

## 4<sup>th</sup> Meeting of the ESF Committee Ad-Hoc Group on the Future of the ESF

21 April 2010,

### Future scope of the ESF

#### 1. Objectives of the meeting

During the previous meetings of the ESF Committee ad hoc group on the future, the Group examined the issues of added value, geographical coverage and delivery modes. It was decided to postpone the discussion on the issues of scope, objectives and priorities until appropriate decisions were taken at EU level regarding the future EU strategy.

#### 2. Constructing the ESF scope: political framework

The future scope of the ESF should be envisaged by taking into consideration the Lisbon Treaty, the Europe 2020 strategy, and the forthcoming employment guidelines. The budget review paper should also be taken into account when it becomes available.

During its meeting on 25-26.03.2010, the European Council discussed the strategy for Europe 2020. The Commission will soon make its proposal on the integrated guidelines (foreseen for end of April). These strategic documents provide (would provide) useful benchmarks allowing the ad-hoc group to engage on a more strategic discussion concerning the future interventions of the ESF.

##### 1.1 *Lisbon Treaty*

The Treaty confirmed the positioning of the ESF as a structural fund supporting workers, employment and adaptation to industrial change (Art. 162). Moreover, the Lisbon Treaty added a new social horizontal clause relevant for all EU policies and in particular for the overall political role of the ESF.

- New article 9 :  
*"In defining and implementing its policies and activities, the Union shall take into account requirements linked to the promotion of a high level of employment, the guarantee of adequate social protection, the fight against social exclusion and a high level of education, training and protection of human health".*
- Amended article 175<sup>1</sup>  
This article now covers territorial cohesion. The ESF, as the main EU financial instrument supporting human capital, will continue to contribute to achieving economic, social and territorial cohesion as provided for in art. 175. It does this together with the economic policies and the internal market (art. 175) and the other funds belonging to the "various means" used by the EU to achieve the goal of economic, social and territorial cohesion. These "various means" (art. 175) include also the ERDF, the European Agricultural Guidance and Guarantee Fund, Guidance Section, the Rural Development Fund and the EIB.

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<sup>1</sup> Article 175 : *"Member States shall conduct their economic policies and shall coordinate them in such a way as, in addition, to attain the objectives set out in Article 174. The formulation and implementation of the Union's policies and actions and the implementation of the internal market shall take into account the objectives set out in Article 174 and shall contribute to their achievement. The Union shall also support the achievement of these objectives by the action it takes through the Structural Funds (European Agricultural Guidance and Guarantee Fund, Guidance Section; European Social Fund; European Regional Development Fund), the European Investment Bank and the other existing Financial Instruments."*

## *1.2 Europe 2020*

In its Communication on Europe 2020 of 3 March 2010, the European Commission has set out to "turn the EU into a smart, sustainable and inclusive economy delivering high levels of employment, productivity and social cohesion". The strategy underlined that "economic, social and territorial cohesion will remain at the heart of the Europe 2020 strategy to ensure that all energies and capacities are mobilised and focused on the pursuit of the strategy's priorities. On 25-26 March 2010, the European Council decided that the key drivers of EU 2020 should be focused on the following three priorities:

- Smart growth : "Creating value by basing growth on knowledge. Opportunity and social cohesion will be enhanced in a world where innovation makes the difference in both products and processes, harnessing the potential of education, research and of the digital economy;
- Sustainable growth : Creating a competitive, connected and greener economy. The EU should compete more effectively and increase its productivity by a lower and more efficient consumption of non-renewable energy and resources in a world of high energy and resources prices, and greater competition for energy and resources.
- Inclusive growth : The acquisition of new skills, fostering creativity and innovation, the development of entrepreneurship and a smooth transition between jobs will be crucial in a world which will offer more jobs in exchange for greater adaptability;

### **3. Future scope components**

There is a broad political agreement on the structural challenges of the EU economy: an ageing society, low productivity, insufficient educational performance, rising poverty. The rising unemployment demands additional policy responses. What policies and actions should the ESF support in order to help Member States successfully exit the crisis and prepare Europeans for the future? There are three main policies and actions that can be supported by the ESF to help all MS spur future growth. These are likely to be employment, human capital development and social inclusion.

#### **3.1 Policies and actions supporting employment**

The support to employment in Europe post 2013 should address both a) anticipation and further development of skills and b) the expansion of employment opportunities.

- *Anticipation of skills needs – and providing new skills*

Employers demand workers who can think critically and solve problems. Today workers no longer remain in the same job, the same company and the same sector throughout their working lives. Changes are unavoidable on the work front, which makes it necessary for people to adapt continually and acquire a broad range of skills. The current economic crisis brought to the fore the need for workers to be prepared to change jobs as companies reorganise. The need to acquire new skills in today's economy takes place at short notice putting workers' adaptability at test. Future training provision needs to be improved through an enhanced interaction between schools, universities and business. There is a broad agreement that training and adult education improve participants' labour market outcomes. In 2009, the US Federal Government spent \$17 billion to job training and employment services. Social partners and public employment services are a key partner in identifying future skills needs and in supporting workers in picking up a training that will add relevant skills to their skills capital. In addition, the need for rising skills is matched by a steady need for low skilled manual workers for performing of manual function that cannot be off-shored. The joint effect of these two trends is a deepening polarisation of skills needs.

