

Managing ESF resources from 1981 to 2019: The EU Auditors' point of view

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- The ESF is **the only Structural Instrument established directly by the original EEC Treaty** (Art 123-128 EEC Treaty).
- This provision in EU primary law signifies the importance of its existence and operation within the European integration process.
- Although **established in 1957**, the ESF became **operational in 1962**.
- The **original wording** of the Treaties **limited the Fund's actions** to improving the employment opportunities for workers and to raising their standard of living, by rendering the employment of workers easier and by increasing their geographical and occupational mobility within the Community.
- The ESF would cover (in the form of reimbursing amounts) 50% of public expenditure (expenditure of private entities was excluded) incurred for **vocational retraining, resettlement allowances and aid for workers with reduced employment following conversion** of an undertaking to other production.
- Thus a necessary condition for funding was that the final beneficiary had to be a worker. This automatically excluded people who had never worked before, especially young people. The fact that some people had never had an opportunity to work was ignored. Furthermore the special provisions concerning workers affected by conversions of undertakings show that one of the major concerns of the ESF was to tackle all negative consequences of industrial change.
- The administration of the ESF was entrusted to the Commission, assisted by a Committee composed of representatives of Member States' governments, trade unions and employers organizations. The Council, however, was competent to decide the conditions under which assistance was to be given, when to cease granting this assistance, and which new tasks could be entrusted to the ESF.

- As the European Union acquired, progressively, more competences in the fields of social policy and cohesion policy, the scope of the ESF actions was increased accordingly.
- According to the **current provisions of EU primary law** the ESF is established in order to improve the employment opportunities for workers in the internal market and to contribute thereby to raising the standard of living. The Fund aims to render the employment of workers easier and to increase their geographical and occupational mobility within the Union, and to facilitate their adaptation to industrial changes and to changes in production systems, in particular through vocational training and retraining. The Commission administers the Fund and the relevant EU legislative framework is enacted through the ordinary legislative procedure. (**Art. 162-164 TFEU**)
- This wording provides for a **wider scope** for the ESF actions, without the limitations identified in the original framework.
- The ESF thus was effectively developed as the “**operational arm**” of the **EU Cohesion Policy and the EU Social Policy**.
- Its core rationale is “**to help people to help themselves**”.
- Given the relevant goals of the Europe 2020 Strategy (creating more and better jobs and a socially inclusive society) the ESF is playing an important role in meeting these goals, and in mitigating the consequences of the economic crisis – especially the rise in unemployment and poverty levels.
- The Fund’s **current priorities** entail **a)** boosting the adaptability of workers with new skills, and enterprises with new ways of working, **b)** improving access to employment by helping young people make the transition from school to work, or training less-skilled job-seekers to improve their job prospects, by providing vocational training and lifelong learning opportunities, **c)** helping people from disadvantaged groups to get jobs, thus reinforcing their social inclusion.

The EU Auditors' audits (selection)

- **Special Report 1/1988** - Examination of the ESF's operations before the 1988 reform.
- **Considerable deficiencies** were identified:
 - As regards the preparation procedures concerning the EU legislative framework on the ESF:
 - a) the choices made relating to interventions in favour of various social groups were not based on cost-benefit analyses of the current policy alternatives or of the projects already implemented;
 - b) the choice of multiple objectives - either permanent or short term - in view of the reduced volume of ESF appropriations (4 % of the total public expenditure of the Member States relating to all aspects of aid or social assistance) can only result in a thin distribution of financial resources over the whole range of objectives which is not very effective;
 - c) recruitment, or the suitability of vocational training for the employment market, are not always the main criteria for selecting measures;
 - d) the Community does not develop any activities and only participates by granting financial aid to vocational training and recruitment measures set up and/or subsidized by public authorities
 - e) the system set up involves the processing of too many files, so much so that it becomes almost impossible to manage them properly.
 - As regards the management at Community level:
 - a) excessively imprecise criteria governing admissibility, eligibility and priority contained in the implementing rules;
 - b) absence of a common approach for a series of concepts in the area of employment;
 - c) excessive formality of the processing procedure adopted by the ESF departments for applications for assistance and payment;
 - d) inadequacy of the system of on-the-spot checking carried out by the Commission departments, which instead rely on certification by the Member States.

- As regards the weaknesses in the Member States' operations:
- (a) absence of specific checking, by the Member State, specifically responsible for monitoring expenditure incurred under the projects approved by the Fund;
- (b) differing interpretations by the Member States of certain Community rules, which are, moreover, not very explicit;
- (c) the national certification procedures are heterogeneous, opaque and unreliable.
- Possibilities for improvement

- ECA Suggestions:

- (a) the Commission, within the framework of the guidelines for the management of the Fund, should realign its objectives, so as to finance a distinctly smaller number of operations whilst keeping the volume of aid at its present levels;
- (b) the admissibility of the applications should adhere to rules which made it possible to reject any application that was insufficiently justified;
- (c) the criteria for eligibility and priority should be made clear, precise and strictly applied;
- (d) precise instructions on the information should be supplied on the composition of each amount of expenditure;
- (e) the Commission's powers of control should be fully and systematically used and sanctions should be effectively imposed;
- (f) penalties should be applied to organizations which, with the aim of obtaining cash facilities by means of the payment of an advance, blatantly overstated their estimated expenditure;
- (g) the types of control, which should accompany the national certification procedure, must be stipulated.

- **Special Report 5/1990 – Examination of exceptional financial support in favour of Greece in the social field**
- The exceptional financial support in favour of Greece in the social field, (Reg. 84/815/EEC as amended) covered the period 1984-1991. Its objectives were a) the construction, adaptation and equipment of vocational training centres and b) the construction, adaptation and equipment of vocational rehabilitation centres for the mentally ill and mentally handicapped. The overall budget was 120 million ECU for five years. Support would be granted at a rate of 55% of eligible public expenditure, but technical assistance (2% of the entire budget) would be covered at a rate of 100%.
- The ECA considered this scheme as a “**disappointing experience**”, as no effort had been made at national or european level to accurately realise the obstacles of the operations.
- As far as the training centres are concerned, execution of the commitments and closure of the projects was slow and the subsequent good use of the investments was uncertain.
- Regarding the rehabilitation part, the continuation of the programme was compromised by the **significant delays** in the programme’s implementation, as well as by the risk to use the projects in a manner contrary to the objectives of the programme and which might end up consolidating methods which were supposed to have been abandoned.
- The case of the hospital at Leros brings all the risks and difficulties into focus as regards both the inadequate preparation of the projects, the confused conditions in which they were executed and the ineffectiveness of the results.
- The ECA suggested that the objectives of this programme, as regards methods for providing care, should be clearly reaffirmed and that commitments entered into should be met in a manner that is in accordance with those objectives.

- **Special Report 16/1998 - implementation of appropriations for structural operations for the programming period 1994-1999**
- The overall picture, by 1998, was that the implementation of the structural operations was close to the initial estimates, in spite of delays noted at the beginning of the period. Nevertheless, significant disparities are apparent per field and per Member State.
- In 1994 and 1995, the commitment and payment appropriations were under-used, **a conclusion which was reversed** in 1996 and 1997, when the rate of implementation for appropriations was almost 100 % (with the exception of some Community initiatives). This caused the Commission not to act upon payment claims of about 1,5 billion ECU, due to lack of payment appropriations.
- In order to make up for these miscalculations, it was estimated that the 1999 budget would need an additional 3,1 billion ECU, further to the appropriations originally planned in the financial perspective, i.e. about 2 % of the total appropriations of the SFs.
- The ECA noted a **significant lack of reliable, up-to-date information** on the physical and financial implementation of the structural operations at all levels of management (Community, national and regional), which affected the monitoring of these measures. Feedback on the actual state of progress of the operations was found to be very slow. The situation was further worsened by certain budgetary and accounting practices and a complex and badly managed indexing system, which did not allow for an accurate picture of the operations. The attempts at setting up joint databases failed.
- The lack of reliable expenditure programming and budgetary forecasting was highlighted by the cases of under-use on some headings concerning structural operations and the lack of appropriations for others, along with the scale of the transfers of appropriations carried out within these budget headings.

