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EXECUTIVE SUMMARY OF THE IMPACT ASSESSMENT

Accompanying the document

Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

on the European Social Fund and repealing Regulation (EC) No 1081/2006

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EXECUTIVE SUMMARY OF THE IMPACT ASSESSMENT

PROCEDURAL ISSUES AND CONSULTATION OF INTERESTED PARTIES

The European Social Fund is covered by the Common Strategic Framework together with the European Regional Development Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund. These financial instruments are regulated by means of a regulation laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund covered by the Common Strategic Framework and laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and repealing Regulation (EC) No 1083/2006. (Common provisions regulation). Impact assessments have been prepared for the Common Provisions Regulation, discussing European added value, performance and delivery of policy, and also for the specific regulations. For the ESF impact assessment, the focus is on the future scope of the instrument and on one specific aspect of simplification, namely the form of cost accounting. Other aspects are covered in the impact assessment for the Common Provisions Regulation.

The ESF impact assessment also discusses the articulation between the financial instruments available to the Commission's Directorate-General for Employment, Social Affairs and Inclusion, notably the ESF itself, the European Globalisation Fund, the PROGRESS programme, EURES and the PROGRESS Microfinance Facility.

1.1. Consultation and expertise

Extensive public consultations have been carried out both on cohesion policy as a whole[1] and specifically for the ESF. Expert advice was provided by the ESF Committee's ad-hoc group on the future of the European Social Fund. This informal group of experts from the Member States and the social partners met seven times between December 2009 and March 2011. Moreover, permanent working contacts with managing authorities and with other stakeholders (for instance through the monitoring committees for the ESF programmes or the ESF Technical Working Group) helped to gain knowledge of day-to-day difficulties and concerns during the implementation process.

The conference 'Shaping the future of the ESF — ESF & Europe 2020' in Brussels on 23 and 24 June 2010 brought together over 450 high-level representatives from public authorities, social partners and civil society at EU and national levels as well as from third countries.[2] NGOs and social partners were specifically consulted on the future of the ESF in December 2010.

On 7 October 2010, the European Parliament adopted resolutions on the future of cohesion policy[3] and the ESF.[4] Both the Economic and Social Committee (on 15 March 2011[5]) and the

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1 See the Common Provisions Regulation Impact Assessment.

2 The conference report is available at: http://ec.europa.eu/employment_social/esf/docs/100907-conference-report-final_en.pdf.

3 http://www.europarl.europa.eu/sides/getDoc.do?type=TA&reference=P7-TA-2010-0356&language=EN&ring=B7-2010-0539.

Committee of the Regions (on 30 March 2011[6]) adopted exploratory opinions at the request of the Commission. Moreover, both EMCO[7] and SPC[8] issued opinions as did the ESF Committee in June 2010 and March 2011.[9]

Two stakeholder conferences[10] were organised to discuss the future of the EGF on 25 and 26 January 2011 and 8 March 2011. Expert advice was obtained through questionnaires in August and October 2010 and in February 2011. Expert meetings were held in September 2010 and in March 2011. In September 2010, the European Parliament adopted a Resolution[11] on the functioning and funding of the EGF.

As part of the review of the current PROGRESS programme, the Commission organised a two-step consultation: a working group gathering together the programme's key stakeholder representatives[12] and a public online consultation carried out between April and May 2011. The 2011 meetings of the EURES Working Party and the Heads of Public Employment Services (PES) held specific discussions on the future of EURES.

PROBLEM DEFINITION

Society across Europe is confronted with multiple challenges stemming from increased global competition, the fast pace of technological progress, demographic trends, and climate change.[13] These challenges have been compounded by the recent economic and financial crisis, leading to record unemployment levels in some Member States, especially among the most vulnerable groups and young people. At the same time, shortcomings in skills and low labour mobility persist.

Many Member States and regions face difficulties in completing the transition to more competitive activities, and there are still considerable disparities in employment, social inclusion, levels of health, and the availability and accessibility of education.