- *Expansion of employment opportunities (more jobs)*

In the post-crisis economies many of the jobs that have been lost will not be replaced. New jobs will emerge from the transition to a smarter, greener competitive economy based on knowledge and

innovation. Life long learning appears therefore as the key for making successful transition between jobs. In addition, the support to self-employment and entrepreneurship via access to financial support and by financial engineering will also be part of this part of the scope. In order to better anticipate change, labour mobility should be further promoted through providing direct and immediate support to workers losing their jobs and willing to take up jobs in other locations.

### **3.2 Policies and actions for human capital development : education and health**

- *Policies to support human capital development and smart growth : education and training*

Education and training are keys for lasting prosperity and are engines for smart and inclusive growth. Studies revealed that one-third of the productivity growth in the US for the period 1950-1990 is due to education<sup>2</sup>. In addition, there is robust evidence showing the positive impact educational attainment and job training make on earnings<sup>3</sup>. In a context of slow economic growth, the relevance of education for future growth becomes even more acute: on average, the net public profit from providing a student with a university education is €35000, nearly double the amount originally invested (OECD, 2009). The strategy for smart, sustainable and inclusive growth relies on a smart use of human resources as a depository of knowledge, skills and innovation. Therefore, there is a need to examine the entire chain of education starting as early as childhood education, an area to which the ESF had little exposure in the past.

#### *Early childhood education (pre-schooling)*

There is a growing realisation of the importance of pre-school preparation for later academic and labour market success. School readiness involves academic skills (literacy, basic counting) and social and emotional capabilities. Early childhood preparation for school would increase the chances of children from all backgrounds to succeed in later academic levels.

#### *Elementary and secondary education*

Creating smart growth based on knowledge and innovation begins in elementary and secondary school. Effective teaching, using new teaching technologies and materials, having classes in stimulating school facilities are among the most important contributors to enhanced student outcomes.

#### *Tertiary education*

The ESF could foster links to employers, communities and labour markets and promote more effective university-industry links for research and innovation. It could also be used in devising sound instruments to steer tertiary education by improving the capacity of ministries to develop policy and evaluate performance. In addition, given the high importance of smart and sustainable growth for achieving future prosperity and competitiveness, issues like quality assurance and equity in access to tertiary education and students mobility should be central in future ESF interventions

- *Health*

The area of health is increasingly recognised as having an exceptional job creation potential and constitutes an important ingredient of the human capital. Health is also the economic sector which creates 'white jobs' of high added value which kept increasing during the recent recession as "white jobs" are not cyclical and follow different economic pattern. Following the Commission communication on health inequalities, the ESF should be concerned about the health inequalities particularly in access to health as well as about the health of persons aged 65+ in view of their longer working lives that should be disability free in order to optimise their pension contributory capacity.

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<sup>2</sup> Jones, C. (2002) : Sources of US Economic growth in a world of ideas, *American Economic Review* 92, no 1: 220-39

<sup>3</sup> Card, D. (1999) : The causal effect of education on earnings, *Handbook of labour economics*, vol. 3, pp. 1801-63, Amsterdam: Elsevier Science and Jacobson, L., Robert, J.L., and Daniel, G.S. (1993) Earnings losses of displaced workers

### **3.3. Policies and actions enhancing inclusion**

- *Active inclusion*

Unemployment rates are rising in (almost) all EU countries, but not all Europeans are on an equal footing to face the consequences of the crisis. The EU entered the crisis with 44% of the unemployed being at risk of poverty; 17% of the EU population is at risk of poverty, a situation likely to prevent people from participating fully in society. The EU 2020 strategy calls for ‘empowering people in inclusive societies’ that is to say social inclusion or integration of people into the mainstream institutions of civil society, their sense of belonging to a city or territory and the strength of shared experiences, identities and values between those from different backgrounds. The Commission recommendation on active inclusion provides an useful framework for the future support to active inclusion with a particular focus on adequate income support, inclusive labour markets and the level of penetration and reach out of social support services to those in need, their territorial availability, physical accessibility and affordability.

An open question remains as to the possible future funding of a direct financial support to the unemployed. The experiences and lessons from the crisis call for a fresh and open reflection on the relevance of passive support for the ESF scope, its articulation with the active labour market policies and potential conditionality. Smart passive support may help the EU achieve its employment target and lead to inclusive growth.