- An analysis of the interventions that had the lowest levels of use of appropriations showed some of the **causes of these delays** as follows:
- i) the differences between the Community budgetary and financial implementation procedures and the national ones;
- ii) cases where the application of basic aspects of eligibility, such as the notion of legal and financial commitment, gives rise to some uncertainty;
- iii) weaknesses in the financial and physical monitoring, and the malfunctioning of the Monitoring Committees;
- iv) lapses in the coordination;
- v) overlapping of the programming periods;
- vi) the length of time taken for the presentation and handling of the payment claims ;
- vii) the optimism of the financing plans, the weak *ex ante* evaluations of the operations, particularly as regards private investments, and the duration of the administrative procedures (adoption of the CSFs and the SPDs, ETC) ;
- viii) the fact that some beneficiaries are not familiar with the eligibility rules;

- The ECA found that the Commission has devoted considerable effort to the programming, management and evaluation, by simplifying the eligibility criteria and clearly dividing up responsibilities within the framework of the partnership.
- It suggested to the Commission to apply genuine management by objective and by programme at all levels (programming, evaluation, organisation, monitoring, checks).
- Also the national systems were found in need of strengthening at the levels mentioned and the operation of the Monitoring Committees had to be improved.

- **Special Report 15/1998** – Examination of the evaluation procedures for the 1989-1993 and 1994-1999 periods
- The evaluation of European structural measures is **not only a legal requirement**, but also a **system of aid** for the design and management of intervention measures, and contributes to improving their effects and usefulness.
- The ECA found that **particular attention should be paid to indicators** at all levels as regards their relevance and the information used. The quality of the statistical bases should be improved as they affect the validity of the indicators. The plethora of indicators of varying relevance affects the quality and usefulness of evaluation, thus necessitating their reduction to a small number deemed essential for justifying or reorientating a structural policy, bearing in mind the constraints imposed by the regionalisation of data and the material possibilities for gathering information. The comparability of indicators and their aggregation on a European scale should be improved.
- In order for evaluation findings to be objective, assessors must remain independent of the managers and public authorities concerned.
- All evaluation approaches must be justified much more explicitly, in particular as regards the type of effect or impact which is measured and the period concerned. In addition, evaluations should contain a detailed analysis of the links between the programmes' objectives and the priorities and measures implemented to achieve them.
- All aspects of regional policy are to be evaluated: additionality, convergence, partnership, concentration, employment, endogenous economic development or social welfare. ***The per capita GDP should not be the only criterion*** for judging the effectiveness of structural measures.
- **Evaluation per se does not profess to replace a political decision-making process** which involves broader considerations, but aims to provide an essential tool for the sound and effective management of structural measures which takes account of the corresponding socio-economic results.

- **Special Report No 22/1998** - Implementation of measures to promote equal opportunities for women and men
- Promoting equal opportunities has been an **objective of many ESF supported training actions**. However, their impact was found to be limited.
- The ECA noted that the Commission needs to improve the overall strategy for the development and implementation of Equal Opportunities policy. There has been a **failure to identify clear goals** and remove legal uncertainties.
- Furthermore, there was **insufficient coordination** between the Commission's ESF units and the unit responsible for equal opportunities policy. Similarly there was insufficient consultation and guidance between the equal opportunities unit and the officials responsible for equal opportunities in the Member States. This, taken together with the problems identified in relation to transnationality, has inhibited the transfer of best practice within the EU.
- While the Commission's initiatives on monitoring and evaluating equal opportunities through ESF actions were a useful step forward, their **impact was limited** by their late issue. Furthermore, the Commission should, in partnership with the Member States **ensure that full and reliable data is available** for the evaluation of results and the development of equal opportunities strategy itself.
- The audit demonstrated a **number of weaknesses in the design and implementation** of projects to assist equal opportunities, which accounted for only 1,6 % of ESF expenditure. In order to achieve the then desired expansion of expenditure to 15 %, action had to be taken.
- Also the technical assistance arrangements for equal opportunities projects had to be revised.

- **Special Report No 6/1999 - principle of additionality**
- Additionality is one of the four main principles of the Structural Funds.
- The ECA found that **not adhering this principle has not lead to sanctions or other consequences**. The procedures for verifying the principle were inadequate, difficult to use and not always observed and the Commission had not yet established a clear division of responsibilities for monitoring and checking, and there was no coordination between the Directorates-General (DGs) involved. Thus, work on the verification of additionality for the 1989-1993 period was still unfinished for certain Member States, while for the 1994-1999 period, it was difficult to establish whether the principle had been observed by some Member States, because of the methodological weaknesses affecting the data submitted.
- The **main causes** of the methodological difficulties in the verification of the principle of additionality were identified as follows:
 - i) the **difficulties in determining the public structural expenditure**, or comparable expenditure, to be taken into account, the incompleteness of the existing statistical and budgetary data and problems in identifying which expenditure headings to analyse and in compiling the data;
 - ii) the **overlapping of the periods** makes it difficult to compare expenditure during the programming period with a reference period. In fact, the actual programming period does not necessarily coincide with the calendar years under consideration, due to extensions to the period in order to fulfil commitments and the minimum extension of two years for making the payments, which always results in the simultaneous implementation of at least two periods;
- The ECA concluded that the absence of any sanctions has not encouraged the Member States to observe the relevant provisions. Also the deficiencies in the organisation and coordination of the Commission departments in this area have reduced their effectiveness. To improve the situation, the procedures for verifying additionality should be more workable, and **be integrated into the programming, monitoring and evaluation frameworks**. They must be suitable for use with the budgetary and statistical information that is available.

- **Special Report 1/2006** – contribution of the European Social Fund in combating early school leaving
- Combating early school leaving has always been a priority for the EU (see the Lisbon Agenda & Europe 2020 Strategy). The ESF supports many different types of actions aimed at preventing school drop-out or reintroducing young people into the educational system, such as the introduction of differentiated curricula, special needs classes, attendance monitoring systems, social integration skills and activities, educational assessment, guidance and counselling.
- The **ECA's findings** included the following:
 - i) ESF co-financed activities for early school leaving were **initiated without adequate analysis** of the existing situation and the expected or targeted results;
 - ii) in most cases, Member States' authorities **could not sufficiently demonstrate their justification for the overall level of funding** allocated to actions, nor could they justify the allocation of early school leaving funding to different regions on the basis of the level of early school leaving experienced;
 - iii) the **use of varying definitions of early school leaving** within a Member State has not facilitated the targeting of geographic areas for assistance nor the measurement of the impact of initiatives. This also affected the identification of the population targeted by these actions. The Eurostat definition should be adopted.
 - iv) **little quantitative evaluation information was generally available** on the results or impact of the co-financed programmes that aimed to reduce early school leaving.
- The ECA recommended to the Commission to give appropriate guidance to Member States and verify that Member States' management systems adhere to the principles of economy, efficiency and effectiveness. As for the Member State authorities, it was suggested to them to properly define and identify early school leaving, to focus their targeting at those most at risk of leaving school prematurely, to encourage the exchange of information and best practice between all local and national organisations responsible for tackling early school leaving, where permitted by law and to seek innovative uses of ESF funding in tackling early school leaving.

- **Special Report 3/2012 – Examination of improvements in the Member States management and control systems**
- Cohesion policy and social policy fall within the so called “**shared competences**” of the EU (Art. 4 para 2 TFEU), thus the management of the relevant programmes and the corresponding resources of the EU Budget fall within the so called “**shared management**” scheme (Art 63 of the Fin. Regulation). Thus the **Member States have a significant portion of responsibility** over the proper management and control of the relevant funds. When significant deficiencies are identified in the national management and control systems, the Commission has to ensure that past irregularities are corrected and that systems are improved for the future, by a) requesting the Member States to implement financial corrections, and if a Member State does not agree, the Commission can impose a financial correction; b) requesting the Member States to implement corrective actions so that the expenditure still to be declared is processed by effective systems able to prevent or otherwise detect and correct irregularities; c) suspending payments until appropriate corrections are carried out.
- The ECA found that the **Commission generally takes the appropriate actions** when deficiencies in management and control systems are identified but the process until implementation is lengthy. The **financial corrections were partially successful** and there were varying degrees of assurance that improvements in national management and control systems took place. Furthermore, the Member State authorities were **able to replace ineligible expenditure** disallowed by new expenditure and to have a buffer to compensate for further financial corrections.
- Therefore, the **ECA suggested** a) the reduction of the duration of the administrative procedure from identification of deficiencies until implementation of corrective actions, b) giving priority to audits in order to verify the correct error rates that would be used for the application of financial corrections, c) the dissemination of best practices including checklists, d) the review of the arrangements regarding the possibilities for substitution of expenditure found to be ineligible, in order to enhance the added value of European funds.

