Initial Appraisal of a European Commission Impact Assessment
2021-2027 MFF

European Parliament

Reform Support Programme

Impact assessment (SWD(2018) 310, SWD(2018) 311 (summary)) accompanying a Commission proposal for a regulation of the European Parliament and of the Council on the establishment of the Reform Support Programme COM(2018) 391

This note is one of a series of brief initial appraisals of European Commission impact assessments (IA) accompanying the multiannual financial framework (MFF) proposals, tailored to reflect the specificities of the MFF package and the corresponding IAs.[1] *It provides an initial analysis of the strengths and weaknesses of the impact assessment accompanying the above-mentioned proposal adopted on 31 May 2018 and referred to the Committees on Budgets (BUDG) and on Economic and Monetary Affairs (ECON).*[2]

Political and legal context: objectives

Beginning with a description of the legal and political context for the initiative, the IA highlights the key role of structural reforms for growth and for economic and social convergence among EU Member States (IA, pp. 3-4). It identifies the slow and uneven implementation of structural reforms across the EU as the main **problem** to tackle, explaining the need to fill the current legislative gap in this area with new instruments (IA, pp. 4-5, 12, 20, 24). On the basis of lessons learned from the current Structural Reform Support Programme (SRSP), which expires 2020, as well as from the evaluations and audits of the taskforces for Greece and for Cyprus,[3] the IA defines three **drivers** for the main problem: a) diverging national administrative and institutional capacities, b) the lack of national government ownership of reform, and c) the fact that structural reforms often entail economic, social and political costs in the short term while their benefits occur only over the long term (IA, pp. 5-19, 26-28).

According to the IA, the *general objective* of the initiative is to contribute to cohesion, competitiveness, productivity, growth and employment by addressing national reform challenges of a structural nature and improving the performance of national economies (IA, pp. 29-30). The IA sets out three *specific objectives* and links them to the three complementary instruments that constitute the new programme (IA, pp. 30-32): first, to support national authorities' administrative and institutional capacity (through the **technical support instrument**); second, to provide financial incentives that can mitigate the short-term economic, social or political costs associated with reforms (through the **reform delivery tool**) and third, to provide technical support and financial incentives for non-euro countries preparing to join the euro (through the **convergence facility**). These objectives are pertinent, address the problem drivers and correspond to the 2018 Commission communication on new budgetary instruments post-2020. However, they do not specify the scope of the instruments, in particular how to determine reforms 'relevant' to the European Semester and hence eligible for financial incentives (IA, pp. 29, 32). They cover a very wide range of policy areas, depending case by case on the situation in each Member State. Thus, the objectives do not seem to correspond to all the 'SMART' criteria required by the better regulation guidelines, and are not broken down into *operational* objectives.[4]

Programme structure and priorities: funding delivery mechanisms

The IA reflects the structure of the programme, built around the three above-mentioned instruments IA, pp. 32-33). It stresses the 'unique combination' of technical and financial support, combined with targeted support to non-euro area Member States, and expects positive cross-border spill-over effects and better dissemination of good practice (IA, p. 35). The IA describes the **baseline scenario**

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thoroughly, concluding that it does not suffice to improve the implementation of structural reforms across the EU (IA, pp. 19-23). Unlike a standard IA, it does not assess alternative options against this baseline, but considers the advantages and disadvantages of some 'forms of implementation support' (IA, pp. 39-42). In this context, it presents arguments for either direct or shared management of the programme and for different delivery mechanisms under each of the three instruments. It opts for the continuation of the 'more transparent, simpler and faster' direct management of the current SRSP, combined with indirect management when entrusting international organisations or bodies with certain technical support tasks in accordance with the financial regulation, thereby allowing for flexible and tailor-made support for Member States (IA, p. 39).

For the **reform delivery tool**, it briefly considers grants, financial instruments, co-financing and direct financial contributions – the latter *during* or *after* achievement of the reform targets. The IA argues that financial contributions *after* the completion of reforms would provide for the highest incentive, as well as simpler and more secure procedures, whereas payments in tranches *during* reform implementation would be more complex and burdensome – and could allow Member States to stop reforms before final implementation (IA, p. 41). The IA looks at risks, such as trade-offs and inefficient reforms that could require recovery of funding, but does not explore these aspects in detail (IA, pp. 59-61). It reflects on synergies with other Union programmes, in particular the European structural and investment funds (IA, pp. 36-37).

