

Contribution to the debate on the future of ESF

Dear Colleagues,

As I have no responsibilities any longer in the Hungarian government, I would like to address this distinguished conference in an **open way** without limiting myself to any official standpoints. So please consider my remarks as a **personal view**, which is **critical** as regards the EU framework as well as **self-critical**, reflecting what we could have done differently inside Hungary.

I do not reveal any secret by recalling that Hungary, when joining the EU, along with many other new Member States, had **high expectations** as regards getting access to ESF. We badly needed supplementary sources to finance our employment and social policies. The first two years brought relatively modest results, but certainly not worse than one would expect from a new Member State. We all hoped that in the next programming period, between 2006 and 2013, Hungary would be much more effective. **The facts**, however, **are disappointing**. We are approaching the half term in this programming period, and Hungary **has drawn only slightly more than 3 % of the ESF available**. Of course, there are many ongoing projects, and there are many contracts already awarded, and certainly time is needed until any investment processes get started and gain momentum, but still the question is there: why is our take up rate so low?

The main reason, I believe, is that **we do not see the wood for the trees** – and it equally goes for the European level and to our own activities. We are unable to understand the very purpose of ESF financing and to act accordingly, because we are concentrating too much on the procedural and financial details. When

assessing our ESF efforts, it tends to be less important whether we have achieved our employment and social targets **by using this financial instrument**. The key issue is, whether we have **used this financial instrument properly**, according to the EU and national regulations. Of course, we have to do our best – both at European and Member States level – to avoid any possible misuse of the EU tax-payers money. But the concerted efforts to follow all written and un-written financial and procedural rules could eventually not only discourage but even paralyse us.

A paradigm-shift is needed: **let's put the policy aim of ESF into the focus** and by doing so, let's try to avoid overemphasizing the fiscal and administrative concomitants.

Following this approach, you probably agree that **ESF and ERDF deserve distinct regulations**. The common framework rules are far too often not suitable for ESF activities, some conditions – for example, sustainability – are difficult to interpret in an ESF action, such as training, etc. The common EU framework encourages the Member States to develop their own, internal regulations in a **similar way**, which results at further rigidities. It would be very useful to make some comparisons how Member States interpret, for example, the compatibility rule (i.e. the opportunity to account, to a certain extent, ERDF-type expenditures in ESF project and vice versa).

Sharing experiences would be more than welcome in many other areas as well. It would be particularly interesting and a source of inspiration for future legislation to learn more about the **practical implementation of the global grant mechanism**. Hungary, for example, applies the global grant mechanism exclusively in ERDF-financed regional operative programmes, and within those, only for activities that could also be financed from ESF, like training. We should

explore how the global grant mechanism can be further developed and made more suitable for ESF-type activities.

If we put the policy aim of ESF into the focus, as I strongly suggest, you might also second the proposal **to put a much greater emphasis on the employment and social results achieved** than on financial absorption. Today, progress reports are often mere financial documents without indicating the true achievements compared to the political and programming objectives. Of course, adherence to financial and procedural rules is of outmost importance, but not an end in itself. What I urge is a professional monitoring – supplementing and somewhat overshadowing, if I may say so, the financial monitoring. This shift requires some preconditions, like, for example, the availability of common indicators along which different results can be assessed. In this regard, we can rely on the work done by the Employment Committee in the context of the European Employment Strategy.

Putting the policy aim of ESF into the centre also means, that we **continue making the ESF financing process less cumbersome** – both at European and at Member State level. The Commission has already made significant steps towards **simplification**, but the ESF financing process is still slow and difficult, and Member States rightly complain about it. Moreover, some of the modifications introduced by the Commission have not brought the expected results. Here I can refer, for example, to the uncertainties that emerged around the eligible/not eligible expenditures, in which the final verdict is given by the audit – which could be far too late. Or, I can also mention the simplified accounting techniques, which are less widely used than expected. A thorough analysis of the underlying factors would be useful for further discussion. Best practices of the Member States can be also collected and discussed in order to promote mutual learning on smart national regulations.

As there is always room for further simplification, I would encourage the Commission to continue working together with practitioners in order to **make the EU regulations and processes much more user-friendly**.

In this endeavour, we should not forget that in ESF-financing our partners are usually small organisations, which have limited administrative capacity. They get successfully over the hurdles of tendering, they usually have to contract professional “tender writers”. We know cases where tendering expenditures amounted to 20 % of the ESF support the applicants eventually received. This is unacceptable. The administrative burdens **should be reduced to the possible minimum**; the rules have to **be formulated in an easy-to-understand manner**, and financial control has to **be smart and proportionate**. The new ESF regulation has to be based on straightforward minimum requirements rather than on detailed provisions.

ESF deserves **further discussions**, as the issues are complex and the implementation of the EU employment and social policy is at stake. This conference hopefully gives a valuable input to the Commission when working on the new policy framework and drafting the new regulation in the context of the new financial perspective. The Hungarian Presidency, from January 2011, is **committed to continue this debate and ready to hold a high-level conference** to discuss the Commission proposals.

Thanks for your attention.