| | ERDF | ESF |
|---|------|-----|
| Programmes in total ¹ | 223 | 212 |
| Programmes for which significant deficiencies were identified by the Commission between 2006 and 2008 | 113 | 97 |
| Programmes for which financial corrections were agreed by the Commission and Member States | 110 | 58 |
| Programmes for which a suspension decision was taken by the Commission | 27 | 5 |

| Type of financial corrections | Number of programmes | |
|------------------------------------|----------------------|--|
| | Regional Policy | Employment, Social Affairs and Inclusion |
| Quantifiable corrections | 15 | 13 |
| Corrections based on extrapolation | 2 | 4 |
| Flat-rate corrections | | |
| System failures | 8 | 3 |
| Public procurement | 13 ¹ | 2 |

Source: ECA Report 3/2012

- **Special Report 25/2012 – Effectiveness of ESF actions for older workers**
- The ECA found **shortcomings concerning the design of the operational programmes** (OPs) as well as the monitoring and evaluation systems. Furthermore, it observed that the Commission does not have consistent data at EU level on operational goals, indicators and allocated funds. Thus **neither the Member States nor the Commission are in a position to establish** how many older workers have gained new qualifications, or found or kept a job ,after having benefited from an action funded by the ESF. Furthermore, the amounts spent on this kind of action could not be verified.
- The **ECA recommended** that operational programmes should be designed in such a way that the performance of the ESF funds can be measured. **The target populations** should be **unambiguously defined** and relevant, quantified operational goals and indicators should be defined to measure outputs, results and specific impacts at target population group level. Intermediate milestones should be set and a hierarchy of target values established.
- It also highlighted the importance of having monitoring and evaluation systems able to measure and explain at appropriate intervals the progress towards all target values set. Obtaining consistent and reliable information from the Member States allows for the verification of the means mobilized and the results achieved by the ESF.
- It finally note the importance a) of **in-depth analyses of performance** issues when assessing and monitoring Member States' management and control systems and b) of improving the documentation of checks by ensuring that there is **an audit trail** that allows the extent and consistency of these checks to be assessed.

**PRIORITY AXES
OF
OPERATIONAL PROGRAMME**
Action to train unemployed people to bring them
back to employment

Target groups:
Disadvantaged
Population

| | Target | Indicators | Target value | |
|--|--|---|---|---|
| Output: Refers to the activity | To organise training courses | Number of training courses | 100 training courses organised | Older workers Disabled people Long-term unemployed Single parents ... |
| | To train people | Number of participants in training courses | 2 000 participants enrolled in training courses | |
| Result: Relates to the direct and immediate effect on participants brought about by the action | To get successful participants (who have gained specific skills) | Number of successful participants | 1 500 successful participants | |
| | | Percentage of participants gaining specific skills | 75 % of participants gaining specific skills | |
| Specific impact: Refers to the effects occurring after a certain lapse of time but which are nonetheless directly linked to the action | People changing status from unemployment to employment | Number of successful participants changing status | 1 000 participants changing status | |
| | | Percentage of successful participants changing status | 66 % of successful participants changing status | |

Source:
ECA Report 25/2012

• **Special Report 16/2016 – Examination of ESF support to EU Education objectives**

- Investment in education is crucial for improving employability, labour productivity, professional development, and economic growth in the EU as well as achieving active citizenship, reduced crime and improved average health conditions. Within the EU, **education policy is a full and exclusive competence of Member States**, however the **Union has the competence to support, coordinate or supplement** the relevant actions of the Member States. According to Eurostat, 3.2 trillion euro was spent on education in the EU Member States between 2007 and 2011, with a tendency of reduction starting from 2009 till 2013. The ESF contributed 33.7 billion euro to education measures over the 2007-2013 programme period, while for the 2014-2020 programme period the relevant ESF allocations were reduced to 27.1 billion euro.
- The **ECA found** that EU education **objectives have been adequately considered** in the 2007-2013 and 2014-2020 Operational Programmes, despite **shortcomings in the monitoring tools framework**. In addition, the performance of audited projects could not be systematically demonstrated due to **lack of quantified objectives and performance indicators**. Also in the cases of changes in the financial allocation between actions in the Operational Programmes, there were **no clear explanations linking the changes to the relevant targets**, especially the impact of education measures to employability.
- The **ECA recommended** to **establish specific result indicators** on outcomes and set target values for each investment priority. The Operational Programmes' **investment priorities should be linked to appropriate quantified and measurable result indicators** (focusing on the actual effects of the projects on the final participants), and the **reprogramming of financial allocations should be obligatorily based on explanations** including both qualitative and quantitative information on the expected change in output and results indicators. There should be a **clear link between the selected projects and the achievement of EU education objectives** embedded in the Operational Programmes. Linking education with employment should be reinforced as a funding objective.

2007-2013 ESF OPs: EU education objectives, intervention logic and tools for monitoring

| Objectives | OPs that included the EU objectives (number and percentage of OPs examined) | Intervention logic | | | Tools for monitoring | |
|--------------------------------------|---|--|--------------------------------|---|---|--|
| | | Without any description of context (%) | Without any needs analysis (%) | Without any example of actions to achieve the objective (%) | Without any quantification of the objective (%) | Without any indicator for measuring the achievement of the objective (%) |
| Early school leavers | 28 (76 %) | 4 | 29 | none | 11 | 14 |
| Tertiary education attainment | 20 (54 %) | 5 | 20 | 10 | 40 | 25 |
| Lifelong learning | 35 (95 %) | 11 | 17 | none | none | none |
| Low achievers in basic skills | 11 (30 %) | 27 | 27 | 36 | 36 | 45 |
| Early childhood education | 4 (11 %) | none | none | 25 | 50 | 50 |
| Mathematics, sciences and technology | 18 (49 %) | 33 | 44 | 17 | 22 | 22 |
| Upper secondary education attainment | 25 (68 %) | 4 | 28 | 8 | 20 | 12 |
| Vocational education and training | 10 (27 %) | 10 | 10 | 10 | none | none |
| | 151 cases ¹ | 12 | 22 | 13 | 22 | 21 |

2014-2020 OPs: EU education objectives, intervention logic and tools for monitoring

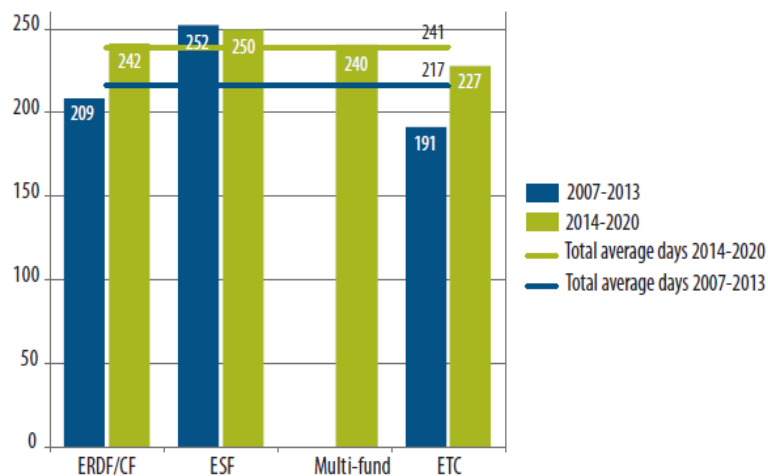
| Objectives | OPs that included the EU objectives (number and percentage of OPs examined) | Intervention logic | | | Tools for monitoring | |
|-----------------------------------|---|--|--------------------------------|---|---|---|
| | | Without any description of context (%) | Without any needs analysis (%) | Without any example of actions to achieve the objective (%) | Without any quantification of the objective (%) | Without any indicators for measuring the achievement of the objective (%) |
| Early school leavers | 7 (88 %) | none | none | none | none | none |
| Tertiary education attainment | 5 (63 %) | none | none | none | none | none |
| Lifelong learning | 6 (75 %) | none | none | none | 17 | none |
| Low achievers in basic skills | 3 (38 %) | none | 33 | none | 33 | 33 |
| Early childhood education | 2 (25 %) | none | none | none | 50 | 50 |
| Vocational education and training | 7 (88 %) | 29 | none | none | none | none |
| | 30 cases ¹ | 5 | 6 | 0 | 17 | 14 |

Source:
ECA Special Report 16/2016

- **Special Report 2/2017 – Partnership Agreements**
- Partnership Agreements are **strategic investment plans** for EU Member States which indicate their national spending priorities for the European Structural and Investment funds over a seven year period. They are the **successors of the Community Support Frameworks (1988-2006) and the National Strategic Reference Frameworks (2007-2013)**. The outcome of the relevant negotiations was of particular budgetary importance, as it accounted for 350 billion euro for the 2014-2020 period.
- The **negotiations** between the Commission and the Member States were **more demanding** than in previous periods. The main **reasons** for this were additional requirements, such as ex-ante conditionalities or the requirement to set out a more explicit intervention logic, IT problems and the need for multiple rounds of approvals by the Commission. Moreover, there were quality issues with the initial drafts of programming documents submitted by Member States.
- Partnership Agreements have **proven to be an effective instrument for ring-fencing ESI funding for thematic objectives** and investment priorities and supporting the focus on the objectives of the Europe 2020 strategy for growth and jobs. For most of the 2014-2020 Operational Programmes the **Commission and Member States have been successful in developing programmes with a more robust intervention logic**, i.e. setting out the interventions aims (specific objectives/results) and how these are expected to be achieved (required funding, actions to be undertaken and expected outputs). The achievement of the strategic results established for the programming period required a substantial contribution from the national budgets beyond ESIF spending, but also additional regulatory measures and structural reforms. This illustrates that **the Commission makes increasing use of the programming of ESI funds to influence overall economic governance in the Member States**.

