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ESF, Monitoring of Corresponding National Policies I, Coordination
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ESF COMMITTEE AD-HOC GROUP ON THE FUTURE OF THE ESF

Draft Interim Report to the ESF Committee

Sevilla, 19 March 2010

BACKGROUND

At its meeting in Stockholm on 19/12/2009, the ESF Committee decided to establish an Ad-Hoc expert group to discuss the future of the European Social Fund. The purpose of the Ad-Hoc Group is to provide a forum for informal discussions on the future of the ESF. The members of the Ad-Hoc Group are experts nominated by the Member States and the social partners for their personal knowledge and expertise on the subject to be discussed. They are not expected to present and defend formal government positions or those of the organisations that nominated them. No formal minutes are taken from the meetings. Instead, the Commission which acts as secretary to the Ad-Hoc Group produces overviews of the points discussed.

The Group met three times on 18 December 2010, on 20 January 2010 and on 2 March 2010.

The present document is the interim report to the March ESF Committee foreseen by the mandate of the Ad-Hoc Group. It is based on the overviews of the discussions prepared by the Commission. The overviews of the first two meetings were discussed and endorsed subject to some modifications. The overview of the 2 March meeting could not yet be presented and endorsed by the Ad Hoc Group.

Because this report is based on overviews and because of the informal nature of the group, the following points are not necessarily all fully endorsed by each individual member. This is also work in progress and none of the points should be considered final.

Three topics were discussed by the ad hoc group:

- A. The European added value of the European Social Fund,
- B. The geographical coverage of the European Social Fund,
- C. The delivery system.

The group decided to start with these issues rather than with the objectives of the Fund (which would have been more logical) in view of the fact that the future objectives would be very dependant on the EU2020 strategy the content of which was still to be defined. This topic will be discussed in the next meeting in April.

The issue papers, the overviews of the discussions as well as the summaries of the SWOT analyses of the three basic delivery scenarios are given in annex.

A. EUROPEAN ADDED-VALUE OF THE ESF

- A majority of the group felt that the *European Added Value of the ESF* was evident and beyond doubt. However they felt that it was necessary to describe and demonstrate the European Added Value of the ESF to the people outside the Cohesion Policy circle.
- The following were identified as key dimensions of European Added Value of the ESF:
 1. the *relevance to European Union policy objectives* with a shared concern to link clearly the ESF to the Europe 2020 strategy;
 2. the respect of the subsidiarity principle;
 3. the delivery mechanisms and their expected effects, especially in terms of *process*: how things are done and how actors get involved notably through the application of the partnership principle, the long-term perspective, and the flexibility of the instrument;
 4. the expected effects in terms of *role*: policy change and agenda setting, mutual learning, innovation, multiplier effects, ...;
 5. in addition the ESF also has effects in terms of *volume* (doing more) and *scope* (broadening of actions).
- Volume and scope effects are important for the actual delivery of policies. In general the experts felt that even in convergence regions where effects in terms of volume are more visible, the effects in terms of processes and role were particularly important and sustainable.

B. GEOGRAPHICAL COVERAGE

- The future ESF priorities are likely to remain focussed on *employment and skills*, though possibly with even stronger actions strengthening *social cohesion*. Unemployment and exclusion are not issues for poor countries and regions only. They are not confined to any particular area of the EU or directly linked to Member States' development levels as described by GDP.
- Experts largely agreed that the ESF should be an *instrument open to all* Member States and regions even though levels of support or the scope might be differentiated between them. The entire EU population in working age or in education - can therefore be considered as potential target groups for ESF intervention. With the ESF, Europe expresses its solidarity with citizens who need support regardless of their place of living

- In general, experts felt that the future *ESF should not impose specific interventions*, but leave room to respond to specific national (or regional) needs. Nevertheless, there may be a need to have common objectives or priorities particularly if the ESF is to operate across the EU and that some focus or concentration is necessary. A limited number of common priorities may be counterbalanced with a greater freedom as to how to implement them.

