CEDEFOP Conference "Building a European VET area"

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"ESF and the European Employment Strategy"

Lenia Samuel, Deputy Director General
DG Employment, Social Affairs and Equal Opportunities
I. Introduction
It is a great pleasure for me to be here today with you in Thessaloniki, to discuss vocational education and training, a topic which is of utmost importance for strengthening Europe's economic growth, competition and well being. Thank you very much to CEDEFOP and the German Presidency for inviting me and giving me the opportunity to present to you the European Social Fund and Employment Strategy contribution to human capital development in Europe.

I am happy to see many familiar faces and to be able to attend this event together with my valued colleague from DG EAC, with whom DG EMPL practises an intensive and fruitful cooperation on the issue.

Ladies and Gentlemen,

You may be aware that economists have calculated that one year of school or extra training can increase a person's pay by almost 10% over their lifetime.

I am not an economist, and our conference only lasts for two days, so I do not dare to promise to you any future monetary returns from your participation in this conference. However, I do dare to say that our discussions are providing valuable insights that will certainly enrich our efforts for building a European Area of Vocational and Educational Training.

In my presentation:

- I will give you first some background on why the Lisbon Strategy – and within its framework the Employment Strategy - put an emphasis on investments in human capital.

- secondly, I will give you an idea of how well we are delivering the Employment and the Lisbon Strategies in the field of human capital.

- and thirdly, I will highlight the role of the ESF in supporting lifelong learning and VET in particular and present to you some (preliminary) findings from the current programming process.

So, let me start with the overall framework – why is the Lisbon Strategy emphasising investment in human capital?
II. Lisbon Strategy - why invest in human capital?

Investment in people is rightfully seen as a key issue for Europe's economic and social future. By underlining that lifelong learning is a sine qua non if the Lisbon objectives are to be achieved, the 2005 Spring European Council confirmed that investing more and more effectively in human capital is at the heart of the refocused Lisbon strategy aimed at economic growth and employment.

Improving skills, competences, and job prospects, including through lifelong learning, has been established as a distinct priority area in the 2005-2008 Integrated Guidelines for Growth and Jobs, which now incorporates the main benchmarks which had been agreed under the Open Method of Coordination on "education and training" in 2002. These Guidelines call for more investment in human capital, Europe’s most important asset, through better education and skills and for the adaptation of education and training systems in response to new competence requirements, in particular to those arising from a knowledge based society.

The stronger focus on people and lifelong learning within the Lisbon agenda for growth and jobs is underpinned by the two major economic and social realities, which the EU has to confront: globalisation and demographic change

- Let's first consider globalisation: Europe's competitiveness in the global economy depends increasingly on the capacity of businesses to innovate, to adapt to economic change and to move towards the knowledge based economy. This cannot be achieved without improving the quality and productivity at work of which a skilled and adaptable workforce is the main determinant.

- Secondly, there is demographic change: In the face of demographic aging and expected shrinking of the workforce after 2010, investment in human capital is crucial for achieving higher rates of productivity, growth to sustain economic growth and Europe's social models.
Consequently, the human capital which is embodied in the skills of the workforce, features as the main asset to address the challenges for our societies.

With this in mind, the employment focus of the Lisbon strategy has been sharpened since 2005. Inside the employment focus, i.e. the Employment Strategy, two further concrete policy priorities have by now emerged from the review of the national Lisbon Reform Programmes by the European Council.

1) The first priority is the development of flexicurity, as a response to the challenge of globalisation and demographic change. The aim of flexicurity is to enhance labour market flexibility and employment security (rather than job security). It is our belief that this can be pursued successfully through a combination of efficient Lifelong Learning systems and active labour market policies with modernised social security and labour laws. The Commission will adopt a Communication of Flexicurity in late June to prepare for the European Council endorsing a set of common principles for Flexicurity at the end of the year.

2) The second priority is the development of a genuine life cycle approach to work, as a response to the demographic challenge. The needs of all age groups must be addressed comprehensively, - as a priority older workers and young people are being focused on. Skill problems are typically at the root of early withdrawals for older workers and difficulties of entry into the labour market for the young.