- *Equal opportunities*

This dimension would include interventions that are place-based and group-based and aim at harmonious, conflict resolution, comprehensive actions from at-least two policy areas (multidisciplinary actions) in order to expand the opportunities available for local socio-economic development, lessen local social tensions, improve the investment attractiveness and quality of life in economically and socially disadvantaged areas and of particular target groups. Under this dimension, the ESF should continue to promote and invest in measures designed to improve tolerance, equal opportunities and respect for diversity. The interventions that would fall under this dimension will aim at enhancing the growth potential and social cohesion in '*ESF supported areas*' by ensuring better penetration of services such as enhanced employment mentoring, better health services, improved school environment and better supply of skills, higher community services to increase social interaction and promote equal opportunities.

## **4. Horizontal issues**

The principles of non discrimination and gender mainstreaming will continue to be fundamental blocs in the future ESF scope. There are, however, four horizontal issues that need to be discussed.

### *4.1 Hard versus soft investments*

Should the ESF in the future be able to finance comprehensive actions including hard and soft investments? In the current programming period, allocated investments in social infrastructure accounted for €5,2bn (education, health, child care, other social infrastructure). The overall figure for social infrastructure at the level of approved operational programmes is €15.8bn. The issue that needs to be addressed is whether from a policy and efficiency perspective this important allocation can be left out of the ESF scope and whether the current situation corresponds to the one-fund-one programme approach of the programming period. A possibility would be to limit these actions as a share of a priority axis or as a share of the operational programme. Hard infrastructure investments are also relevant for the area of research and development and for administrative capacity. The reflection therefore needs to take into account whether the future demarcation line would be based on policies or on type of interventions.

#### 4.2 ESF support to innovation

The ESF support to innovation should be sharpened to allow MS reap the benefit of applying new approaches in reaching out to target groups or of working more with new partners through public-private partnerships and through financial engineering. The transformation of the economy into a green economy would also require identifying more effective approaches to addressing critical social challenges and broadly share this knowledge. The organisation of innovation within the ESF could take place at the level of each operational programme or at the level of the ESF via a pan EU horizontal initiative.

#### 4.3 ESF support to institutional capacity to underpin policy reforms

The issue that needs to be further discussed is the further extension of the ESF outreach to policy expenditures as opposed to project expenditures. In other words, do we want the ESF to finance policy reforms more extensively? An increased focus of the ESF on policies would allow maximising its added value in supporting actions with powerful outreach under each of its priorities and mainstreaming innovation in policy-making. The future scope could upgrade the current institutional capacity priority by enlarging to all member states and to all policies falling within the umbrella of the Europe 2020.

#### 4.4 Building trust and partnerships

The support to cohesive societies should also be seen as a contribution to reinforcing EU citizenship and participation. Empowering citizens to be involved in decisions affecting their lives will enhance their participation in the public debate. The ESF gives support to social partners which are of crucial importance for a vibrant social dialogue. The challenges lying ahead call for a stronger role of social partners and NGO in delivering of the employment and inclusion policies.

### **4. Alternative options for presenting the ESF scope**

Several possibilities exist as to the way to present the future ESF scope on the basis of the policies examined in the previous sections. The degree of alignment between the ESF and the Europe 2020 strategy would determine the presence or not of strategic guidelines to translate the EU strategic priorities in the operational programmes.

- **Option A**

It could fully match the objectives of Europe 2020. This choice would imply a scope presented as follows:

Europe 2020		ESF Scope components	
1) Smart	1) Smart Human capital	1+2+3) More and better jobs for workers in the green economy	
2) Inclusive			2+3) Strengthening inclusion and reducing poverty in sustainable manner
3) Sustainable			

- **Option B**

Alternative option would be to present the scope as based on three main thematic policies (employment, human capital development and social inclusion). Under this option, a framework of interventions for the ESF post 2013 could comprise three pillars:

1. Actions directly supporting employment;
2. Actions enhancing social inclusion
3. Human capital development actions

ESF scope components		
Human capital development	More and better jobs	Strengthening inclusion and reducing poverty in sustainable manner

- **Option C**

Under this option, the ESF scope would focus on employment related actions.

ESF scope component
More and better jobs

## 5. Questions to the Ad-Hoc Working Group

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

- A. Do you agree with the policies that the ESF should support? To what extent do the options outlined above cover the subject? What needs to be added, deleted or corrected?
- B. What additional elements could be taken into account for defining the future scope?
- C. What are the likely consequences of the different scenarios in terms of focus on the achievement of objectives set by the strategic framework?
- D. How would the different scope options affect the visibility of EU policies and of the ESF in particular?
- E. Does the limited scope option allow for a meaningful ESF presence in all MS? Is it feasible to limit the scope of operational programmes to a limited number of priorities chosen on the basis of the most acute needs ?
- F. Should the ESF in the future finance policies related expenditure and policy reforms as opposed to projects falling within a policy?
- G. Should the ESF scope be enlarged to include all type of investments in its areas of intervention?
- H. How best can the ESF support innovation? Do we need a separate instrument or mainstreaming ?
- I. Are there any other horizontal issues to be explicitly covered?