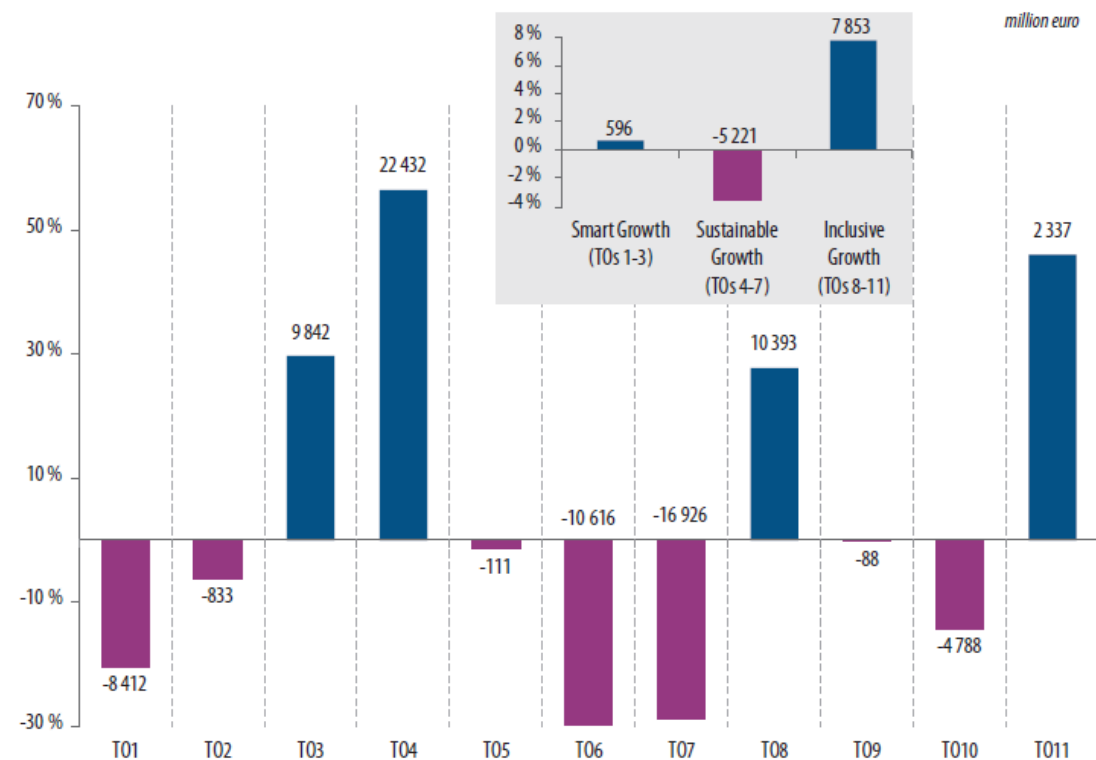
- However, a **excessive need for performance indicators for outputs and results has been detected** and this was further complicated by the different requirements for collecting and reporting performance data introduced by the fund-specific regulations, as there is **no common definition of ‘output’ and ‘result’ and no harmonised approach** between the different funds as to the use of common indicators. Moreover, Member States have the option of defining additional programme-specific output indicators and splitting indicators between regions and they made use of it by creating thousands of performance indicators, thus **increasing the overall administrative burden**. This extensive use of indicators and the corresponding data will allow, however, for a more performance-based budget in post-2020.
- The **ECA recommended the abolition of unnecessary programme-specific indicators** in case of programme modifications and the provision of the financial information necessary to effectively monitor compliance with the thematic concentration requirements. Furthermore it **highlighted the necessity of defining a common terminology for ‘output’ and ‘result’** that should be used by all involved parties, the usefulness of identifying the most relevant indicators for outputs and results which are best suited to determining the impact of EU interventions, the value of disseminating good practices, and **the importance of using the data collected in formulating a performance budget**, which links each increment in resources to an increment in outputs or other results, to the funding of cohesion policy interventions for the post-2020 period.

Average adoption time of the OPs1 in calendar days (first submission until final adoption)



Source:
ECA Special Report 2/2017

Allocation of ERDF, ESF (including YEI) and CF funds to the Europe 2020 strategy – comparison between the programme periods 2007–2013 and 2014–2020



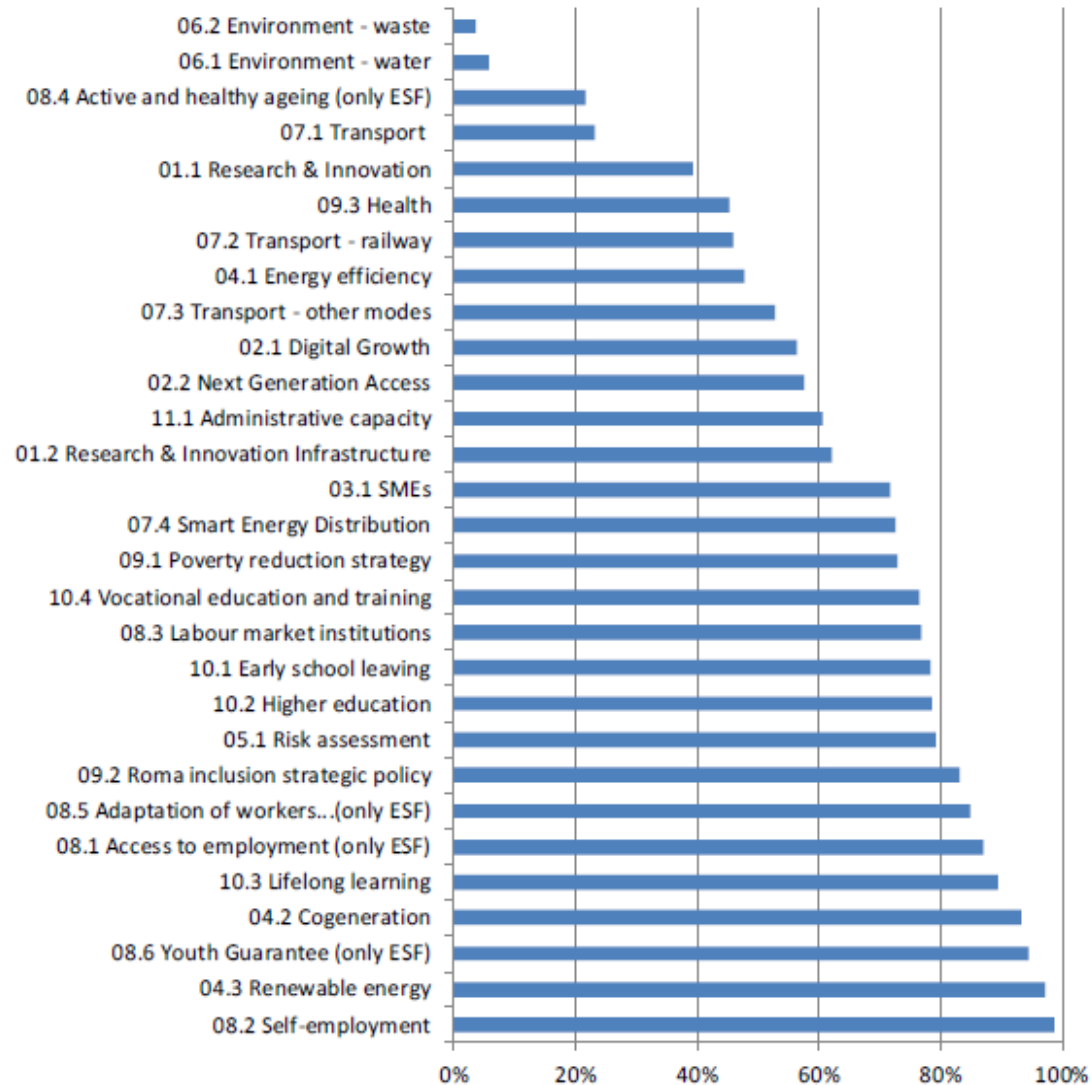
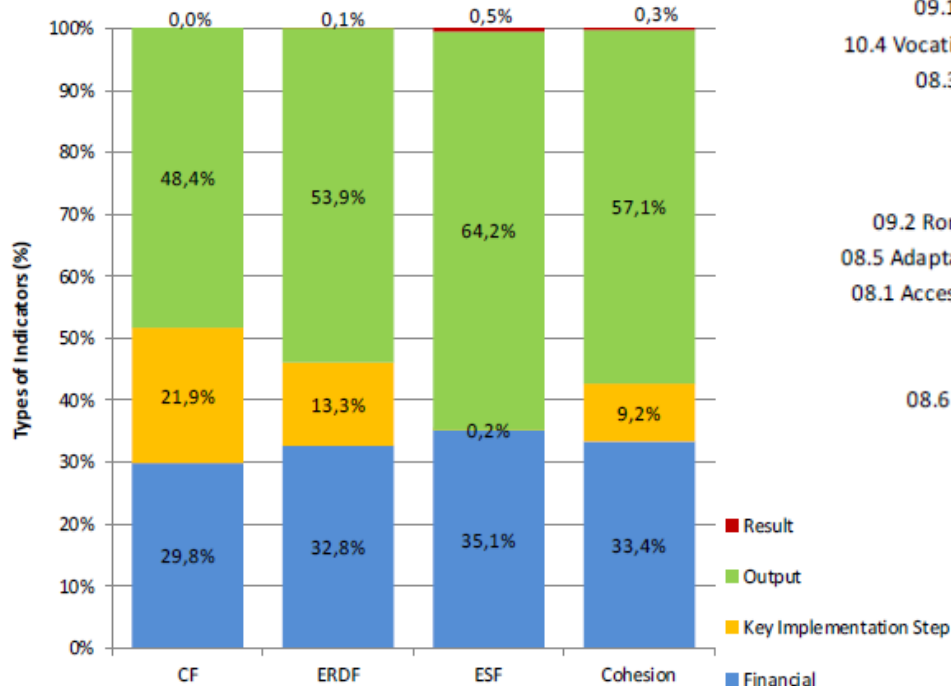
Output indicators – differences between ERDF and ESF