For the most part, however, the IA does more to promote the proposed delivery mechanisms than to assess their impacts thoroughly, except for a short overview of likely economic, social and environmental impacts at the end of the IA (IA, pp. 61-63). Here, the IA mentions up to 7 % growth of gross domestic product in the euro zone after 10 years, though without explaining or substantiating this estimation or the underlying assumptions and simulations sufficiently (IA, pp. 60-61).[5] The same goes for a potential employment increase of up to 1.5 % by 2020 (in some Member States), also implying non-quantified income distribution, where the IA cites the QUEST model, but does not provide a comprehensive and transparent explanation either (IA, p. 62). Apart from mentioning the potential positive effects on the environment (through potentially greater investment in sustainable development), the IA notes the importance of identifying possible 'adverse' environmental impacts, but does not elaborate on this issue or suggest mitigating measures. The IA does not provide an assessment of the costs and benefits of the delivery mechanisms.

Budgetary or public finance implications

The IA indicates a budget of €25 billion as being the 'critical mass' for the 2021 to 2027 period, with €22 billion for the reform delivery tool, €0.84 billion for technical assistance and €2.16 billion for the convergence facility (IA, pp. 37-38).[6] To ensure the highest incentive, it does not envisage co-financing from national budgets (which was considered, but discarded) (IA, pp. 40-41). For the direct financial contributions, to be paid as lump sums, it refers to a population-based allocation key to indicate maximum amounts that could be allotted to each Member State; the calculation method is explained in Annex I of the proposal, but this is not further defined (or substantiated) in the IA (IA, pp. 37, 46).

SME test / competitiveness

The IA does not consider the effects of the initiative on SMEs. It consistently highlights the expected positive effects on competitiveness of implementing better structural reforms (see *general objective* above), without, however, quantifying or substantiating that expectation.

Simplification and other regulatory implications

The IA stresses the low administrative burden of all preferred delivery modes, including the direct payments of lumps sums after reform implementation (IA, pp. 34-35, 42, 54, 63). At the same time, it acknowledges that the procedures in cases where reforms have not been implemented, implying suspension or cancellation of financial support, might be 'quite burdensome' (IA, p. 42). The IA does not assess the costs of the programme, and many details of its implementation remain vague, for example the specifics of the dialogue between the Commission and the Member State, the quality check of the requests for support, and the allocation of financial contributions.

Subsidiarity / proportionality

Against the backdrop of experiences from the financial crisis and the interdependencies of the EU economies, the IA considers the existing tools to support structural reforms to be insufficient, since neither the European Semester, nor the Stability and Growth Pact or other current forms of technical assistance have managed to address the problem and its drivers effectively (IA, pp. 19-20). It stresses that the voluntary nature of the programme, which respects the national competences and the involvement of the Member States, based on a reform agreement between the Commission and the Member State, ensures proportionality. In addition, this is expected to ensure reform ownership and the sharing of good practices. (IA, pp. 33-34). No reasoned opinions from national parliaments were received by the subsidiarity deadline of 13 September 2018.

Quality of data, research and analysis

While, overall, the IA is logical and clear, the precise scope of the programme and certain implementation details that seem relevant to its effectiveness could have been analysed (and substantiated) more in depth. This includes for instance eligibility under the three instruments, the direct and indirect impacts of possible alternative options and the assessment and monitoring of the quality of requests[7] for support. The IA's evidence base and sources, both internal and external, seem solid, including evaluations and audits of previous experiences (covering, nonetheless, only technical assistance, as the two other instruments are new). The IA provides little concrete information on the uncertainties or caveats of the analysis, and its structure could have been more concise to avoid frequent overlaps and reiterations (IA, pp. 24, 28-30, 35, 43-45).

