE beneficiaries (see Figure 22 in the main text), the evidence indicates that JR schemes have been more inclusive and covered a larger and more representative share of the working population, especially when compared to the characteristics of workers on JR schemes during the 2008 financial crisis. Moreover, the results from the EU-LFS are consistent with narratives emphasising the broader scope of the scheme, extended to cover self-employed and/or temporary workers, and the wider sectoral adoption.[140]

[140] This consistency between the EU-LFS data and the overall narrative is also reassuring in regard to the quality of the information extracted from EU-LFS data.

JR scheme characteristics from Corti, Ounnas and Ruiz de la Ossa, (2023).

Table 3: JR scheme characteristics during the pandemic

	Type of measure	New Scheme	Eligibility criteria	Replacement wage	Cap as a percentage of the average wage	Maximum duration (number of weeks)	Role of collective bargaining	Financing
Austria	STW	No	75	80-90*	168%	24	1	1
Belgium	FS	No	25	70	47%	100	0.5	1
Bulgaria	STW	Yes	75	100	123%	12	0.5	0.5
Croatia	STW	Yes	50	100*	21-29%	100	1	1
	WS	Yes	0	Flat rate	21-42%	100	0	1
Cyprus	FS	Yes	75	60	63%	76	0	1
Czechia	STW	No	25	60-100	85-114%	92	1	0.5
Denmark	STW	Yes	25	100	84%	20	1	0.5
	STW (FS)	No	25	90	64%	64	0.5	0.5
Estonia	STW	Yes	50	50-70	56-70%	8	0	0.5
Finland	FS	No	100	40-90	-	42-57	1	1
France	STW	No	75	70	159%	48/96	0.5/1	1
Germany	STW	No	75	60-87*	89%	100	1	1
Greece	STW	Yes	0	60*	-	100	0	1
	STW (FS)	Yes	75	Flat rate	17-45%	100	0	1
Hungary	STW	Yes	75	70*	30%	16	0	1
	WS	Yes	0	70*	65%	16	0	1
	WS	Yes	0	70*	86%	12	0	1
Ireland	WS	Yes	100	Flat rate	37%	100	0	1
Italy	STW	No	75	80	36-43%	100	0.5/1	1
Latvia	STW	Yes	100	50-75	65-92%	96	0	1
Lithuania	STW	Yes	75	70-90	51-76%	100	0	1
Luxembourg	STW	No	75	80	84%	96	0.5	1
Malta	WS	Yes	100	Flat rate	52%	100	0	0.5
Poland	WS	Yes	75	50	40%	12	1	0.5
Portugal	STW	No	50	66-92	122%	24/100	0.5	0.5
Romania	STW	Yes	100	75	75%	100	0.5	1
Slovakia	STW	No	25	60-80	80-100%	96	0.5	1
Slovenia	STW	Yes	50	80-100	100%	48/60	0.5	1
Spain	STW	No	75	50-70	48-62%	100	0.5	1
Sweden	STW	No	75	88-96	114%	68	1	0.5
Netherlands	WS	Yes	75	100	215-229%	100	0.5	0.5

Note: Reproduced from Corti, Ounnas and Ruiz de la Ossa, (2023). The category "STW (FS)" is considered FS in Figure 21.

Additional tables of results by Member State.

Table 4 displays a comparison of annual averages for JR scheme participants by Member States in the Labour Market Policy (LMP) database from Eurostat, the ETUI numbers and the EU LFS proxy.