| | ERDF | ESF |
|--|--|--|
| Common output indicators | Yes, 40 common output indicators grouped under 8 categories | Yes, 23 common output indicators related to persons and entities |
| Obligation to use common output indicators | Yes (whenever relevant) | Yes (in the annual implementation reports) |
| Actions measured | Only completed actions | Partially or fully implemented actions |
| Distribution by category of region | Yes (baselines and targets broken down by category of region) | Yes (baselines and targets split by category of region and by gender as optional) |

- **Special Report 15/2017 - Ex ante conditionalities and performance reserve in Cohesion Policy**
- In the 2014-2020 programming period two specific instruments were introduced to make Cohesion spending more results oriented: ex-ante conditionalities and the performance reserve. The first specifies certain conditions that must be fulfilled before the programme implementation is launched or at the latest by the end of 2016, and the second requires most ESIF programmes to set aside 6 % of the total funding to each Member State which will be definitively allocated or reallocated subject to the outcome of a performance review in 2019.
- The ECA found that **the ex-ante conditionalities, as an innovating tool in Cohesion policy, provided a consistent framework for assessing the Member States' readiness** to implement EU funds at the start of the 2014-2020 programme period. **Their effect, however, on the substance of the interventions was not verified** as no suspension of payments at programme adoption due to unfulfilled ex-ante conditionalities was made, despite the fact that by the end of 2016, more than 700 action plans adopted by Member States to fulfil all ex-ante conditionalities were not complete, accounting for 27 % of the ERDF, CF, and ESF spending.
- The ECA considered also that **the performance framework and reserve was unlikely to trigger a significant reallocation** of Cohesion spending during the 2014-2020 period to better performing programmes, as any reallocation may take place within and/or between the programmes of the same Member States. **The performance reserve provides little incentive for a better result orientation of the Operational Programmes** since it is mostly based on spending and outputs. Furthermore, the additional funding is definitively allocated even if milestones are not met in full by 2018 and can at most be reallocated within the Member State. The new suspensions and financial corrections for underperformance are useful, but are subject to restrictive conditions and their use is thus limited.
- The **ECA suggested**, for the post-2020 period, the ex-ante conditionalities to be further developed as an instrument to assess Member States' readiness to implement EU funds. Their consistency with the European Semester must be ensured. Their criteria must be clear and there should be a constant follow-up on their fulfillment. As for the performance reserve, it must be more result oriented, supporting programmes that achieved good results, and rewarding their capacity to demonstrate what they intend to achieve with the additional funding. Using immediate result indicators is necessary and underperformance should be more easily addressed, at an earlier stage.

EACs fulfilled at time of OP adoption

2014-2020 performance framework of the ERDF, CF and ESF OPs: share of indicator type used per fund

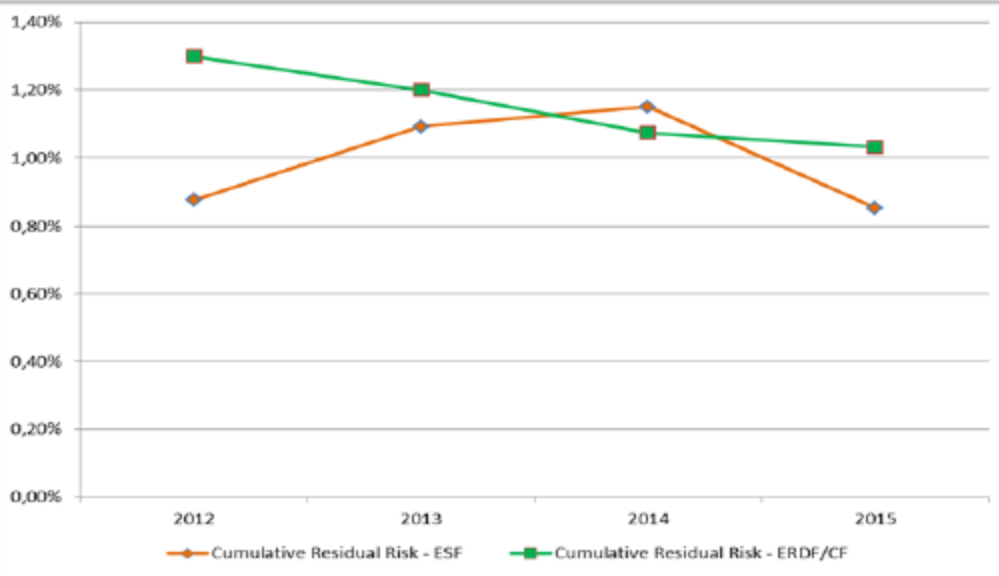


Source: ECA Special Report 15/2017

- **Special Report 4/2017 - Protecting the EU budget from irregular spending: preventive measures and financial corrections in Cohesion**
- The ECA found that the **Commission made effective use of the measures** at its disposal during the 2007-2013 programme period to protect the EU budget from irregular expenditure. Financial corrections for the 2000-2006 period amounted to 8.6 billion euro or 3.8 % of the total budget. For the 2007-2013 period, the Commission used the measures at its disposal to protect the EU budget (preventive measures and financial corrections) **more extensively and proportionately**, focusing on those Member States with the riskiest programmes.
- A systemic risk, however, is that preventive measures and financial corrections entail complex issues which take a considerable time to resolve and the resulting **payment interruptions and suspensions caused significant delays to the implementation of projects**. The Commission tried to address that risk by gradually allowing reimbursement to be resumed as soon as the necessary conditions were met. This effort was hampered by difficulties in monitoring the implementation of financial corrections as the provided relevant information was inadequate. The reports, at national and EU level, do not provide a comprehensive and analytical overview of the situation.
- **For the 2014-2020 period, the situation was improved** as the national reports on financial corrections are now integrated into the annual assurance package and examined by the respective audit authorities, thus allowing for more targeted net financial corrections. At the same time, the Commission may now prevent irregular expenditure from being reimbursed from the EU budget. The inclusion of the relevant rules in legislative texts rather than administrative guidelines has **increased legal certainty**.
- The **ECA recommended a strict approach** to financial corrections at the closure of the 2007-2013 period to ensure that the total amounts reimbursed by the EU budget are free from serious levels of irregular expenditure. Also the production of an ad-hoc report on the financial corrections and status of closure of the ERDF/CF and ESF programmes would be very useful, as it would present and compare all information on preventive and corrective measures by fund and Member State and display the impact of financial corrections and the residual risk rate.