The crisis also highlighted the close links and spill-over between the EU-27 economies, especially in the euro area, which means that reforms, or the lack of them, in one country affect the performance of the others. European financial support can help to coordinate efforts to develop and introduce active labour market policies, effective lifelong learning, instruments to promote labour mobility, and adequate social security systems. Action at European level is required, all the more so as a lack of economic, territorial and social cohesion would hinder

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4 http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+TA+P7-TA-2010-0357+0+DOC+XML+V0//EN.

5 http://www.toad.eesc.europa.eu/AgendaDocuments.aspx?pmi=ha5jDW%2bOWSEKS2CtbtA2nl2VJruX4mnzBdsQyM7Dy60%3d.

6 http://www.cor.europa.eu/pages/PressTemplate.aspx?view=detail&id=b0a92bb4-7fbd-4cea-aade-1cf0a26429aa.

7 http://ec.europa.eu/social/main.jsp?catId=115&langId=en.

8 http://www.europarl.europa.eu/meetdocs/2009_2014/documents/empl/dv/empl_spc_on_esf_/empl_spc_on_esf_en.pdf.

9 http://ec.europa.eu/esf/main.jsp?catId=445&langId=en.

10 http://ec.europa.eu/social/main.jsp?catId=326&langId=en&eventsId=320&furtherEvents=yes.

11 http://www.europarl.europa.eu/sides/getDoc.do?type=REPORT&reference=A7-2010-0236&language=EN.

12 National authorities, social partners and EU-level networks of civil society organisations. The Group met twice in January and February 2011. .

13 COM(2010) 2020.

the European Union's further development and undermine its legitimacy in the eyes of its citizens.

Ensuring equal protection for European citizens in the workplace, particularly in sectors considered to be at risk and for categories of workers who are most vulnerable (young people, workers on fixed-term contracts, low-skilled workers, migrants, etc.), requires the strengthening of EU legislation.

Stakeholders, evaluations and studies generally agree that the different instruments make positive contributions towards employment and social inclusion. While it is difficult to quantify the European added value of European support, qualitative analysis provides convincing evidence that the ESF has made a difference not only in terms of the quality of active labour market policies, in particular in many Member States and regions that are lagging behind, but also in terms of quantity.

Still, when it comes to implementation the picture is mixed. In the current period, ESF programmes have started late and actual rates of payment are well below those at a similar time in the previous programming period. Error rates have declined but are still above the materiality threshold set by the European Court of Auditors, indicating that there is still some way to go to simplify and streamline delivery. With regard to the EGF, it was conceived as an emergency instrument, and while its arrangements are indeed very flexible in helping workers affected by restructuring, the average deployment time of 11 months needs to be shortened. The different direct management instruments suffer from being implemented in isolation from each other and from the ESF, although stakeholders and experts confirm that many of the objectives they are intended to achieve are broadly relevant.

EU action is justified on the grounds of the subsidiarity principle, the objectives set out in Article 174 of the Treaty on the Functioning of the European Union (TFEU), Article 175 TFEU, which explicitly calls on the EU to pursue these objectives through the Structural Funds, and the aims of the European Social Fund (ESF), defined in Article 162 TFEU. The legal basis for the EGF is the third paragraph of Article 175 TFEU, which provides for other specific actions outside the Structural Funds. The legal basis for the **PROGRESS** programme is Articles 149 and 153 TFEU, which provide for the coordination of employment and social policies.[14] The current legal basis for **Progress Microfinance** is the third paragraph of Article 175 TFEU. **EURES** is based on Article 45 TFEU, which aims to secure freedom of movement for workers, one of the four freedoms enshrined in the TFEU.

OBJECTIVES

The general objective of the financial instruments for promoting the labour market and social inclusion is to support the EU in developing ***a smart, sustainable and inclusive economy achieving high levels of employment, productivity and social cohesion***, i.e. to contribute fully to the Europe 2020 Strategy, in accordance with the Single Market Act of April 2011.[15]

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14 Actually, the current PROGRESS programme has a threefold legal basis. However, actions implemented on the basis of Article 19 TFEU fall within DG JUST's area of competences and will form part of its future post-2013 programmes.