This very brief reminder of the current employment policy priorities illustrates the high expectations we have from the contribution of human resource policies. Not only is there growing scientific evidence of the positive synergies between education & training policies and employment policies. There is also a growing recognition that their effectiveness can be enhanced by learning from experiences all over Europe.

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1 Last year's Employment in Europe report contains a chapter on the interaction between human capital, technology creation and absorption, and economic growth. An important conclusion of this chapter is that the impact of a high skilled workforce on technological progress is greater in countries with flexible working arrangements.
Let me just recall that, there was a recommendation of the Employment Task Force led by Wim Kok to adopt a "mutual learning" approach. The Employment Committee conducted a review (in late 2005) for the debate of European Employment Ministers on investment in human capital and lifelong learning policies. This review concluded on a list of priority areas where further exchanges of experiences would be beneficial, including:

- the promotion of vocational education (by making such a training a positive choice linking it with work practice)
- developing systems for the recognition of skills
- the forecasting of labour market needs and the corresponding skill requirements
- and setting up financial arrangements for training and sharing of the costs

In conclusion, the Employment Committee called for a breakthrough in the quality and quantity of investment in human capital. All stakeholders must be involved to achieve this breakthrough.

Therefore I see this Conference as a welcome step in the direction set out by the European Education Ministers and hope it will result in concrete networks and partnerships.

So let me now deliver on my second promise and answer the question:

**III. How well are we delivering the Lisbon Strategy?**

The current economic and employment trends in Europe are encouraging. Three million jobs have been created in 2006 alone. Unemployment is clearly falling, and a significant number of jobs have been taken up by the low skilled and long term unemployed. At the same time, the productivity gap with the USA has started to narrow.

This is all good news! Do we therefore – in a time of economic up-turn – really need more investment in human capital?
Indeed, the prospect of a boom extending into 2008 or even 2009 has triggered a debate on the question whether the labour market improvement is **cyclical or structural**. There have been both cyclical and structural improvements. But as the Joint Employment Report presented by the Commission and the Council to the Spring European Council 2007, revealed, important gaps remain in the implementation of the commitments undertaken by Member States in their National Reform Programmes in 2005.

Of course, as far as the priority to invest in lifelong learning is concerned, important initiatives had been reported: For instance we saw initiatives in the area of framework legislation for education and training systems, the introduction of new curricula that improve educational opportunities and we established more flexible pathways, which are to be seen in conjunction with important EU initiatives like Europass for the recognition of qualifications.

**However,** these measures are **not yet** reflected in results, their cost efficiency is rarely established and there are serious doubts that the **three relevant EU targets** will be met in 2010. Let me deal with this now in more detail:

1. Firstly, in 2006, there were still about 6 million early school leavers, and a significant increase in 7 countries.\(^2\) (In fact, *there is a 5 % gap with the EU 10% target*)

2. Secondly, upper secondary educational attainment has been **stagnating** since 2000\(^3\), and the lack of progress in some Member States is due to the deficiencies in the vocational training system, including the lack of training places offered by the business sector. (*there is an 8% gap with the EU 85 % target*)

3. And lastly, participation in lifelong learning among the workforce remains close to 10%\(^4\), due to the lack of training offered by the private sector and SMEs in particular. (*Again an important gap of 2.5%*) Participation varies

\(^2\) The early school leaver rate is 15% (EU target for 2010: 10%)
\(^3\) At 77% (EU target for 2010: 85%)
\(^4\) EU target for 2010 : 12.5%
widely by age and educational attainment level and those most in need are less likely to receive training.

So, in response to those who may question the need for more investment in human capital during an economic upswing, I would like to state: Once the economic boom comes to an end, there is a risk that many problems will resurface. It may then again be more difficult to find a job for early school leavers and the low skilled unemployed, or to re-employ low skilled workers who are victims of redundancies. Leading think tanks\(^5\) are already warning that human capital constraints may limit the growth path for a number of countries, including those which showed impressive improvements in recent years.