Cumulative Residual Risk (CRR) for ERDF/CF and ESF programmes: 2012 to 2015

(Commission's estimate of the remaining part which is not legal and regular of the expenditure paid – limit 2%)



Source: ECA Special Report 4/2017

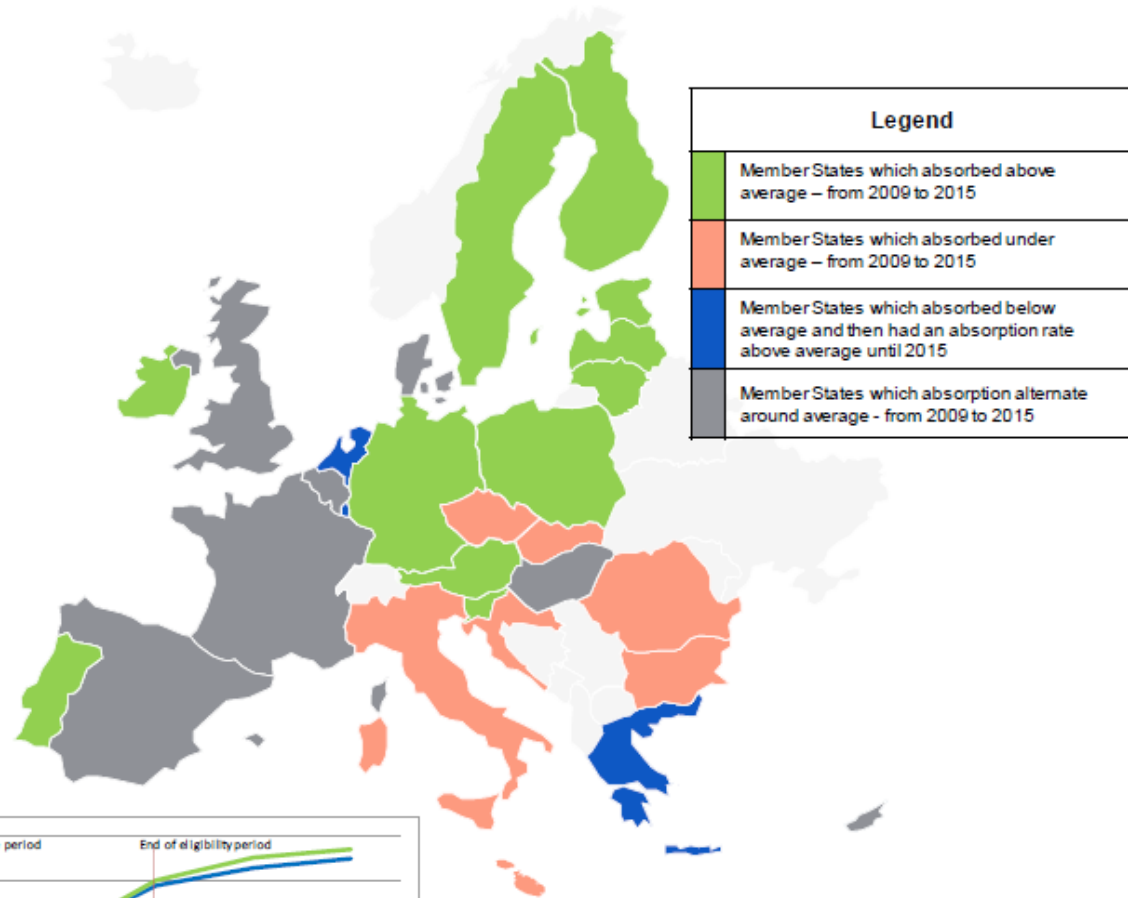
Figures for the implementation of the Commission's measures to protect the EU budget in Cohesion

| | 2000-2006 | | | | 2007-2013 | | |
|---|-----------|--------|--------|---------|-----------|--------|---------|
| | ERDF | CF | ESF | TOTAL | ERDF/CF | ESF | TOTAL |
| Allocated envelope (million euro) | 129 607 | 30 215 | 68 521 | 228 344 | 269 879 | 76 617 | 346 496 |
| Confirmed/decided financial corrections (million euro) | 5 794 | 832 | 1 990 | 8 616 | 2 317 | 1 009 | 3 326 |
| Confirmed/decided financial corrections /allocated envelope (%) | 4.5 % | 2.8 % | 2.9 % | 3.8 % | 0.9 % | 1.3 % | 1.0 % |
| Interrupted amount (million euro) | | | | | 23 364 | 5 082 | 28 446 |
| Interrupted amount / allocated envelope (%) | | | | | 9 % | 7 % | 8 % |
| Total number of OPs | 379 | | 239 | 618 | 322 | 118 | 440 |
| Number of suspended OPs | 45 | | 11 | 56 | 32 | 32 | 64 |
| Number of suspended OPs / Total number of OPs (%) | 12 % | | 5 % | 9 % | 10 % | 27 % | 15 % |
| Total number of projects | | 1 119 | | 1 119 | | | |
| Number of suspended projects | | 2 | | 2 | | | |
| Suspended projects / Total number of projects (%) | | 0 % | | 0 % | | | |

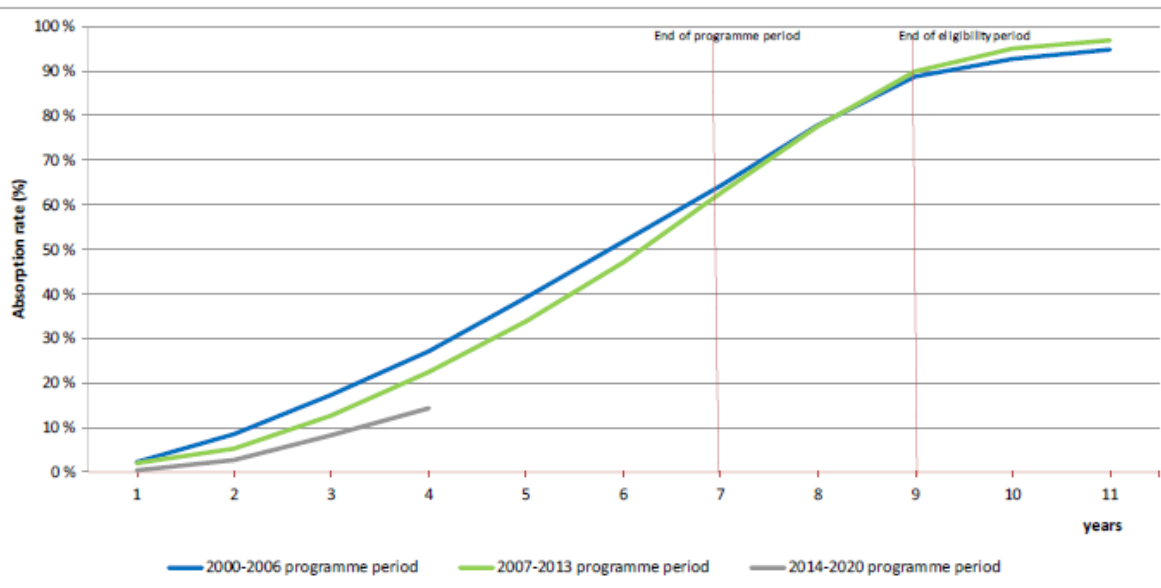
• Special Report 17/2018 – Tackling low absorption in Cohesion policy

- Absorption capacity refers to a Member State's ability to efficiently and effectively spend the financial resources it has been allocated. Member States absorb funding when they receive a payment from the EU budget as co-financing towards eligible projects. To maintain a focus on achieving effective results, it is crucial that Member States avoid a situation where a significant amount of funds needs to be absorbed at the end of the programme period, since the rush to absorb funds may lead to insufficient consideration to value for money. Thus, **while absorption is important to achieve policy objectives, it is not an end in itself.**
- The ECA found that in both the 2007-2013 and 2014-2020 periods **the delays in adopting the relevant EU legislative framework** delayed, in turn, the adoption of the programming documents, and the implementation of the projects included therein, thus delaying the start of spending of the allocated funds (domino effect). This was further hampered by the overlap of programming periods, which caused simultaneous spending of two programming periods.
- During the 2007-2013 programme period, the Commission put in place a Task Force to assist Member States with poorly absorbing operational programmes. Eight Member States received support from the Task Force and this **caused a marked increase in absorption** (97.2% at the start of 2018), however several Member States did not manage to use all the funding available.
- The measures used to increase absorption included: operational programmes revisions, splitting projects into phases between programming periods, co-financing projects retrospectively, advances to financial instruments and contractual advances. Some of these measures focused mainly on absorption and compliance with rules with little consideration for results. In particular, the revisions of some operational programmes called into question the soundness of the analyses underlying the entire programming process as well as their ability to achieve policy objectives. No comprehensive overview was made by the Commission on these measures.
- The ECA recommended the use of a strict timetable for the negotiation and adoption of the legislative framework and the programming documents. When special measures to support absorption are employed, they should be based on sound and comprehensive assessments, and the actions taken should focus not only on accelerating implementation but also on delivery of good results.