Stakeholder consultation

The Commission conducted six online public consultations for the MFF proposals, clustered by policy area, rather than one online public consultation for each accompanying IA, as normally required by the better regulation guidelines. Instead of the mandatory 12-week duration, these six public consultations ran for eight weeks, from 10 January to 9 March 2018. This programme was covered by the 'cohesion cluster' consultation, without, however, being specifically included in the questionnaire. Instead, in the annex dedicated to the stakeholder consultation, the IA refers consistently, albeit in rather general terms, to the feedback from technical workshops organised in each Member State in the spring of 2018 (IA, pp. 76-78). There appears to have been support for the preferred delivery mechanisms of the IA, with opinions apparently divided on the scope of the reforms, notably on the question of whether they should go beyond the country-specific recommendations or not (IA, p. 46).

Monitoring and evaluation

The IA highlights the need to monitor the implementation of the programme closely, especially the financial incentives whose effectiveness and efficiency might, by the Commission's own admission, require some 'fine-tuning' at a later stage (IA, p. 37). As the indicators depend on the specific national reform needs and also the policy sector concerned, the definition of the indicators and the method of data collection remain vague and superficial, referring to 'appropriate evidence' to be used in the Member States' annual reporting on reform progress (IA, pp. 63, 65). Generally, the IA suggests output and result indicators to be monitored for each instrument, such as the number of reform commitments and of completed reforms. The Commission has committed to store data on technical support using 'JIRA' a project tracking tool (IA, p. 64-66). Moreover, the IA recommends a mid-term and an ex-post evaluation by 30 June 2025 and 2029 respectively, including 'if feasible' a counterfactual analysis on the added value of the programme (IA, pp. 66-68).

Commission Regulatory Scrutiny Board

The Regulatory Scrutiny Board issued a negative opinion on the draft IA on 7 May 2018, followed by a positive opinion with reservations on a revised version on 22 May 2018. Several of the criticised shortcomings appear in both opinions and seem to persist also in the final IA, for instance as regards the unclear scope of the programme, the lack of discussion of potential risks and of details of the implementation of financial support, although some efforts were made to address these points.

Coherence between the Commission's legislative proposal and the IA

The proposal appears to follow the preferred delivery mechanisms of the IA.

Conclusions

The IA provides a good review of the baseline scenario, the problem to tackle and the objectives to achieve. It concentrates on presenting the expected positive effects of the new programme and the proposed delivery mechanisms, rather than assessing the impacts of alternative options against the baseline scenario. The presentation of the delivery mechanisms is mostly qualitative, with a couple of quantified references that could have been better explained and substantiated. The IA remains vague on the precise scope of the programme and several implementation details, for example the dialogue between Member States and the Commission, the monitoring of reform projects and the procedures in the event that financial support has to be recovered. The IA implies that the subject, and thus, the impacts, of the voluntary programme depend to a large extent on the requests and the reform implementation by the Member States, which makes an ex-ante assessment challenging.

ENDNOTES

[1] The almost parallel adoption of the spending programmes and the MFF proposals had an impact on the IA process and resulted in simplified IAs, with their format and scope differing from the standard IAs as defined by the Commission's better regulation guidelines (see also Toolbox 10 Financial Programmes and Instruments).

[2] See A. Widuto, Reform Support Programme 2021-2027, EPRS, European Parliament, 2018.

[3] According to the IA, key lessons are the importance of countries' ownership of and commitment to reforms, continuity, financial incentives and the perennial convergence gap between euro and non-euro Member States (IA, pp. 16-19).

[4] According to the better regulation guidelines, objectives should be 'SMART' (specific, measurable, achievable, relevant and time-bound).

[5] 'If Member States were to jointly adopt measures to halve the gap vis-à-vis the average of the three best-performing Member States in each of the reform areas assessed (labour and product markets) in the model simulation' (IA, p. 60).

[6] In 2018, requests from 24 Member States exceeded by five times the annual budget of the current SRSP (IA, p. 10).

[7] The rating system presented by the IA to determine the 50 % or 100 % financial contribution for requests and the quality of implementation, including possible cancellation or recovery of support, seems approximate (IA, pp. 50-56).

This briefing, prepared for the BUDG and ECON committees analyses whether the principal criteria laid down in the Commission's own better regulation guidelines, as well as additional factors identified by the Parliament in its Impact Assessment Handbook, appear to be met by the IA. It does not attempt to deal with the substance of the proposal.

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