15 http://ec.europa.eu/internal_market/smact/index_en.htm.

1.2. Specific objectives

Alongside the overarching specific objective of ensuring consistency between the different instruments, each instrument has its own specific objectives.

For the ESF, these are to promote (i) employment and mobility, (ii) education/training skills, (iii) social inclusion, and (iv) institutional capacity. This will be tracked using the four EU 2020 indicators and targets directly relevant for the labour market / social inclusion instruments. EU-level targets for the ESF cannot be set as implementation follows national and regional operational programmes. The ESF and EGF also contribute indirectly to other policy objectives such as the transition to a low-carbon and climate-resilient economy and the digital agenda.

The specific objective for the EGF is to support workers made redundant as a result of major structural change.

For the instruments under direct management, the specific objectives are derived from the legal bases justifying EU actions and will be reflected in the legislative proposals. For the purpose of this impact assessment, the most relevant specific objective is improved policy coherence and efficiency through cross-cutting work across the various strands of action and complementarity with other EU financial instruments, in particular the ESF.

1.3. Operational objectives

The operational objective for the ESF is to simplify delivery. The following indicators are chosen as proxies for the degree of simplification: (i) absorption (target: 100 % or no automatic decommitment), (ii) error rate (target: less than 2 %), and (iii) use of the simplified cost options (target: at least 75 % of the total cost of grants). Content-level operational objectives are to be defined in the operational programmes.

The operational objectives for the EGF are to support redundant workers more rapidly (< 8 months) and to strive towards at least 50 % of assisted workers having a new and stable job within 12 months.

Operational objectives are also defined for the direct management instruments.

POLICY OPTIONS

The options considered cover the following dimensions: (i) scope of the ESF, (ii) possibilities to simplify ESF cost accounting, (iii) status of the EGF and link with the ESF, (iv) relationship between the direct management instruments and link with the ESF. For each dimension, the range of options considered has been shaped by dialogue with stakeholders and recommendations derived from research in the area.

The options for the scope of the ESF range from a narrow focus on employment and mobility to a much broader scope including income support measures. The main differences between the simplification options is the extent to which different simplified reimbursement options can or must be introduced and whether these can be linked to results. This mirrors a discussion in the impact assessment of the Common Provisions Regulation for the European Regional Development Fund (ERDF), Cohesion Fund (CF) and European Social Fund (ESF).

The options considered for the EGF[16] range from a continuation of the status quo to having its own budget, either as part of the ESF or as a stand-alone instrument.

The options considered for the direct management instruments are continuation of the status quo, a single integrated direct management programme and integration of the direct management instruments within the ESF.

The no-funding policy option was discarded at an early stage. It would mean the discontinuation of European financial support for active labour market policies, effective lifelong learning, promotion of labour mobility, and modernisation of social security systems. This would directly affect millions of citizens annually, end the most tangible expression of EU solidarity and greatly diminish the ability to promote EU employment and social policy objectives.

ANALYSIS AND COMPARISON OF THE OPTIONS

This analysis is essentially qualitative and focuses on social and economic impacts. On a very general note, all the instruments are supposed to facilitate or mitigate changes in economic structures, including employment structures. As mentioned in the objectives section, although employment and social policy are expected to facilitate the transition to a low-carbon economy, these impacts depend on their concrete implementation and not directly on the legal provisions.

1.4. Scope of the ESF

In economic terms, an ESF narrowly focused on policies and actions leading directly to employment (including support for education, but only tertiary and vocational education) will ensure *a priori* that the ESF concentrates on economically relevant tasks. However, a labour market focus would tend to imply a focus on individuals, whereas barriers to employment may lie for instance in the household. Focusing the ESF exclusively on labour market integration and training is likely to be too narrow.

