

# ESF COMMITTEE AD-HOC GROUP ON THE FUTURE OF THE ESF

## Draft overview of the discussions of the 6<sup>th</sup> meeting

Brussels, 2 February 2011

### **1. Introduction**

The 6th meeting of the Ad-Hoc Group on the future of the ESF took place in Brussels on 2 February 2011. It was attended by experts from 24 MS and representatives from the European social partners.

The objective of the meeting of the Ad-Hoc Group on the Future of the ESF was to discuss the feed back from 4 working groups on: (1) proportionality and simplification, (2) common indicators and reporting, (3) financial engineering, (4) local dimension of the ESF.

In addition the group was informed about the preparation of the cohesion policy legislative packages.

### **2. Proportionality and simplification**

The Commission presented the main ideas of the focus group aiming to promote a wider application of the proportionality principle. During the meetings the focus group discussed also some proposals of simplification. Composed of 4 experts from Member States (Belgium, Czech Republic, Denmark, Poland) the group met twice in November and December 2011.

The participants of the ad hoc group expressed the following remarks during the discussion:

- There was a general support for a wider use of proportionality especially as far as audits are concerned. Some divergences appeared on the need for a general framework for proportionality (that is more flexible) rather than a detailed operational framework that provides for more legal certainty. However both approaches are compatible.
- As far as the strategic programming is concerned the main proposals were related to avoid the duplication of parts of documents and to simplify the content of the OP. For example the description of the Management and Control system is part of the compliance assessment and should not be repeated in the OP, the part on communication could be included in the OP and the Communication plan suppressed. The OP itself should be short, with only what is necessary (and no new requirements). It could eventually be split in two parts: a committing one and a second one, more detailed, for information (modifiable without decision of the Commission). The opportunity of the DIPCO was contested: additional layer of negotiation, unclear link with the NRP.
- Some simplifications were discussed. In addition to those presented by the Commission some experts proposed: to pay Technical Assistance as a flat rate of the OP; to simplify treatment of revenues; to introduce amounts or rates of simplified costs options in the Regulation, eventually by relying on Eurostat data but it should not undermine MS prerogative to define rates and unit costs; to set a minimum

threshold for irregularities; to maintain eligibility of non recoverable VAT, to have a better alignment with national rules and procedures; to restrict the use of actual expenditure thanks to public tender and simplified costs.

- There were also exchanges about the opportunity to implement clearing houses. It is considered as one of the tools for simplification but as a risky one: required data should be known well in advance. However based on its own experience, one of the experts underlined that in theory clearing houses were an excellent idea but that in practice the number of documents to be handled made it very difficult to implement.
- Keeping of timesheets was considered as a problem by some of the experts. It was proposed to share experience on this issue during one of the next ESF informal Technical Working Group.

### **3. Common indicators and reporting**

The Commission presented orally the progress of the ongoing working group on logics of interventions and a limited set of Common Indicators (output indicators based on present annex 23, limited number of results indicators for participants reflecting the distance to Labour Market).

Experts commented that they were in favour of a linkage to Europe 2020. They also agreed with a set built on existing indicators, the reliance on Eurostat definitions, which should allow for aggregation at EU level and facilitate evaluations. Common Indicators should however be limited in number.

Most of the experts were concerned by the linkage with a possible conditionality and also about the role of external factors when it comes to impacts.

### **4. Future financial engineering options under the ESF post 2013**

The Commission informed about the results of the special focus group which met once in December 2010 in order to examine an issue paper mapping out some new options for further use of the ESF in the area of financial engineering post 2013. The group was composed by representative of the French and Slovak managing authorities and independent experts from Germany and Belgium.

The focus group examined three specific options for future financial engineering:

- Policy based guarantee allowing credit enhancement for sovereign, regional and local borrowing in order to increase the available resources for carrying out structural reforms in the areas of employment, social protection and inclusion;
- Secondary market (securitization) for micro and small loans for business creation
- Comprehensive package of services for providers of microfinance comprising institutional building measures and lending products

The participants of the focus group expressed their support for the policy based guarantee and for designing comprehensive packages of services for providers of microfinance. They found that developing secondary markets would require more detailed knowledge and capacity from managing authorities.

After the presentation from the Commission, the ad hoc group considered the options and the following views were expressed:

- Financial engineering has a lot of potential for leveraging additional resources for employment, social protection and inclusion policies;
- It should not be made compulsory for ESF managing authorities and it should be left for them to consider when to use it;
- The policy based guarantee could be applied either on national or on local level and needs to be implemented in co-operation with treasuries;
- The ESF may not be seen as a fund suitable for financial engineering because of its traditional focus on grants but there was a need for change of approaches

### **5. Involvement of local actors in ESF programmes and promotion of local initiatives**

The Commission presented the preliminary results of the focus group on the involvement of local actors in the ESF programmes. 3 experts from MA, 3 experts from regional and local stakeholders and 3 officials from the Commission met twice (mid December and on 20<sup>th</sup> January) to discuss the current state of play and a number of potential ideas to facilitate the participation of local actors in the ESF programmes.

The participants of the ad hoc group expressed the following remarks during the discussion:

- The question of the involvement of local actors in the ESF programmes is closely interlinked with **the issue of partnership**. Most experts consider that there is no need for additional requirements in terms of partnership in the regulations. There are many ways to implement the principle of partnership according to MS specificities, at local, regional and national level. Sufficient flexibility should therefore be left to MS. One participant expressed a different opinion, considering that huge differences in the implementation of the partnership principle calls for a clearer definition of this principle, more stringent requirements in the regulations, the establishment of a code of good practice (soft law approach). The specific role of the social partners should also be highlighted in the context of ESF interventions.
- **Technical assistance** is already used in some MS to facilitate the involvement of small organisations in the implementation of the programmes. Thus, most members of the Ad Hoc group consider that the current provision is well adapted giving MA the possibility to use such a mechanism if they deem it necessary. Technical assistance should remain distinctively separated from institutional capacity building which provides support to institutional capacity beyond the pure implementation of the fund.
- A majority of experts expressed their opposition to a **compulsory priority axis** dedicated to the promotion of the territorial dimension in the ESF. This idea seems to be at odds with the idea on concentrating on fewer priorities and the notion of results based management by promoting the means rather than the end.

- **The results of local initiatives and small projects driven by NGOs are not demonstrated.** There is no evaluation evidence that NGOs and local actors are any better at helping people into work than public bodies or private sector organisations. They often raise important difficulties in terms of control and audit. A few experts were not opposed to reflect further on this idea of a dedicated priority axis, as a horizontal mechanism to implement some policy priorities set up in the OP priority (following the model of Austria).
- Except for one expert, there was no support expressed for a specific **earmarking** of the fund (a minimum percentage defined in the regulation) for territorial initiatives, since it will infringe the necessary flexibility in the programming of the funding according to the needs identified and the priorities decided by national authorities. Even "soft" earmarking such as calling for a significant / an appropriate / a reasonable amount" should be avoided as it triggers in a latter stage lengthy and inconclusive discussions between the MS and the Commission.
- Most experts had strong reservations about any **specific funding arrangement** for local initiatives and small projects. The use of global grants often leads to administrative complexity and burden for the intermediary body and sometimes high error rates. "In kind" contributions raise important audit issues mainly due to poor record keeping. A differentiated co-financing rate for different types of projects is administratively very difficult and has led to financial corrections in some cases.
  - *The Commission indicated that it will present a specific discussion paper for the next ad hoc group in March concerning the territorial dimension of the ESF.*