I would conclude from this, that the current positive labour market situation should not be an excuse for delaying efforts and wasting opportunities, either for public authorities or for the business sector or individuals. We should rather use the window of opportunity that the positive economic development is offering us for sustainable investments in human capital formation.

Last, but not least, let me elaborate on the role that the European Social Fund can play for such a purpose.

**IV. The role of the ESF**

I am happy to say that the overall political direction for investment in human capital has been given in accordance with the argument I have just presented.

The Conclusions of the Spring European Council last March stated that "education and training are critical factors to develop the EU's long term potential for competitiveness as well as social cohesion". All Member States now consider that the Lisbon strategy is a factor in national education and training policy development. So far, so good! We need now not only to "talk the talk" but also to "walk the walk".

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\(^5\) The Lisbon Council has just presented a Human Capital index, showing that Germany's and Italy's growth path might be endangered because of skills constraints after 2010, whereas Germany, according to the same institute, appeared as the country with the most surprising job creation in 2006.
Let us therefore, see how the ESF, the EU's main financial instrument that supports the EES, can help this.

The development of human capital has always been a priority for the ESF. It is our endeavour to raise its profile and level of ambition within the context of the seven year programming period which has started this year.

Under the new regulatory framework the ESF will continue to support education and training systems particularly under the "human capital priority". Whilst retaining a focus on the labour market and the need to adapt education and training systems to its requirements and those of the knowledge based economy, the new regulation framework reflects a comprehensive policy approach to education and training. This is reflected in the following three strategic shifts:

- Firstly, the scope of ESF has been broadened to reflect a life-cycle approach to education.

- Furthermore, there is an increased emphasis on strengthening research and innovation, particularly through enhanced collaboration between education, technology and companies.

- Finally, an important flexibility is now offered in the new period by the "cross-financing clause" introduced by the General Regulation (Art.33.2) which provides the possibility to finance infrastructure investments within ESF programmes (up to 10% of each priority axis)\(^6\).

More concretely spoken, in all Member States and regions the ESF can support actions which promote – I quote - :

\(^6\) Art. 33.2 of the General Regulation reads as follows: "Without prejudice to the derogations laid down in the specific regulations of the Funds, the ERDF and the ESF may finance, in a complementary manner and subject to a limit of 10% of each priority axis of an operational programme, actions falling within the scope of assistance from the other Fund, provided that they are necessary for the satisfactory implementation of the operation and are directly linked to it."
the design and introductions of reforms in education and training systems in order to develop employability, the improvement of the labour market relevance of initial and vocational education and training and the continual updating of skills of training personnel with a view to innovation and a knowledge based economy as well as

the promotion of networking activities between higher education institutions, research and technological centres and enterprises. – end of quote.

Additionally, in order to take account of the greater needs of the convergence regions and cohesion countries and to enable them to reach their full potential, the ESF can also support:

• the implementation – not just the design and introduction - of reforms in education and training systems,
• increased participations in education and training throughout the life cycle, and
• the development of human potential in research and innovation such as through postgraduate studies and the training of researchers.

Indeed, these regions often face severe problems in their structures of education, are confronted with the gender-based segregation of subjects, insufficient accessibility, or low quality of education and training, and suffer from a lack of training after formal education, to name just a few of the shortcomings. Early school leaving can also be a serious problem, which if not tackled early enough, is likely to lead to unemployment and social exclusion. Whilst the ESF has not generally supported primary education in the past, within the scope of the new regulatory framework actions could also be eligible in this area.

As you can see these actions directly support the 3 policy areas of the Education and Training Work Programme 2010:

• improving the level of basic competences,
• the transformation of systems to make lifelong learning a reality for all and
• increasing the quality and attractiveness of vocational education and training

The other actions of the ESF also complement these policy areas. As an illustration I would like to highlight that – for instance - under the priority 'adaptability of workers, enterprises and entrepreneurs', the ESF will support:

• the development and implementation of life-long learning systems and strategies in enterprises,
• training and services for workers to step up their adaptability to change, or
• the development of specific employment, training and support services in the context of restructuring of sectors and enterprises.