At the other end of the spectrum, broadening the scope of the ESF to include income support does not meet with much approval. The spending by Member States and regional authorities on passive measures is of a completely different order of magnitude than the funds potentially available for the ESF.[17] Furthermore, providing income support is first and foremost a national or regional obligation. Supporting passive measures would change the character of the ESF and may even violate the Treaty provisions. Moreover, any amount spent on passive measures is not available for other activities where a European added value can be identified.

The different scope options are also analysed in terms of their contribution to the ESF's specific objectives. Actual contributions will depend on funding decisions on how much to allocate to a given policy area. These will only be taken in the context of negotiations with the

[16] The recently adopted MFF 2014-2020 proposal extended the scope of the EGF to include assistance to farmers whose livelihoods may be affected by globalisation. This responded to the need to facilitate the adaptations required by international trade agreements.

[17] During the programming period 2007–2013, the budget available for the ESF was nearly €76 billion. The MFF provides for the ESF to receive at least €84 billion for the seven-year programming period 2014–2020.

Member States on the operational programmes. The assessment is therefore a qualitative one based on a hierarchy of objectives.

A broad ESF scope, but not including income support measures, is the preferred option. It is likely to favour efficiency since more actors can be involved and programmes more easily tailored to local needs and established delivery systems.

Table 1. Comparison of the scope options

	Specific objectives				Opportunity costs
Options	**Employment**	**Education**	**Inclusion**	**Institutional capacity building**	
1.1 – No policy change	0	0	0	0	0
1.2 – Focus on employment	+	--	--	--	+
1.3 – Broad scope	=	=	+	++	-
1.4 – Broad scope including passive measures	--	-	-	+	-

Legend: + means an increased impact (or opportunity cost) as compared to 'no policy change'; - means a reduced impact (or opportunity cost)

1.5. Simplification

The options distinguish the extent to which standardised cost calculation and reimbursement schemes are introduced and whether these can or cannot be linked to performance. Under 'no policy change', with the voluntary use of such schemes, managing authorities will probably slowly begin to make more use of these possibilities. Option 3 would see all payments linked to pre-agreed performance levels. While this could simplify the implementation of programmes, it is likely to make their formulation significantly more complex. The need to agree on performance levels may result in 'creaming' effects and discourage more innovative actions. Option 2 offers increased flexibility (compared to options 1 and 3), leaving managing authorities with the widest range of possibilities to introduce the simplifications they feel confident with and which fit their needs. It is the option expected to deliver most on the operational objective and is therefore preferred.

Table 2. Comparison of the simplification options

	2.1 - No policy change	**2.2 - Proportional approach**	**2.3 - Prescriptive approach**
Efficiency	0	++	+
Flexibility	0	+	-
Administrative burden	0	+	-

Legend: + means better as compared to ‘no policy change’; - means worse.

1.6. Relationship between the EGF and the ESF

Incorporating the EGF within the ESF or making it a stand-alone instrument with its own budget is likely to allow for quicker delivery than is currently possible. However, this would change the character and profile of the intervention, which should remain exceptional. It would also be associated with greater rigidity in terms of budget use, whereas actual needs are by nature highly unpredictable. The ‘no policy change’ option offers the greatest flexibility and does not preclude further reforms to speed up the decision-making process.

Table 3. Comparison of EGF options

	3.1 — No policy change	**3.2 — Incorporation of the EGF within the ESF**	**3.3 — Stand-alone fund with its own budget line**
Speed of delivery	0	+	+
Efficiency	0	-	-
Effectiveness	0	0	0

1.7. Links between the ESF and the direct management instruments

PROGRESS deliverables feed into policy initiatives which are, where relevant, underpinned by their own impact assessments. Assessment of the social, environmental and economic impacts needs to be at the level of these policy initiatives. The analysis of the options and their subsequent comparison is therefore confined to the criteria of effectiveness, efficiency and coherence.