Table 4: STW schemes by Member State beneficiaries of SURE – 2020 Annual averages

	LMP	ETUI	EU-LFS
BE	512.7	469.0	208.5
BG	110.8	103.3	34.2
HR	197.9	192.1	46.6
CY	-	51.9	26.8
CZ	296.6	451.9	69.9
EE	-	48.1	8.4
EL	0.3	62.0	178.6
HU	198.1	39.2	43.7
IE	276.8	246.8	93.9
IT	1042.5	1362.3	1580.5
LV	-	0.0	13.4
LT	305.0	52.6	-
MT	62.6	43.3	19.2
PL	-	142.5	368.2
PT	402.6	114.5	304.4
RO	-	192.3	165.9
SK	-	71.7	40.7
SI	86.4	63.4	44.7
ES	1067.1	1032.4	1365.6

Note: Own elaboration. See Figure 20 and Box 5 for additional information. LT is not displayed due to small sample size.

c. Estimation specifications and results

To provide additional support to Section 5.1.2.e on the relation between SURE and the take-up of JR schemes, we use the EU-LFS data and our JR scheme proxy to estimate different random and fixed effect models. Before proceeding further, we stress that the analysis below should be seen as preliminary and indicative of a potential impact of SURE on the take-up of JR schemes. However, more work should be performed to strengthen this conclusion.

Estimation is done at the individual level and the longitudinal dimension of the EU-LFS is exploited to track individuals over at least two quarters and for a maximum of four (i.e. quarters 1 to 4 2020)[141]. Datasets for Germany, Poland and Portugal are not included in the analysis and the same sample restrictions used to compute JR scheme participants in Section 5.1.2.e have been applied. More precisely, the sample is restricted to workers in employment (i.e. employee or self-employed) or in layoff, aged 16-64, who only hold one job. Family workers or individuals doing their military training or working for the armed forces are dropped from the sample. Our dependent variable is the indicator variable taking value one if the individual is absent from work or on reduced hours due to economic reasons, or if the worker reports being on layoff. The variable is equal to zero otherwise (i.e. the

[141] This depends on the rotation scheme used by Member States but also attrition. The latter is not addressed in the current analysis but could warrant further investigation.

individual is employed). We further generate a SURE indicator variable which takes on the value one for Member States beneficiaries from SURE and zero for non-beneficiaries.

To model the impact of SURE, we estimate specifications which include quarter fixed effects[142]. These time fixed effects are meant to capture any time-specific variations in JR take-up common to all individuals in the sample, in particular the economic and pandemic shocks. To identify the potential effects of SURE, we interact the quarter fixed effects with the SURE indicator variables. Hence, we look for a potential impact of SURE through the difference, if any, between the time fixed effects in Member States who benefitted from SURE and those who did not. This effect recognises that we can only identify the effect of SURE at country level, but we do so by controlling for individual-level characteristics including fixed effects[143].

We estimate linear and non-linear random and fixed effects models. We consider two specifications. A simple two-way fixed effects (TWFE) model with only individual and time effects augmented with interaction terms between time and SURE indicator variables. Secondly, we expand the specification by including additional controls, which are the age, education level, nace sectors, isco occupations, self-employed, part-time and temporary employment status as well as country fixed effects. Some of these effects do not vary through time, so we effectively estimate correlated random effects models instead of fixed effects models. The linear specification is the following:

$$\boldsymbol{y_{i,t} = \beta X_{i,t} + \eta_t + \gamma\, \eta_t \times SURE + \alpha_i + \varepsilon_{i,t}} \quad (1)$$

Where $\mathbf{X_{i,t}}$ is the vector of control variables with associated coefficients $\boldsymbol{\beta}$, η_t are the quarter fixed effects, which are further interacted with the SURE indicator variable. The coefficients on interactions terms are collected in the vector $\boldsymbol{\gamma}$. The relation between the individual level effect, α_i, and the idiosyncratic error term, $\varepsilon_{i,t}$, depends on the estimated model (i.e. random or fixed effect).