Absorption rate by Member State compared to EU average for the 2007-2013 programme period for the ERDF, ESF and CF



Absorption rate in the 2000-2006, 2007-2013 and 2014-2020 programme periods for the ERDF, ESF and CF













Source: ECA Special Report 17/2018

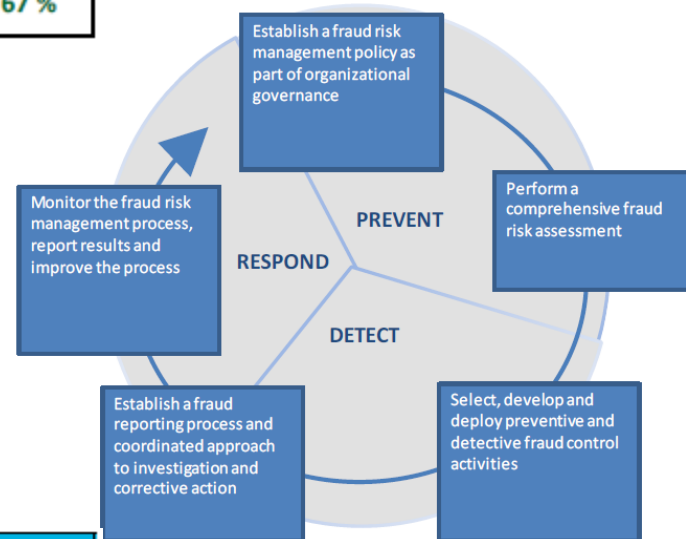
- **Special Report 21/2018**– Selection & monitoring for ERDF&ESF projects in the 2014–2020 period
- According to the shared management scheme, within the Cohesion policy schemes, the national authorities select projects to fund and monitor their implementation. The Commission implemented various measures aimed at increasing focus on results in the 2014-2020 period.
- The ECA's findings demonstrated that, despite longstanding intentions, **the design of selection procedures and the processes themselves continue to emphasise outputs and absorption rather than results**. Moreover, shortcomings in the monitoring arrangements do not allow for a proper assessment of the extent to which EU funding has contributed to the achievement of the EU's and Member States' objectives.
- With regard to project selection, potential **beneficiaries were well informed** and provided with appropriate support to access to EU funding. The procedures seldom contain criteria requiring applicants to define quantified result indicators at project level. Furthermore,, and more rarely on a **usually most project selection was done on a first-come first-served basis** competitive basis (ie applications scored and ranked against each other).
- With regard to monitoring, the relevant systems **became operational belatedly** and there were weaknesses in some of the IT systems used for collecting and aggregating monitoring data. The delays in the audits of the respective monitoring systems has **reduced the potential of taking any necessary corrective action** before the performance review in 2019. Furthermore, monitoring information remains mostly outputs-oriented. The Commission's main report to measure achievements presents progress for the main output indicators alongside the implementation of funding, with only limited information on the achievement of results.
- The ECA suggested the Member States to use competitive methods of application procedures, entailing comparisons between project application, and to require beneficiaries to **define at least one genuine result indicator for each project** and carry out an assessment of the expected results and indicators in the assessment report for the applications. As for the monitoring operations, the inclusion of more genuine and quantified result indicators in the grant agreement was recommended, thus allowing for references to the result indicators set in the operational programmes.









• Special Report 6/2019 - Tackling fraud in EU cohesion spending

- EU legislation defines fraud as a deliberate infringement that is, or could be, prejudicial to the EU budget. It is the **joint responsibility of the EU and the Member States to counter fraud** and any other illegal activities, such as corruption, affecting the EU's financial interests. Between 2013 and 2017, the Commission and the Member States identified more than 4,000 potentially fraudulent irregularities. The EU support affected by these irregularities amounted to almost €1.5 billion, 72 % of which concerned EU cohesion policy. The rate of detected fraud in relation to EU cohesion funding for the 2007-2013 period ranged from 0% to 2.1 %, depending on the Member State. The ECA examined whether managing authorities have properly met their responsibilities at each stage of the anti-fraud management process (fraud prevention, detection and response, up to and including reporting on detected cases and recovery of funds unduly paid).
- Its findings were that found that managing authorities assessed the risk of fraud in the use of Cohesion funding better for the 2014-2020 programming period, using in most cases the “ready-to-use” tool included in the Commission guidance. However, some of their analyses were not sufficiently thorough. Although they have improved fraud prevention measures, they have made no significant progress towards proactive fraud detection. Additionally, they have not often developed procedures for monitoring and evaluating the impact of their prevention and detection measures.
- In the area of fraud response, managing authorities, in coordination with other anti-fraud bodies, have not been sufficiently reactive to all detected cases of fraud. In particular, reporting arrangements are unsatisfactory, several managing authorities fail to systematically communicate suspicions of fraud to the competent bodies, corrective measures have a limited deterrent effect and the coordination of anti-fraud activities is insufficient.
- The ECA recommended that all Member States should formulate a national anti-fraud strategy, entailing EU funds. The managing authorities must make concrete fraud risk assessments by involving relevant external actors in the process. The improvement of fraud detection measures by generalising the use of data analytics tools (e.g. Arachne) and their constant application are imperative. Coordination may be improved by involving more actively the Anti-Fraud Coordination Services (AFCOS) in the Member States in order to ensure cooperation.

| Percentage of MAs declaring they have the following fraud prevention measures | | | Percentage of MAs perceiving the measure as effective | |
|---|---|------|--|------|
| 1 | Anti-fraud training for staff | 86 % |  | 92 % |
| 2 | Formal policy on conflicts of interest | 83 % |  | 91 % |
| 3 | Adoption of a code of conduct for employees | 73 % |  | 88 % |
| 4 | Publication of an anti-fraud policy | 71 % |  | 82 % |
| 5 | Fraud risk-awareness measures for project beneficiaries | 57 % |  | 90 % |
| 6 | Fraud risk-awareness measures for intermediate bodies | 54 % |  | 92 % |
| 7 | Background checks on employees | 29 % |  | 75 % |
| 8 | Employee support programmes | 20 % |  | 86 % |
| 9 | Other | 13 % |  | 89 % |
| 10 | Reward / Bounty schemes | 4 % |  | 67 % |