Under the ***‘no policy change’ option***, PROGRESS, EURES and the European Microfinance Facility continue to exist as distinct instruments alongside the ESF. The opportunity to increase policy coherence by linking PROGRESS with the self-employment and entrepreneurship support provided by the Microfinance Facility and the intra-EU mobility of workers promoted by EURES is missed. There are no efficiency gains that could be derived from the rationalisation of the financial instruments. For all these reasons, ***option 4.1*** is discarded.

Option 4.2 is the preferred option. It calls for a new integrated programme for employment, social policy and inclusion, which brings together PROGRESS, EURES and the Microfinance Facility. This option enables the Commission to increase policy coherence and the impact of its instruments which pursue common policy objectives. It also allows efficiency gains compared to ***option 4.1*** in terms of considerable rationalisation of the direct management instruments, streamlining of their management rules and procedures, and flexibility through allocating resources to changing policy priorities. Emphasis is placed on innovative ways of responding to long-standing social challenges (mutual learning, partnerships between public, private and third-sector actors, investment in social enterprises). Synergy and complementarity with the ESF could be better achieved by adequate coordination by the Commission rather than by merging these instruments with the ESF, as considered under ***option 4.3***.

The main difference between ***option 4.2*** and ***option 4.3*** is that the latter proposes that all three instruments be regrouped as an ESF component for direct management. Such a single instrument certainly would enhance the coherence of EU budget support, increase volume (with the ESF part) and improve consistency in implementation. Conversely, it would increase the risk of reduced efficiency due to more complexity. However, a single instrument would require two major components, implemented according to completely different management rules (i.e. shared, direct and joint management). Moreover this option involves political and institutional risks inherent in the adoption of an excessively complicated ESF Regulation. Therefore ***option 4.3*** should be discarded.

Table 4. Comparison of the options for direct management instruments

	4.1 – No policy change	**4.2 — Integrated direct management programme**	**4.3 — Incorporation within the ESF as a direct management component**
Efficiency	0	+	-
Critical mass	0	+	+
Coherence and effectiveness	0	++	+
Political and institutional risks	0	+	-

Legend: + means better as compared to 'no policy change'; - means worse.

MONITORING AND EVALUATION

1.8. ESF

Under the existing Structural Fund Regulations, monitoring and evaluation are primarily the responsibility of the Member States: their managing authorities are required to set up a monitoring system and to provide annual reports and a final implementation report. The overall allocation of responsibilities will remain unchanged. However, there are some weaknesses in the current ESF monitoring and evaluation systems: data quality is uneven, data collection methods vary greatly among Member States, and no information is provided on the intensity of support for individuals. This makes it difficult to aggregate results at EU level or to assess the longer-term effects of ESF interventions on individual participants and on Member State economies and systems in general.

Against this background, the main focus of the future monitoring and evaluation system will be on setting minimum quality standards and introducing a set of compulsory common indicators. This should ensure that monitoring produces robust and reliable data and that evaluation focuses on assessing the effectiveness and impact of ESF support.

1.1. The EGF

Monitoring and evaluation are primarily the responsibility of the Member States. In future, Member States will be obliged to specifically monitor achievement of the operational objectives, in terms of people reintegrated into employment after 12 and 24 months of implementation. A mid-term evaluation to assess the effectiveness and sustainability of results will be conducted by the Commission and will be followed by an ex-post evaluation.

1.9. The integrated programme for employment, social policy and inclusion (Social Development Agenda)

The integrated programme for employment, social policy and inclusion will remain focused on results and achievements rather than resources and activities. To this end, the integrated programme will be monitored on an annual basis in order to assess progress towards the achievement of its specific and operational objectives against clear indicators[18] and also to allow for any necessary adjustments to policy and funding priorities. The integrated programme will also be subject to mid-term and ex-post evaluation. The opportunity to bring together three instruments will enable the Commission to streamline evaluation arrangements and reduce their costs.

[18] Indicators will be developed in the ex-ante evaluation for the integrated programme.