C. DELIVERY SYSTEMS

- The future ESF should not be more difficult or bureaucratic than national funds with a similar purpose. *Simplification* for all the stakeholders in the Fund has to be a *guiding principle*.
- It might be possible to *introduce elements of output or result-based conditionality* for the disbursement of EU contributions depending on the type of interventions or objectives. However, the applicability of pure results based management was questioned by most experts. Regarding specifically the current system, several interventions stressed that it did not miss out completely on quality as outputs and results are monitored, but that it was difficult to demonstrate and communicate them.
- A major issue across all scenarios was that of *legal certainty*.
- It should be possible to do with fewer *levels of strategic documents* and *less reporting*. The core documents could be Europe 2020 and the OPs which would need to describe how they will contribute to it. In general earmarking and categorisation were not deemed to be sufficient to demonstrate the link between the OPs and the EU strategy. In Member States with many programmes the option to use an intermediary national coordinating framework might be useful. This could then cover all interventions from all funds and require only a single reporting. A single multi-fund programme was considered by few as a useful option for smaller Member States, although not matching the "one fund-one programme" principle.
- The *OPs should be more strategic and more focused on results*. One possibility was to have two parts, one to depict the strategy and the quantitative targets to be achieved, how the programme is to contribute to the Europe 2020 strategy and a second one to list the concrete measures envisaged. However the actual implementation of these measures would be subject of national legislation and would not be covered by the formal decision on the OP.
- Some interventions called for the development of a set of *core indicators* linked to a list of actions eligible for ESF funding or/and to the expected results. In fact it would enhance the visibility for the ESF and would facilitate comparison between programmes. Others felt that such a list might not be exhaustive and could be difficult to define. Therefore there would still be a need for specific indicators.
- The *wider application of the proportionality principle* was agreed by all but discussions should go on to identify concrete proposals for its implementation.

A first set of proposals were related to proportional control and audit provisions. One such proposal was *to limit to one the number of audits of "small" project*. Should the same

project come up in another sample no new audit should be made. The results of the previous audit should be reused. Another is to take into account past performance of the beneficiaries, intermediate bodies or even Member States. It was also proposed to **modulate the level of control according to the error rate** of the programme.

There was also a broad consensus to have a proportionality principle linked to the size of the Programme.

Finally it was proposed to introduce proportionality in the eligibility rules and in conservation of documents.

- The target of less than 2 % **error rate** was felt to be questionable given the complexity and the diversity of co-financed operations. But in any case increasing the level of assurance would require lowering the current rate of error. The major source of errors was that rules are not well known or unclear at the start of the programme. Furthermore they might be interpreted differently. The solution lays therefore in further simplifications, in explaining rules ex-ante or possibly in the increase of ex-ante audits by the Commission.

INTERIM CONCLUSIONS

The following points seem to be widely endorsed:

- The ESF should be an **instrument open to all** Member States and regions even though levels of support or the scope might be differentiated between them;
- The future **ESF should not impose specific interventions** but leave room to respond to specific national (or regional) needs;
- **Simplification** for all the stakeholders in the Fund has to be a **guiding principle** for the new programming period
- It should be possible to do with fewer **levels of strategic documents** and **less reporting**.
- A major issue across all scenarios is that of **legal certainty**.

Points which are less clear and may need more discussions:

- While the **OPs should be more strategic and more focused on results**, it is not clear how this is to be achieved. It might be possible to **introduce elements of output or result-based conditionality** for the disbursement of EU contributions or allocation, to OPs depending on the type of interventions or objectives.
- The extent to which there should be **common objectives** or priorities. A limited number of common priorities may be counterbalanced with a greater freedom as to how to implement them.

- The development of a set of *core indicators* linked to a list of actions eligible for ESF funding or/and to the expected results. In fact it would enhance the visibility from the ESF and would facilitate comparison between programmes.
- The *wider application of the proportionality principle* was agreed by all but discussions should go on to identify concrete proposals for its implementation.
- The target of less than 2 % *error rate* is felt to be questionable given the complexity and the diversity of co-financed operations.

NEXT

Further meetings of the ad-hoc group are scheduled for 21 April 2010 and 18 May 2010. At these meetings it is foreseen to discuss:

- The objectives, priorities and scope of the ESF in the light of the Europe 2020;
- The links between delivery systems and the priorities and scope;
- The complementarity and the relationship of the ESF with other EU policy instruments.

Annex

SWOT analyses of scenarios contained in the issue paper

for the 2 March meeting

The following tables are based on 18 contributions.

These SWOT analyses should be conceived as a mapping of what is known or assumed for each scenario. They are not to be seen as decision making or comparison tools. Moreover, no stakeholder is required to indicate preferences for any scenario.

In general the experts felt that the summaries did reflect their views and contributions. However, there is a need to stress that only scenario A is known. The SWOT analyses for the scenarios B and C are largely based on assumptions and informed guesses.

