EU Regulation

TECHNICAL SUPPORT FOR STRUCTURAL REFORMS

cep**PolicyBrief** No. 2018-17

Centrum für Europäische Politik

KEY ISSUES

Objective of the Regulation: The capabilities of Member States to prepare and implement structural reforms are to be improved. Candidates for membership of the euro area are to receive support with the introduction of the euro.

Affected parties: Member States

Pro: When Member States carry out structural reforms, external expertise can be helpful. Technical assistance from the Commission may provide this helpful expertise.

Contra: Increasing the funds for euro-area candidate countries, to € 2.16 billion, will not increase the willingness of those countries which are currently sceptical about joining the euro.

The most important passages in the text are indicated by a line in the margin.

CONTENT

Title

Proposal COM(2017) 825 of 6 December 2017 for a **Regulation** amending Regulation (EU) 2017/825 **to increase the financial envelope of the Structural Reform Support Programme** and adapt its general objective,
Proposal COM(2018) 391 of 31 May 2018 for a **Regulation on the establishment of the Reform Support Programme,**
Communication COM(2017) 822 of 6 December 2017: **New budgetary instruments** for a stable euro area within the Union framework

Brief Summary

Note: Article numbers refer to the Regulation being amended, on the Structural Reform Support Programme (EU) 2017/825.

► **Context and objectives**

- The Commission wants to support structural reforms in the Member States [Communication COM(2017) 822, p. 4] by
  - strengthening the macroeconomic resilience of Member States in the event of economic crises,
  - promoting convergence of the economic performance of Member States,
  - stabilising the euro area and
  - supporting euro-area candidate countries - all "non-euro" Member States apart from Denmark and UK - with adoption of the euro.
- This will take place by way of
  - a new "instrument", which provides financial rewards for the implementation of structural reforms in the Member States [Proposal COM(2017) 826 and Communication COM(2017) 822, p. 8-10; see cep**PolicyBrief** 2018-08], and
  - a realignment and increase of the funds for the already existing "Structural Reform Support Programme" (hereinafter "Programme",) [Proposal COM(2017) 825, Proposal COM(2018) 391 and Communication COM(2017) 822; this cep**PolicyBrief**].

► **Structural Reform Support Programme – Object**

- By way of the Programme, the Commission organises and finances "technical assistance". Technical assistance aims to improve the capabilities of national authorities (unamended Art. 5para. 1)
  - to prepare reform plans and
  - implement reform plans.
- Technical assistance takes place in particular by way of (unamended Art. 6)
  - the provision of expertise,
  - the provision of experts to carry out tasks and implement measures on the ground,
  - the organisation of seminars and conferences and
  - the collection of data and preparation of statistics, studies and analyses.
- Technical assistance is
  - organised by a unit of the Commission, namely the "Structural Reform Support Service" (hereinafter "Service") (unamended Art. 13 para. 1) and
  - provided by (unamended Art. 9)
    - Commission staff and/or staff from other Member States,
    - companies and/or

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- European, national and/or international organisations such as the International Monetary Fund (IMF), German International Cooperation Agency (GIZ GmbH) or the World Health Organisation.
- Technical assistance must provide European added value (unamended Art. 3), such as by
  - providing complementarity and synergy with other EU support programmes,
  - addressing regional or national "challenges" with cross-border impact,
  - formulating reforms that are consistent with European law and/or
  - distributing and exchanging reform plans that have been successful in other Member States.
- The cost of technical assistance will - in line with the financing rules of the EU's Financial Regulation - be 100% financed from the EU budget (unamended Art. 13 para. 3).
- According to the Commission, demand for technical assistance is currently five times higher than the Programme's financial resources [Explanatory Memorandum of Proposal COM(2017) 825, p. 1].
- The midterm report evaluating the Programme will come out in mid-2019 at the latest (unamended Art. 16 para. 2 sub-para. 2).

► **Structural Reform Support Programme – Procedure**
- Technical assistance takes place at the request of a Member State (unamended Art. 7 para. 1).
- The request should, in particular, contain the reform proposals which the EU recommended to the Member States in the European Semester (see cep**PolicyBrief** on the European Semester) (unamended Art. 7 para.'s 1 and 3).
- The Commission
  - analyses the request based on the urgency of the need for assistance and the extent of the problems identified in the Member States (unamended Art. 7 para. 2 sub-para. 1) and
  - reaches agreement, where appropriate, with the Member States as to the form of the technical assistance (unamended Art. 7 para. 2 sub-para. 2).

