

## **2<sup>st</sup> Meeting of the ESF Committee Ad-Hoc Group on the Future of the ESF**

**20 January 2010, Brussels**

### **Delivery systems**

#### **1. OBJECTIVES OF THE MEETING**

The objective of the second meeting of the Ad-Hoc Group on the Future of the ESF is to discuss the future delivery systems implementing the European Social Fund. In this paper the focus is on the nature of the relation between the Commission and Member States.

In addition, in order to ensure that all the voices from colleagues who were absent during the first meeting are taken into consideration, there will be an opportunity to express their views on the subjects which were touched upon during the December session.

#### **2. A DISCUSSION FRAMEWORK**

The necessity to discuss a possible change to the delivery systems stems from the fact that the current ESF system is perceived as a complex one, requiring a lot of human resources for financial management and control and still not assuring that funds are always spent in a proper manner. The current delivery system is to a certain extent audit driven instead of content driven.

The delivery systems of ESF programmes have to meet four requirements simultaneously:

- 1. achieving the objectives set by the strategic framework,**
- 2. maintaining the low rate of errors,**
- 3. timely spending** of the financial resources,
- 4. ensuring the visibility of the ESF.**

The discussion on the future delivery system can not make abstraction of other topics, like the future scope, priorities and objectives of the ESF as well as its geographical coverage. The debate should also involve considerations of the probable consequences on the European Added Value of the ESF, notably the type of effects alternative systems are likely to favour or hinder (volume, scope, process or role/innovation effects).

In this paper, the focus is on the relations between the European Commission and the Member States. Issues relating to the delivery systems in the Member States will be the object of a separate issue paper.

### 3. THREE BROAD ALTERNATIVES SCENARIOS

Three broad alternative scenarios are identified. A "real" life system is likely to have elements from two or even three scenarios:

- a. Refunding on the basis of actual expenditure of operations (or with possible introducing minor amendments or simplifications),
- b. Refunding on the basis of outputs of programmes,
- c. System combining elements of budget support and results-based management of programmes

Each of the subsections of this chapter ends with a table identifying possible advantages and disadvantages of the system. This list below however is not an exhaustive one; it serves as a starting point for the considerations and can be further discussed and developed.

#### a. Refunding on the basis of actual expenditure of operations:

Community funds are paid out on the basis of the real eligible expenditure paid to operations by the national authorities (could be based on real expenditure of beneficiaries or on outputs of an operation in the case of lumps sums for example).

Advantages	Disadvantages
<ul style="list-style-type: none"><li>• The continuity of the legal framework will be maintained.</li><li>• High level of stability and predictability for all the parties involved in delivery.</li><li>• Strict and well-developed mechanisms of surveillance and control.</li><li>• Good visibility for the EU citizens.</li></ul>	<ul style="list-style-type: none"><li>• Focus on control and verification.</li><li>• A heavy administrative burden on EU and MS levels.</li><li>• As the procedures are complex, there is a risk of relatively high error rate.</li></ul>

#### b. Refunding on the basis of outputs of programmes:

This system requires setting target output levels for an operational programme in the same way as contracts are designed. Community refunding would be done against agreed outputs while their real expenditure will not be examined. This would allow shifting the focus of programme managers from disbursement to outputs.

Under this approach the operational programme will become the most critical point of the system; the national authorities and the Commission would have to be able to set concrete output targets for the outputs for the operational programmes and make clear what the conditions for payments are.

This creates the opportunity to implement those various approaches. This arrangement could be reflected in the agreements with the beneficiaries but would not need to be. The beneficiaries would thus declare outputs, not the expenditure. It needs to be noted that the basic elements of output-based system are already available in the current programming round: the unit costs and lump-sums are newly available with the recent amendment of the ESF Regulation. These are however

implemented between Managing Authorities and the beneficiaries or project promoters.

Advantages	Disadvantages
<ul style="list-style-type: none"> <li>• Provides framework for more focus on the outputs.</li> <li>• Identifiable outputs of EC financing.</li> <li>• Some important elements (unit costs, lump sums) are already available in the current period.</li> <li>• Getting rid of the "eligibility of expenditure" disputes.</li> </ul>	<ul style="list-style-type: none"> <li>• Difficulties on the side of the national authorities and the Commission to ensure proper target setting and conditions for payments.</li> <li>• The indicators could become preeminent compared to the objectives.</li> <li>• Need to change the audit logic from the expenditure based system to the output-based system. Still a need to audit outputs at operation level.</li> <li>• As the variety and complexity of the ESF interventions, it may not be possible to use it for all projects.</li> <li>• Risk of creaming</li> </ul>

**c. System combining elements of budget support and results-based management:**

Another possibility is to deliver the ESF through a combination of sector budget support and results based management

Results based management is the way an organisation applies processes and resources to achieve targeted results. Results may not be fully controlled, but governments can have a very strong direct influence on what happens. Although it is impact that we may wish to change, it would be unrealistic to seek short-term changes at this level; in contrast focusing on results ensures that changes take place in those areas where governments can have a direct influence.

Sector budget support would entail the transfer of ESF resources to the Treasury of a Member State, following a prior agreement on a policy to be pursued in the given sector. The financial resources thus received are earmarked to help finance the agreed sector expenditure plan and are disbursed and accounted for through Government systems. It could be earmarked to a sector as a whole, or to critical categories of expenditures within the sector to ensure that the Member State gives adequate priority to certain spending categories.

Under this scenario, ESF resources would be transferred directly to the Treasury. The MS would report the achievements against the agreed targets. The transfers would depend on the agreed results being achieved.

Advantages	Disadvantages
<ul style="list-style-type: none"> <li>• Increased focus on results.</li> <li>• No Commission financial audit anymore: sound financial</li> </ul>	<ul style="list-style-type: none"> <li>• Difficulties of defining and agreeing on indicators and quantified targets.</li> <li>• The indicators could become</li> </ul>

<p>management is the responsibility of the Member State.</p>	<p>preeminent compared to the objectives.</p> <ul style="list-style-type: none"> <li>• At EU scale difficulty to link an amount to be paid to the indicators.</li> <li>• Financial audits replaced by performance audits (verifying the source of data). Statistics will become the main management tool between the Commission and the Member State.</li> <li>• Risk of creaming.</li> <li>• Results could be influenced by external factors.</li> <li>• Absences of visibility for the ESF.</li> </ul>
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#### 4. QUESTIONS TO THE AD-HOC WORKING GROUP

Against the background sketched above the Working Group is invited to discuss the questions below:

- A. To what extent do the scenarios cover the subject? What needs to be added or corrected? What could be additional criteria to assess the delivery systems?
- B. What are the likely consequences of the different scenarios in terms of focus on the achievement of objectives set by the strategic framework?
- C. What kind of effects can we expect from the implementation of these different scenarios in terms of error rates?
- D. How could we expect the different scenarios to influence the timely disbursement of resources?
- E. How would the different scenarios affect the visibility of EU policies and of the ESF in particular?
- F. The move towards output/result based systems will require adaptation of systems to select, collect and analyse data. Is it feasible to move on these issues in the remaining of the period? If not feasible should performance be rewarded and how?

Other questions, independent from the scenarios could also be discussed:

- G. As far as timely disbursement of expenditure is concerned: Should the automatic decommitment rule be maintained as it is? Should the system of payments from the Commission to the Member State be changed from reimbursement to a pre-financing based system?
- H. How to build-in proportionality in the different scenarios?