In the non-linear case, we estimate probit models as these allow for an easier retrieval of the correct average marginal effects when estimating random effect models (Bland and Cook, 2019). The average marginal effects are displayed in Table 5 for the specification without control variables and Table 6 for the specification with control variables. In the TWFE specification, estimated coefficients are positive in Q2 and negative for Q3 and Q4, which tends to align with the evidence on take-up rates displayed in Figure 23. However, the interactions terms used to identify the effect of SURE for each quarter are not statistically significant. Therefore, it cannot be ruled-out that these estimated effects are actually null. This is not the case in Table 6, which shows that potentially positive and significant effects of SURE are reported for the specifications that include control variables (e.g. age, education level), whichever model is estimated. The estimated effects are quite similar to those reported in Table 5 but the effects appear to be more precisely estimated in the presence of the control variables. Overall, the results indicate that in Q2 2020, workers in Member State beneficiaries of SURE had a probability of being on JR schemes around 1% greater than the probability for workers in Member States which did not benefit from SURE. Note that in Table 6, coefficients for the interactions in Q3 and Q4 are negative and significant implying that the probability of being on JR schemes during these quarters was smaller on average for workers in SURE-beneficiary Member States.

As indicated at the beginning of this section, these results should be seen as preliminary. This is particularly because no controls for country-time effects (e.g. quarterly GDP growth rates, stringency of lockdown measures) were included in the specifications considered. This is an important extension to increase the confidence with respect to the current results. Furthermore, the quantitative analysis

[142] The term "fixed effects" is used to refer to indicator variables.

[143] Note that the individual fixed effects absorb a number of other constant effects, such as country ones.

would benefit from additional checks, such as the inclusion of variables on the type of the scheme (i.e. FS, STW or WS) or whether the scheme is new, as these characteristics could also affect the probability of being on a JR scheme and the take-up. The effects of the broader JR scheme scope could also be tested by interacting variables on self-employed and/or part-time and/or temporary employment status with the SURE indicator variable.

Table 5: Marginal effects from the two-way fixed effects estimation

	(1) Linear RE	(2) Linear CRE	(3) Pooled Probit	(4) Probit RE	(5) Probit CRE
Q2	0.064*	0.066*	0.056**	0.055***	0.058***
Q3	0.001	0.004	0.002	0.000	0.003
Q4	0.008	0.010	0.011	0.009	0.012
Q2 X SURE	0.020	0.018	0.010	0.010	0.007
Q3 X SURE	-0.004	-0.003	-0.007	-0.007	-0.008
Q4 X SURE	-0.004	-0.002	-0.006	-0.005	-0.005
Num. obs.			1 151 105		

Note: Estimation results for the simpler specification including only individual and time (quarter) fixed effects. Results are average marginal effects computed following Bland and Cook (2019). The table displays estimated coefficients for time fixed effects and their interaction with the SURE variable. Robust standard errors have been computed. "RE" stands for random effects and "CRE" for correlated random effects.

Table 6: Marginal effects from the two-way fixed effects estimation with control variables

	(1) Linear RE	(2) Linear CRE	(3) Pooled Probit	(4) Probit RE	(5) Probit CRE
Q2	0.065***	0.067***	0.055***	0.055***	0.056***
Q3	0.002**	0.004**	0.002	0.001	0.004**
Q4	0.008**	0.010***	0.010***	0.010***	0.012***
Q2 X SURE	0.019***	0.018***	0.010***	0.010***	0.009***
Q3 X SURE	-0.003**	-0.002*	-0.008**	-0.008**	-0.008**
Q4 X SURE	-0.004*	-0.002*	-0.005***	-0.005**	-0.005**
Num. obs.			1 151 105		

Note: Estimation results for the simpler specification including only individual and time (quarter) fixed effects. Results are average marginal effects computed following Bland and Cook (2019). The table displays estimated coefficients for time fixed effects and their interaction with the SURE variable. Robust standard errors have been computed. "RE" stands for random effects and "CRE" for correlated random effects

ANNEX II: THE EMPLOYMENT EFFECTS OF JOB RETENTION SCHEMES DURING THE COVID-19 PANDEMIC

Please see stand-alone document:

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ANNEX III: COUNTRY CASE STUDIES

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As the EU grapples with successive crises, there is mounting pressure to develop swift and robust crisis response mechanisms. This study, divided into two parts, aims to enrich this discourse by examining four instruments – SURE, CRII, CRII+ and REACT-EU – introduced as a response to the pandemic. This paper forms the output of the first phase of the study and aims to distil lessons learned from the design and implementation of these instruments.

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