I would also like to highlight two references in the ESF Regulation which underpin the Education and Training Work Programme 2010 Agenda and in particular the VET dimension:

1. First of all the reference to the specific need for action in the domain of the validation of competences with a view to promoting the geographical and occupational mobility of workers and their integration in the labour market;
2. And secondly the need for personalised support in the form of tailored training to keep older workers in employment longer.

We must furthermore, not forget that the ESF also supports the enhancement of the access to employment and the reinforcement of social inclusion of disadvantaged groups.

We would like to create synergies, and by the way, the positive synergies between the employment policies and education policies are not surprising given the close cooperation between the sister DGs of EMPL and EAC.

To what extent Member States are going to use the ESF possibilities?

Toward the end of my presentation, please allow me now – as promised - to share with you some information about the state of play in the current programming period
and the extent to which Member States are going to make use of the enhanced possibilities offered by the ESF in the area of education and training.

1. First of all I would like to underline the fundamental change relating to this new period in comparison with the last one. It is what we call the **strategic approach**. The cohesion policy is now concentrated on the objectives and targets of the growth and jobs agenda. The Commission focuses on whether the proposed national strategies (as outlined in the Member States National Strategic Reference Frameworks) and the Operational Programmes by which these are translated into action, address the objectives and priorities identified under the Lisbon process. We negotiate with Member States to ensure a concentration of cohesion policy resources on the objectives and targets of the Lisbon strategy; in other words we **concentrate on what is strategically important**.

2. Furthermore the new legislative framework has aimed to introduce important simplifications for the programming and implementation of the Structural Funds.

To date the Commission has received the National Strategic Reference Frameworks – the so-called NSRF of all 27 Member States and some of them have already been adopted by the Commission. We have also received the majority of the ESF OPs (107 out of 117).

For the period 2007-2013 the global ESF budget will approximately be 75 billion Euro in current prices –the overall value of the programmes should be close to 100 billion.

When we compare the intended use of this budget with the 2000-2006 period we see an increased emphasis on training and education. For 2007-2013 a first analysis of the ESF budget (excluding national co-financing) suggests that

- **Well over 13 billion Euro will be allocated to adaptability**
- **And 22.5 billion Euro to Improving Human capital**
In order words, the European Communities will invest well over 35 billion Euro – almost half of the European Social Fund budget – into **actions which are directly and closely linked to vocational education and training**. In addition, national, regional, local and private co-financing will add considerably to this overall amount. You should also note vocational education and training activities will also be undertaken under some of the other priorities of the ESF.

In short, the ESF will play a very important role in improving Europe's performance in the domain of Vocational Education and Training and invest more in this domain, compared to the previous programming period.

However, there are also worrying signs: Even if in the area of adaptability of workers, enterprises and entrepreneurs the support to workers e.g. in the form of training or re-training is well covered by most of the programmes, there is much less focus on enterprises or entrepreneurs. Issues such as development of adequate in-company training, human development strategies, the dissemination of innovative and more productive forms of work, better health and safety or the identification of future occupational requirements are not sufficiently visible in the programmes.

We believe that these important areas need to be addressed with more commitment as they are crucial for preparing the enterprises to function in the constantly changing markets.

**V. Conclusion:**

Ladies and Gentlemen, we are now in a decisive phase of the negotiations. Discussions between the Commission and Member States are taking place on daily basis. These negotiations are not always easy. However they are proceeding in a good and constructive atmosphere. There is a real spirit of partnership and cooperation. We feel confident that together we should be able to make use of the full spectrum of the possibilities offered for the benefit of the European citizens. Their welfare is at the heart of the ESF and cohesion policy in general.
Finally, getting back to what I promised to you in the beginning, I hope that I have given you an overview of the important role of human capital in the Framework of the Lisbon Strategy, an idea of how well we are delivering and information on how the ESF will support lifelong learning and VET in the current programming period until 2013.

So even if this presentation will most probably not have raised your lifetime income, it will hopefully have enriched your knowledge and insights into the ESF and Lisbon and European Employment Strategies.

Thank you very much for your attention.