► **Structural Reform Support Programme – Amendments up to 2020 [Proposal COM(2017) 825]**
- The Commission wants to retrospectively increase the Programme's financial resources for the period 2017 - 2020 by € 160 million, from € 142.8 million to about € 300 million (Explanatory Memorandum, p. 5).
  - € 80 million for 2019 and 2020 will come from the flexibility instrument under the current Multiannual Financial Framework (MFF) 2014–2020 (new Art. 10 para. 1). The MFF determines the annual maximum expenditure for each of the EU's area of activity [Art. 312 TFEU; Art. 1, Annex I MFF Regulation (EU, Euratom) No. 1311/2013]. The flexibility instrument is an item in the MFF which allows additional resources to be made available where the annual budget does not provide for any additional expenditure due to the ceilings applicable to the relevant area of activity [Art. 11 MFF Regulation (EU, Euratom) No. 1311/2013].
  - € 80 million will be made available from voluntary contributions of the Member States. For this, Member States are supposed to allocate certain funds of the Structural and Investment Funds to the Programme which are set aside for them (unamended Art. 11 para. 2).
- The Commission wants to set up a "facility" within the Programme in order to support euro-area candidate countries to prepare for joining the euro [new Art. 4, 5a; Communication COM(2017) 822, p. 11]. The "facility" will support reform plans that contribute to economic convergence between euro-area candidate countries and the existing euro-area members [Communication COM(2017) 822, p. 11].

► **Structural Reform Support Programme – Amendments 2021-2027 [Proposal COM(2018) 391]**
- The Commission wants to change the name of the Programme to "Technical Support Instrument" and provide it with a budget of € 840 million [Proposal COM(2018) 391, Art. 7 para. 2 lit. b, Explanatory Memorandum, p. 2 et seq.]
- The Commission wants to expand the "facility" for euro-area candidate countries into a "convergence facility" and provide this with € 2.16 billion [Proposal COM(2018) 391, Art. 7 para. lit. c].
  - Of this, [Proposal COM(2018) 391, Art. 24 and Art. 7 para. 2 lit. c]
    - € 160 million is for technical assistance and
    - € 2 billion for financing "not linked to cost", for the implementation of structural reforms.
  - In order to be able to request funds from the convergence facility, the euro-area candidate countries must give a written commitment to the Commission [Proposal COM(2018) 391, Art. 27 para. 2, Art. 31 para. 1],
    - to join the euro area within a "reasonable and defined timeframe" and
    - to comply with a roadmap, prepared in consultation with the Commission, for implementing concrete measures to prepare for accession.

Main Changes to the Status Quo

► The budget for the Programme will be increased from € 142.8 million to about € 300 million.

► It is explicitly provided that the Programme will also support "non-euro" Member States in order to promote the introduction of the euro those countries.

Statement on Subsidiarity by the Commission

The EU is in a better position than Member States to identify and coordinate expertise on structural reforms in the European institutions, in other Member States and in international organisations, and to foster the exchange of good practices and ensure European added value. The increase in funding is necessary due to the high demand for the Programme.

Policy Context

Expansion of the Programme is part of the Commission's proposal to complete the Economic and Monetary Union [Communication COM(2017) 821, p. 3]. This also includes the Commission's proposals for a "Stabilisation function" for the eurozone [Communication COM(2017) 822; see cep**PolicyBrief** 04/2018], an EU Finance Minister [Communication COM (2017) 823; see cep**PolicyBrief** 07/2018], the creation of a tool to support structural reforms in the Member States [COM(2017) 826; see cep**PolicyBrief** 08/2018], the integration of the international Fiscal Compact into EU law [Proposal COM(2017) 824] and the conversion of the European Stability Mechanism (ESM) into a European Monetary Fund (EMF) [Proposal COM(2017) 827; cep**PolicyBrief** 13/2018].

Legislative Procedure

7 December 2017	Adoption by the Commission
25 June 2018	Vote in the Committee on Regional Development
Open	Adoption by the European Parliament and the Council, publication in the Official Journal of the European Union, entry into force

Options for Influencing the Political Process

Directorates General:	General Secretariat of the Commission (Jordi Ayet-Puigarnau)
Committees of the European Parliament:	Regional Development (leading), Rapporteur: Ruža Tomašić (EKR)
Federal Ministries:	Federal Ministry of Finance
Committees of the German Bundestag:	Committee for EU Affairs (leading)
Decision-making mode in the Council:	Qualified majority (acceptance by 55% of Member States which make up 65% of the EU population)

Formalities

Legal competence:	Art. 175 para. 3, Art. 197 para. 2, TFEU (Cohesion, Administrative Cooperation)
Type of legislative competence:	Shared and exclusive competence (Art. 4 (1) and (2) and Art. 6 TFEU)
Legislative Procedure:	Art. 294 TFEU (Ordinary legislative procedure)

ASSESSMENT

Economic Impact Assessment

When Member States want to implement major **structural reforms, external expertise can be helpful** particularly if the administration of the Member State does not have the required know-how. Technical assistance from the Commission which helps the administration to acquire such know-how therefore is basically appropriate. It is, however, likely that the Commission will not only improve the capabilities of national authorities to develop reform plans but will also exert influence on the actual design of the reforms. Such influence already takes place via the choice of reforms that are to be supported by the Commission. This influence is unproblematic, however, because participation in the Programme is voluntary.

By offering technical assistance, the Commission is - at least partly - in competition with international organisations such as the IMF or private companies also offering such assistance. As assistance will be 100% financed by the EU budget, market distortions will arise.

It is theoretically possible that technical assistance provides added value by comparison with other providers, since the Commission can take greater account of EU-specific aspects. This includes, e.g. using other EU programmes that can provide Member States with supplementary financial support with a reform or taking account of EU law when designing a reform. It will only be possible to assess the extent of any such added value after publication of the 2019 midterm report (Art. 16 para. 2 sub-para. 2). Therefore, no decision to increase funds should be made until the report is available.

The fact that the demand for technical assistance is five times higher than the financial **resources of the Programme may** on the one hand be due to the positive experience that Member States have so far had with technical assistance. On the other hand, this may also **be a sign of the deadweight effect.** This would be the case if Member States were claiming assistance for activities which they would otherwise have financed themselves. **In order to avoid the**

deadweight effect, Regulations should always provide for Member States to make their own contribution to financing technical assistance.

The fact that Member States have to apply for technical assistance for a reform proposal means that the risk of supporting Member States which are unwilling to make reforms is reduced. In the application, Member States must also specify which problem they want to solve with reforms. Such an application indicates a basic willingness to make reforms on the part of the Member States.

By contrast with the existing situation, it will be distinguished in future whether a Member State is applying for technical assistance for structural reforms for the purpose of acceding to the euro or for other reasons. **The proposed separate facility within the Programme for euro-area candidate countries has the advantage that eligible Member States will not have to fight with the other Member States for scarce Programme resources.**

However, explicitly supporting reform plans, which contribute to a convergence between candidate countries and euro-area countries, provides little added value as the already existing policy areas, for which technical assistance can be applied for, largely cover such reforms.

Increasing the funds for euro-area candidate countries, to € 2.16 billion post 2020**, will not increase the willingness of those countries which are currently sceptical about joining the euro** because although all candidate countries are legally obliged to accede to the euro, the economic and fiscal tensions, which continue to exist in the euro area, prevent them from doing so. Euro-area candidates which want to introduce the euro - such as Bulgaria - will implement the necessary structural reforms in any case. In this case, the increase therefore only gives rise to the deadweight effect.

Legal Assessment

Legislative Competency

Unproblematic. The EU can create specific programmes or financing instruments in order to strengthen economic, social and territorial cohesion in the EU (cohesion objective) if other funds and support powers are insufficient for the cohesion objective (Art. 175 para. 3 TFEU). In addition, the EU can offer Member States support in improving their administrative capacity to implement Union law (Art. 197 para. 2 TFEU).

Subsidiarity.

Unproblematic. Provided the Programme serves the cohesion objective, it constitutes a measure that Member States cannot implement alone. Although Member States can obtain assistance with the design of structural reforms from external organisations, these organisations are not as able to provide the same level of European added value as the Commission, i.e. by considering other EU support programmes or ensuring compliance with European law and, where applicable, coordinating the involvement of other Member States.

Proportionality with Respect to Member States

Unproblematic.

Compatibility with EU Law in other respects

Formally, budgetary requirements concerning sound financial management are kept which require financial resources to be deployed economically, efficiently and effectively, including in the planning of expenditure, and which specify that EU measures are subject to evaluations at various times [cf. Art. 30 Budgetary Regulation (EU, Euratom) 966/2012]. Although a midterm assessment is planned for the Programme in mid-2019 at the latest, in which European added value and the effectiveness of the deployment of resources will be considered [cf. Art. 18 para. 3 lit. a Delegated Regulation on the rules of application for the budget (EU) 1268/2012], **the increase** in funds will take place prior to this assessment and is only justified by the intense demand for the Programme. It **should** therefore only **be carried out after the midterm assessment or after an early interim report.**

Impact on German Law

No direct impact.

Conclusion

When Member States carry out structural reforms, external expertise can be helpful. Technical assistance can provide this expertise. The fact that the demand for technical assistance exceeds the Programme's funds may be a sign of the deadweight effect. In order to avoid this, the Regulations should always provide for Member States to make their own contribution. The proposed separate facility within the Programme for euro-area candidate countries has the advantage that they will not have to fight with other Member States for scarce Programme resources. Increasing the funds for euro-area candidate countries, to € 2.16 billion, will not increase the willingness of those countries that are currently sceptical about joining the euro. The increase in funds for the Programme should only be carried out after the midterm assessment or after an early interim report.