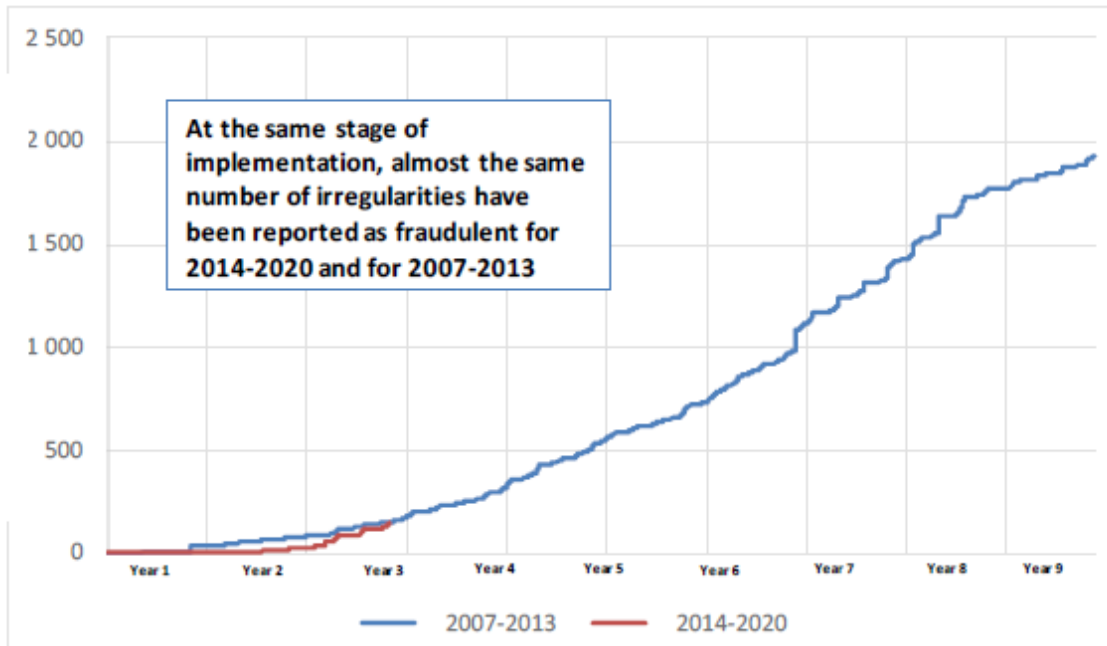
Fraud risk management process



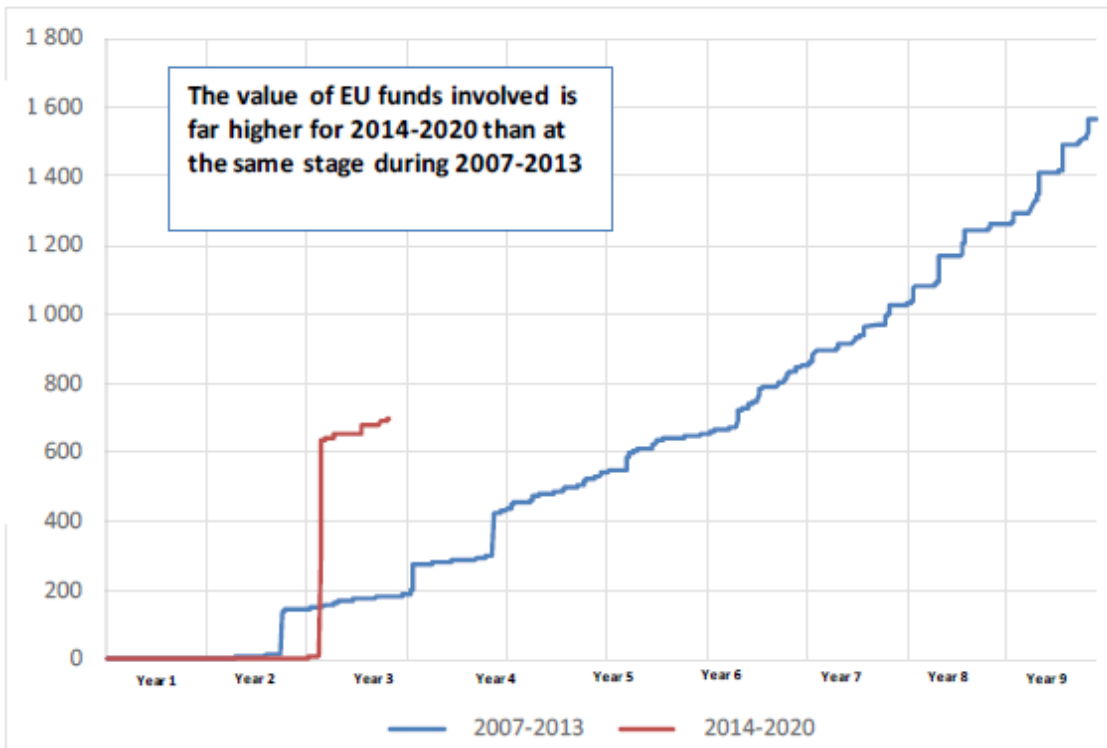
| Percentage of MAs declaring they have the following fraud detection measures | | | Percentage of MAs perceiving the measure as effective | |
|--|--|------|--|------|
| 1 | On-the-spot checks / audits | 87 % |  | 95 % |
| 2 | Internal fraud-reporting mechanisms | 86 % |  | 87 % |
| 3 | Identification of fraud indicators / red flags | 69 % |  | 79 % |
| 4 | Fraud risk assessment on project beneficiaries | 60 % |  | 83 % |
| 5 | Arachne risk-scoring tool | 49 % |  | 71 % |
| 6 | Data analytics / data-mining techniques | 46 % |  | 91 % |
| 7 | Fraud hotline for whistleblowers | 44 % |  | 74 % |
| 8 | Other | 21 % |  | 80 % |

Source: ECA Special Report 6/2019

Irregularities reported as fraudulent (number)



EU funds affected by irregularities (million euro)



CONSIDERATIONS FOR THE FUTURE

- **The policies exist. What about the resources?**
- In the Commission's Communication "*A Modern Budget for a Union that Protects, Empowers and Defends-The Multiannual Financial Framework for 2021-2027*", while in a prima facie examination it appears that the ESF will remain within the field of the EU Cohesion Policy, the accompanying Annex provides a different picture, with the European Regional Development Fund and the Cohesion Fund set to support Cohesion Policy with a much reduced budget and without the ESF.
- The ESF+ has its own section, its own budget line, and brings in other funds such as the Youth Employment Initiative, the Fund for European Aid to the Most Deprived, the Employment and Social Innovation Programme and the Health Programme. **Crucially, there is no reference to the ESF supporting Cohesion policy in the Annex.**

- Of course, presenting the ESF in a different sub-heading of the MFF may be a mere window-dressing exercise to appease DG EMPL that the ESF will have its own place in the MFF. **But there have been thoughts about the ESF being a instrument of national reference after 2020, devoid of a territorial dimension and directly linked to the implementation of structural reforms.**
- **This is a cause for concern.**
- This means that even if the ESF is formally included in the Cohesion Policy ‘architecture’ and overall funding, it may be a structural fund in name only and become a totally different instrument after 2020. This is very bad news for Member States with regionalised ESF programmes... and those who believed that reinforcing social, economic and territorial cohesion required an integrated approach. An approach necessary for supporting youth actions at regional level...

| Programme periods | 2007-2013 | 2014-2020 | 2021-2027 |
|---|-----------|-----------|-----------|
| 1. Principles governing strategic planning | | | |
| 1. The EU has articulated a clear and consistent vision of what it wants to achieve with Cohesion policy funds, which needs to be owned and operationalised | Red | Yellow | Red |
| 2. The allocation of funding to Member States takes account of identified needs and is informed by performance information | Yellow | Yellow | Yellow |
| 2. Principles governing programming | | | |
| 3. A clear intervention logic exists | Yellow | Green | Yellow |
| 4. Funding is well targeted | Yellow | Green | Green |
| 5. A simple and consistent performance measurement framework is in place | Red | Yellow | Green |
| 6. Mechanisms to incentivise performance are in place | Red | Yellow | Yellow |
| 3. Principles governing implementation | | | |
| 7. Member States spend their Cohesion policy funds in a timely way | Red | Red | Yellow |
| 8. There is a performance-oriented approach when selecting and implementing projects | Red | Yellow | Yellow |
| 9. Revisions of programmes are informed by performance considerations including results | Red | Yellow | Red |

| | | | |
|--|--------|--------|--------|
| 4. Principles governing monitoring and reporting | | | |
| 10. Monitoring systems ensure timely performance data of good quality | Red | Yellow | Yellow |
| 11. There is clear accountability for performance | Yellow | Yellow | Yellow |
| 12. Performance information is used to take remedial action and support the strategic planning process | Yellow | Yellow | Yellow |
| 5. Principle governing evaluation | | | |
| 13. Evaluations at programme and policy level are used for decision making | Yellow | Yellow | Yellow |
| 6. Cross-cutting principle | | | |
| 14. Sustainability is built into the cycle to ensure the longer-term effectiveness of public interventions | Yellow | Yellow | Yellow |

Source: **ECA Briefing Paper June 2019** - Delivering performance in Cohesion

Red: Few of the underlying criteria are met.

Yellow: Underlying criteria are met in some respect.

Green: Underlying criteria are met in most respects.

Note: The Commission does not share the ECA's assessment with regard to some guiding principles, including numbers 1 and 9.

Thank you for your attention!!!