DRAFT

A) Refunding on the basis of actual expenditure of operations

Strengths ¹	Weaknesses
<ul style="list-style-type: none"> • Clear link to actual interventions • Actual costs are covered • Based on widely accepted and commonly used administrative principles • Continuity with current system • Easier to coordinate with ERDF • Applicable to all types of operations • Visibility • Solid multi-level partnership experience 	<ul style="list-style-type: none"> • Complex legal basis • Focus on expenditure and processes but not on actual achievements • Heavy administrative burden • Lack of proportionality. Same rules and procedures irrespective of the size of the operations • Multiple checks and audits • The responsibility does not lay with one organisation with as a consequence the need for repeated checks and even more assurances. • High error rates which do not necessarily reflect misuse of funds • Uncertainty regarding eligibility

Opportunities ²	Threats
<ul style="list-style-type: none"> • Strong expectation / call for simplification of EU funds • Strengthening of monitoring and evaluation • Abundance of simplification ideas based on practical experience • Possible to test new solutions before 2013 • Greater flexibility as regards activities eligible for ESF assistance (the most extensive as possible definition of eligible activities) 	<ul style="list-style-type: none"> • The image the public has of the EU is worsening • Potential beneficiaries lose interest in ESF • Simplifications turn out to be complications. The system grinds to a halt. • “Conventional” approach as regards checking systems while simplified procedures are applied for reporting (e.g.: payments on a lump sum basis or standard scales of unit cost)

¹ Strengths and weaknesses are inherent to the proposed system. The opportunities and threats are external.

² Two respondents stated that there are no opportunities left to improve the current system.

B) Refunding on the basis of outputs of Programmes

Strengths	Weaknesses
<ul style="list-style-type: none"> • Focus on outputs rather than on expenditure • Flexibility to adjust implementation strategy to changing economic and social situations • Favours efficiency • For "core business" easier to compare and learn from others • Clearer link between achievements and spending and therefore improved visibility /accountability • Reduced administrative burden • Easier reporting • Clearer link with real political priorities 	<ul style="list-style-type: none"> • Increased burden to negotiate OP targets, measurements and costs between COM and MS • Increased burden to adjust the OP to changing economic and social situations (updating targets, costs,..) • Not possible or difficult to define clear costs and quantifiable targets for all types of interventions, notably for those with process or role Added Value • Need for a bigger pre-financing • Uncertainty of the financial resources (risk that costs incurred are not covered) • New system that may take time / resources to put in place

Opportunities	Threats
<ul style="list-style-type: none"> • Strong expectation / call for simplification of EU funds • Possibility to partially test some options in the current programmes • The system could be based on results not necessarily on outputs • Better image of ESF, which becomes less bureaucratic. • Public administration in a better position as regards its capacity to evaluate and operate 	<ul style="list-style-type: none"> • Performance audits become an extra burden in lieu of (or even worse on top of) the current audit and control system • Not possible to test and hence increased risks • Creaming: focus on fulfilling targets and not on achieving policy goals • ESF scope narrowed to easily defined outputs if it proves difficult to differentiate according to local needs • Possible reduced involvement of NGOs and civil society • Unequal treatment of MS • Impact on N+2/N+3 • Problems likely to be raised by an audit which follows a conventional approach

C) System combining elements of budget support and results-based management

Strengths	Weaknesses
<ul style="list-style-type: none">• Simpler administration and control by the use of national rules and procedures• Focus on policy goals (that could increase the involvement of policy makers)• Reduction of risk• Application of the subsidiarity principle• Easier coordination of state investments• Facilitates structural reforms and alignment of national and EU policies	<ul style="list-style-type: none">• Delayed payments since based on results which come later in the implementation• Not flexible (e.g.: in the planning/programming exercise, it is difficult to fix ex-ante targets for short term results)• No ESF visibility• Difficulty (resources and time needed) to establish the systems required and to formulate and negotiate the OPs• Difficulty to identify and establish the causal links between actions and results• Susceptible to election cycle• More difficult to evaluate and share experience.• Dependant on availability of reliable statistics

Opportunities	Threats
<ul style="list-style-type: none"> • Strong expectation / call for simplification of EU funds • Increase the level of assurance on EU payments. 	<ul style="list-style-type: none"> • "Statistics" audits become an extra burden in lieu of (or even worse on top of) the current audit and control system. • Evaluators and statisticians replace auditors not resulting in reducing administrative burden • Risk that innovative actions are not any more supported. Loss of European added value. • Risk of focussing on easily achievable targets • Sensitive to external factors such as changed social and economic context • Not shared management EU/MS • "cultural" resistance to such a fundamental change • Could appear as a renationalisation of the Funds. Difficulty to demonstrate EU added value. • EU funding diverted to other areas. • Could indirectly encourage "creative" accountings in MSs. • Weakens partnership principle • Problems likely to be raised by an audit which follows a conventional approach