The European Social Fund: supporting economic recovery

The EU has launched a European Economic Recovery Plan in response to the developing economic crisis. Cohesion Policy, and its funding instruments, which include the European Social Fund, is at the heart of this strategy to bring Europe through the crisis and ensure a rapid return to sustainable growth.

The economic crisis: the background

The liquidity crisis that originated in the US banking system in the summer of 2007 quickly spread to global financial markets. In response, in the course of 2008 the EU Member States, the European Central Bank and the European Commission took coordinated steps to stabilise the European banking system and restore confidence to markets, and they continue to do so today. However, this unprecedented crisis is now affecting the 'real economy' of jobs, business and trade as the 'credit crunch' restricts the flow of finance to companies and households. Less business investment and lower household spending results in falling economic activity – indeed, EU economic growth is expected to decline in 2009. The impacts on the real economy are many, for example rising unemployment that is forecast to exceed 8% by 2010, and much lower job creation than in the record years of 2007-2008 when 6 million new jobs were created.

The economic crisis: the recovery plan

To combat the crisis, the EU is implementing the 'European Economic Recovery Plan' which was approved by the European Council in December 2008. It involves a fiscal boost of the order of at least €200 billion (1.5% of EU GDP) from EU and national budgets in order to raise demand, restore economic activity to its upward path, and save and create jobs. How this 'boost' is delivered depends on the situation in individual Member States. The plan also calls for 'smart investments' that will yield higher sustainable growth in the longer term. The instruments of the EU Cohesion Policy – the European Regional Development Fund (ERDF), the European Social Fund (ESF) and the Cohesion Fund – represent one-third of the total EU budget and are the largest EU sources of investment in the real economy. Thus, they are at the core of these 'smart investment' measures.

The ESF: part of the 'toolbox' for recovery

The European Social Fund is the European Union's main financial instrument for investing in people. Over the current funding period 2007-2013 it will invest some €76 billion in projects in the Member States: supporting employment and helping people enhance their education and skills, thus improving their job prospects. During this same period, the ERDF and the ESF together will invest in about 2 million co-funded projects in the Member States and the 'real economy'. Created in 1957, the ESF has a long history of supporting jobs and people and has proved its effectiveness time and again over the years. As a tried-and-tested funding instrument, the ESF is a key part of the 'recovery toolbox'.

European Commission

What the ESF can contribute

Supporting employment and combating unemployment is 'normal business' for ESF programmes and projects. During the current ESF programming period, millions of EU citizens are being helped to find a job and improve their skills by participating in ESF-funded projects. For many, in particular the disadvantaged groups such as migrants and the disabled, it is their first real chance to enter the world of work. For many others, ESF projects help them upgrade their skills and learn new skills so that they can get on in their jobs and improve their employability. Overall, the thrust of ESF activities is about encouraging both change and adaptation to it. So, as the economic crisis spreads into the real economy, ESF funding priorities become even more important. For example, the ESF helps to:

- Discover and implement more innovative and productive ways of working. For example, by helping organisations restructure their processes and employment strategies to support jobs and competitiveness.
- Accelerate support for workers and companies to acquire the new skills they need as the economy returns to normal growth.
- Implement active and preventative measures to support employment. The economic crisis can accelerate changes, for example by retraining to enable workers to move into sectors where demand is greater.
- Support self-employment and new businesses. The SME sector is the largest employer in the EU so encouraging entrepreneurship and the creation of new companies is vital to economic recovery. ESF funding is used to help entrepreneurs and the unemployed to set up their own companies by providing them with guidance and support[1].

The EU Recovery Plan clearly stresses the relevance of Cohesion Policy and ESF priorities to alleviating the effect of the economic crisis on jobs. For this reason, the Plan calls for the acceleration of investments to support the real economy. To achieve this, the EU has brought five important legislative and administrative changes to the Structural Funds, including the ESF, which will help the Member States to kick-start employment-related investments and help the unemployed back into work, prevent long-term unemployment and raise skill levels. These measures cover: using unspent allocations from the previous funding period, increasing advance payments to the Member States, making co-funding rules more flexible, and easing the administrative accounting process and helping smaller projects with lump sums.

Measure 1: providing upfront liquidity

Around 10% of ESF funds from the previous programming period 2000-2006 remain unspent, slightly more in the newer Member States. In total, these unused ESF funds amount to about €7 billion. The EU is allowing the Member States more time to use these funds, helping in this way to increase the funds that can be injected into the economy.

This extension measure covers both the ERDF and the ESF and it is limited in time – until June 2009 – to encourage a rapid and large injection of funds to, in effect, support additional projects with positive growth and employment impacts. The projected potential impact of this measure on ESF beneficiaries can be seen by comparing the amounts made available by this extension (€7 billion) to the total ESF advance payments made to the Member States for the 2007-2013 period (€18.53 billion). This measure alone represents a massive injection of additional liquidity.

Measure 2: more front-loading of investments

When a new Structural Fund programming period begins the Commission makes advance payments (pre-financing) to 'front-load' the funds available for projects in the Member States. This approach helps deal with the rush of project applications at the beginning of a new funding cycle. In 2007 and 2008, the Member States received €18 billion in pre-financing, amounting to 5% of their total Structural Fund allocations for the 2007-2013 period.

