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Delegations will find attached document SWD(2018) 311 final.

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COMMISSION STAFF WORKING DOCUMENT

EXECUTIVE SUMMARY OF THE IMPACT ASSESSMENT

Accompanying the document

Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

on the establishment of the Reform Support Programme

{COM(2018) 391 final} - {SEC(2018) 280 final} - {SWD(2018) 310 final}

Executive Summary Sheet

A. Need for action

Why? What is the problem being addressed?

The problem to be addressed by this proposal is the slow and uneven implementation of structural reforms. Structural reforms are needed to enhance cohesion and competitiveness, raise productivity, foster the resilience of economic and social structures of the Member States and encourage growth and employment. The implementation of reforms has been advancing slowly and unevenly across Member States both inside and outside the euro area, which can have negative impacts on growth and competitiveness in EU Member States and the Union as a whole. The European Commission's assessment within the European Semester process has confirmed that the implementation of reforms needed to address the Country Specific Recommendations has so far been uneven across Member States and that, even though reform implementation has increased slightly overall compared to May 2017, reforms often take longer to be implemented than anticipated. In addition, the experience of the euro-area crisis has demonstrated that it is of paramount importance that Member States make the necessary reforms before adopting the euro in order to ensure a well-functioning Economic and Monetary Union. The current favourable EU-wide economic situation with rapid growth, recovering levels of employment and investment, and improving public finances provides a window of opportunity to implement structural reforms.

What is this initiative expected to achieve?

The proposal for the establishment of the Reform Support Programme is expected to contribute to addressing national reform challenges of a structural nature and strengthen the administrative capacity in all EU Member States by providing financial incentives for implementation of reforms and technical support to help Member States design and implement reforms and improve their administrative capacity. In addition, targeted support will also be provided to Member States whose currency is not the euro and which have taken demonstrable steps towards adopting the single currency within a given time-frame to help them prepare for euro-area membership. The Programme aims to achieve these objectives by tackling the drivers of the low and uneven implementation of reforms, such as the lack of administrative capacity, short-term economic, social and political costs of reforms, and the lack of political ownership.

What is the value added of action at the EU level?

While the implementation of structural reforms in Member States remains a national competence, the crisis years have shown that due to the strong links between economies of Member States, reform efforts cannot be a purely national issue. This Programme will provide additional support for the implementation of structural reforms in both euro-area and non-euro-area Member States, thereby contributing to cohesion, competitiveness, productivity, growth and employment. Its impact will therefore be felt not only at national level, but will also have positive spillover effects for the Union as a whole.

To achieve this, the Programme will offer three separate but complementary instruments (the Reform Delivery Tool, Technical Support Instrument and the Convergence Facility), thus maximising impact at EU level.

The Reform Delivery Tool will be a direct response to the weak implementation of the structural reforms at national level. It is designed to enhance the implementation of reforms identified in the European Semester process by providing financial incentives. While the implementation of structural reforms in Member States remains a national competence, action at EU level will provide an impetus to help overcome the lack of political ownership or the commitment to undertake reforms (which could be partly related to financial or short-term political costs).
The Technical Support Instrument (and the technical support component of the convergence support instrument) will strengthen the administrative capacity of Member States through a Union-wide network of expertise to the benefit of all Member States that request support and will promote mutual trust and further cooperation between Member States and the Commission.
The financial support component of the Convergence Facility, targeted to Member States that are determined to adopt the single currency within a given time-frame, will aim at strengthening the resilience of those Member States and the resilience of the euro area as a whole, enabling positive cross-border effects and/or positive spillover effects across the Union.

B. Solutions

What legislative and non-legislative policy options have been considered? Is there a preferred choice or not? Why?

The impact assessment examined the existing Commission instruments for supporting the implementation of structural reforms. It concluded that while there are some instruments at EU level to support the implementation of structural reforms, they are insufficient to address the drivers behind the low and uneven implementation and to promote the needed structural and administrative reforms. The European Semester is an effective soft-law tool for outlining challenges and reform needs and for keeping track of responses from Member States to meet those needs, but the European Semester process itself has no enforcement arm and no tool to provide actual incentives for reform. Technical support provided through the Structural Reform Support Programme (SRSP) has a limited budget and this Programme ends on 31 December 2020. The European Structural and Investment Funds (ESIF), which will be denominated the "Union Funds" under the new Common Provision Regulation, finance the implementation of some structural reforms and provide encouragement for some reforms, notably through the application of ex-ante conditionalities. However the goals and intervention logic of the ESIF and the future "Union Funds" remain geared towards investment rather than reform. Finally, there is currently no targeted support for non-euro-area Member States wishing to join the euro area, which could accelerate the process of convergence in those Member States. Therefore, under a no-policy-change scenario, these instruments at Commission's disposal to facilitate and promote the needed structural and administrative reforms in the EU Member States would prove insufficient.

The establishment of a new Reform Support Programme is the preferred option as it would allow for a contribution to addressing the problem in a comprehensive manner, by strengthening the current technical support offered through the SRSP, adding a targeted instrument providing financial support for the implementation of reforms and adding a targeted instrument to support the implementation of reforms in non-euro-area Member States.

While the technical support would contribute towards enhancing the administrative capacity of all EU Member States, additional financial incentives would help provide further stimulus for undertaking reforms. In addition, a dedicated Convergence Facility providing targeted financial and technical support to Member States seeking to adopt the euro will allow for help to be provided for preparing for successful participation in the euro area, enhance resilience and foster greater convergence within the Economic and Monetary Union.