In 2009, as part of the Recovery Plan, the EU will make additional advance payments from the Structural

(1) Real-life examples of the many ways that ESF projects support employment can be found on the ESF website: http://ec.europa.eu/employment_social/esf/

Structural Funds	Advance payments in 2009 (in € billion)		
	before Recovery Plan	added by Recovery Plan	Total
EU-15	0	3.80	3.80
EU-12	2.29	2.29	4.58
EU cross-border co-operation	0.08	0.16	0.24
Total	**2.37**	**6.25**	**8.62**
of which ESF share	**0.53**	**1.76**	**2.29**

Funds. These extra payments amount to €6.25 billion, taking the total of advance payments for 2009 to €8.62 billion. This amount includes €2.29 billion from the ESF, as shown in the table. This is in addition to the 5% pre-financing disbursed in 2007-2008.

This new funding represents more than a doubling of advance payments from the Structural Funds to the Member States for the year 2009. By making more funding available during 2009, they are able to approve and launch many more ERDF and ESF projects in order to support employment and create new jobs and businesses in the Member States. By front-loading funding, this measure is also front-loading employment- and growth-related initiatives during the critical early stages of the Recovery Plan.

Measure 3: flexible funding to boost new projects

ESF programmes are co-funded by the EU and national sources. The amount of the EU contribution varies from 50% to 85%, depending on the relative wealth of the region, and national contributions are planned in government budgets to ensure a progressive roll-out of ESF projects over the programming period.

However, the economic crisis is bringing national budgets under pressure and several Member States have little room for manoeuvre to co-fund additional ESF projects. This situation is particularly pressing as other measures in the Recovery Plan, described above, are specifically aimed at increasing the supply of EU funding in the short term and thus the demand from project beneficiaries.

To support ESF programmes, projects can now receive 100% EU funding to ensure they can be started, as long as this is balanced by nationally funded operations towards the end of the programming period in 2013. In this way, co-financing demands do not act as a brake on project cash flows during the critical period of the recovery plan, while the rules are respected over the long term.

Measure 4: lightening administrative burdens

Historically, the financial management of Structural Fund projects has been based on the principle of 1 euro of grant matched to 1 euro of documented expenditure. This placed a heavy administrative burden on project beneficiaries that could divert resources and discourage some from applying for funding. In response, the 2007-2013 ESF regulation introduced the possibility of applying a flat rate for the reimbursement of project overheads.

For 2009, the regulation has been amended to reduce the administrative burden on projects even more. For grants, Member States can now apply a flat rate of reimbursement to all project costs, both direct and indirect, by agreeing an appropriate 'standard scale of unit cost' with the project beneficiary. This allows payments on the basis of units of project output, for example: the number of training sessions held, or the number of participants with a migrant background still in work after one year.

The impact of this measure is of particular importance to ESF projects which are often small-scale initiatives on a local level. With less bureaucracy and lower costs, they can devote more resources to their core objectives. Further, this measure can encourage more potential beneficiaries to apply for funding than otherwise might do so. This should result in more and better projects.

Measure 5: helping small projects

Many ESF projects are small scale, sometimes with only a few tens of participants, for example childcare projects that free up parents for training and work. However, while they are small, they are important because there are very many of them. The amendments to the ESF regulation contain a measure aimed at helping smaller project beneficiaries.

The previous system of reimbursing actual costs for ESF projects required small, often local beneficiaries to buy in specialised accounting expertise. This made many potential small beneficiaries reluctant to seek ESF funding, even though their employment-related activities are precisely those the ESF wishes to support. The new amendment brings a significant simplification by allowing lump-sum grants to be made. This means that all or part of the costs of a project can be reimbursed on the basis of a predefined agreement on activities and/or results. This simplifies the administration of small projects. The lump sum is limited to an amount of €50 000 which, while seemingly small, actually covers a large proportion of ESF projects.

This measure will reduce the administrative burden on small project beneficiaries, thus allowing them to concentrate on their projects. It will also encourage many more potential small beneficiaries to apply for ESF funding at a time when more funding is being made available. Encouraging small projects is a vital part of ESF support to the Recovery Plan as their local scale and knowledge can make effective contributions to supporting employment.

The ESF supporting economic recovery

The European Social Fund is a key tool for supporting economic recovery in Europe. As such, it joins a number of other EU policies and instruments as part of the package of concerted efforts to restore growth and rising employment. These include the fiscal stimulus for investments being provided under the Stability and Growth Pact, infrastructure investments through the ERDF, increased investments from the European Investment Bank in support of SMEs across the EU, and the European Globalisation Adjustment Fund which can be deployed to support employment in economic sectors under threat. A major advantage of the ESF is that it is a tried-and-tested tool for creating jobs and combating unemployment. The changes and amendments described here have reinforced the capacity of ESF programmes in the Member States and regions to rise to the challenges of the economic crisis.

The ESF is making more funds available to provide more support to employment. These extra funds are available at the time they are needed most, in 2009, in order to build a momentum for recovery and to support future growth. The ESF is also more flexible by allowing the more hard-pressed Member States to delay co-financing until later – thus helping kick-start more employment initiatives in the short term. And, by reducing administrative burdens on beneficiaries, the ESF is ensuring that more and better projects are launched across Europe to create and maintain jobs.

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http://ec.europa.eu/employment_social/esf/discover/esf_library/publications_en.htm

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