THE STRUCTURE OF THE NEW PROGRAMME

The Reform Support Programme will have an overall budget of EUR 25 billion and the take-up of the Programme will be fully voluntary. The Programme will offer financial and technical support for priority reforms at national level. It will include the following instruments:

- The **Reform Delivery Tool**, which will provide financial support across all Member States for key reforms identified in the context of the European Semester;
- Tailor-made **Technical Support Instrument** provided to Member States (extension of the current Structural Reform Support Programme), upon their request, which will aim to strengthen Member States' administrative capacity in the preparation, design and implementation of growth-enhancing reforms; and
- The **Convergence Facility** to provide dedicated financial and technical support to Member States seeking to adopt the euro.

Appropriate safeguards in the design of the Reform Delivery Tool, such as the payment at the end of the implementation of Member States' reform commitments, identification of reforms within the European Semester, discussion of the reform commitment proposals in the Economic Policy Committee (in consultation where appropriate with relevant Treaty-based Committees) or suspension and cancellation of payment in the case of incomplete or unfinished reform commitments, will ensure that the risk of moral hazard is limited.

Who supports which option?
Evidence supporting enhanced technical support exists in the provision of technical support through the Structural Reform Support Programme (SRSP), adopted in 2017 and preceded by the support through the Task Force for Greece (TFGR) and the Support Group for Cyprus (SGCY), both of which (ad-hoc) structures were integrated in the Structural Reform Support Service. Since the SRSP entered into force, there has been a very high take-up of the Programme by Member States, with requests for support significantly exceeding the amount of funding available for its annual cycles. Besides the oversubscription for the amounts available under the SRSP, based on the feedback received from the Member States and preliminary observations from the implementation of initial SRSP projects on the ground, the SRSP seems to fill a gap in the implementation of structural reforms by supporting the Member States at various stages of the reform process. Member States appreciate the voluntary character of the Programme, the fact that support is provided rapidly, without any co-financing from national budgets and with rather low administrative burden, and the sharing of expertise with other Member States or experts. The SRSP contributes strongly to consistent implementation of strategic Union priorities, to the development and implementation of solutions that address cross-border issues and Union-wide challenges. In some cases, the support has also enabled funding to be leveraged from other Union programmes, e.g. by helping to better prepare projects under the ESIF, or to integrate –through these projects - aspects not covered by the ESIF. As regards the Reform Delivery Tool, as this is a new instrument, the Commission gathered ideas on the design of the future tool from a number of technical workshops organised in each EU Member State. The majority of Member States acknowledged the need to deal with structural reforms and welcomed a new tool for incentivising reforms. At the same time, they stressed the need to give more ownership over the implementation of reforms to Member States. Inputs from Member States gathered during the workshops has been taken into account in the design of the Reform Delivery Tool, namely, the availability of the Programme to all EU Member States, coordination with the ESIF, allocation of funds to all Member States, safeguards against moral hazard and the link to the European Semester.

C. Impacts of the preferred option
What are the benefits of the preferred option (if any, otherwise main ones)?
The impacts of the Programme will depend on the reforms that Member States will propose and implement in the context of the Reform Delivery Tool or on the type of technical support that they will ask for and make use of in the framework of the Technical Support Instrument. Overall, the Programme is expected to help improve the low, uneven implementation of reforms and bridge the gap between the need for and the willingness to complete structural reforms, focusing on those reforms that enhance cohesion and competitiveness, raise productivity, encourage growth and employment and improve the resilience of the Union's economies. It is, therefore, expected to generate positive impacts on economic growth, employment, sustainable development and the resilience on the Member States' economies within the euro area and the Union.
What are the costs of the preferred option (if any, otherwise main ones)?
The design of the Programme is such that it would minimise administrative and transaction costs, both for the Commission and for the Member States. Dialogue between the Member States and the Commission on the reform proposals would aim at anticipating and mitigating possible negative impacts that could occur (for instance possible negative social or environmental impacts or redistributive effects), through accompanying measures or risk-mitigating actions. The financial support can also be used to offset the potential negative impacts.
How will businesses, SMEs and micro-enterprises be affected?
Enhanced implementation of structural reforms in the growth and business environment sector would create better conditions for conducting business and could, therefore, have a positive effect on the business environment.

Will there be significant impacts on national budgets and administrations?

Structural reforms can impose short-term costs on national budgets and administrations. Financial support would help to offset negative impacts before the long–term benefits materialised. Technical support could focus notably on reforms aimed at improving the revenue management or the public financial management, thereby having a positive impact on national budgets. The Programme will also aim at improving the administrative capacity of the Member States.

How will complementarity with other Union funds be ensured?

The Reform Support Programme provides for complementarity and synergies with other Union programmes, notably by complementing the policy guidance provided under the European Semester and by helping to leverage the use of the ESIFs.

While the ESIF aim at providing financing for investments needed to reach the objectives of the European Structural and Investment Funds, the future Reform Delivery Tool will aim at incentivising structural reforms and thereby improving the framework conditions for investment. The impact of investments can be greatly enhanced by creating the right framework conditions. At the same time, investments under the ESIF can be supportive of a particular reform. The ESIF and the Reform Support Programme will therefore be mutually reinforcing.

In order to ensure that the actions proposed for implementation under the Programme are complementary to and do not overlap with other Union programmes and funds (the future Union Funds), coordination for all three instruments will be ensured within the internal working arrangements of the Commission.

D. Follow up

When will the policy be reviewed?

The Commission will monitor the implementation of the entire Programme and measure the achievement of the general and specific objectives through monitoring framework and appropriate indicators. A mid-term evaluation and an ex-post evaluation for each instrument will be carried out no later than four years after the start of the programme implementation. Evaluations will be carried out in a timely manner to feed into the decision-making process and the preparation of the next programme. The Commission will communicate the conclusions of the evaluations, together with its observations, to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions.