What do we know about the BICC today?

The budgetary instrument for convergence and competitiveness is part of the Eurogroup December 2018 “comprehensive plan to strengthen the Euro”, and may gain prominence also as part of the response to the corona crisis. This note presents its main features, as known on the basis of public sources. It addresses its connection with the European Semester and the more general framework of economic policy coordination.

On 22 and 24 April, draft reports for the BICC governance proposal and the Reform Support Programme were put forward. This note is updated on the basis of further available information.

I. Latest developments - BICC and the response to the corona crisis outbreak

On 21 April, at a hearing before the ECON committee, the Eurogroup President said “A possible part of our response [to the corona crisis] is the budgetary instrument for convergence and competitiveness, the so-called BICC. I believe there is a strong case to reflect about its potential role and, naturally, to rethink its size. (...) Member states could provide strategic guidance on the spending priorities and be involved in the implementation monitoring, while fully respecting the competences of the Commission and the Parliament.”. BICC is also mentioned in a leaked Commission staff paper outlining a revised Commission proposal for the MFF to be put forward by the end of April.

On 22 April, Dragoş Pîslaru, the Parliament Rapporteur (ECON Committee) for the draft Regulation on the BICC governance, put forward his draft report. In particular, the Rapporteur envisages integrating the BICC within the European Semester along the following lines:
II. The budgetary instrument for convergence and competitiveness

In October 2019, the Eurogroup agreed on the main features of a budgetary instrument for convergence and competitiveness (BICC), following up on earlier agreements in June. The BICC is a budgetary tool aimed at financing structural reforms and public investments in euro area Member States, strengthening potential growth of their economies and the resilience of the single currency against economic shocks. As explained by the President of the Eurogroup in May 2019, “Bringing economies more into line with one another should increase the efficacy of monetary policy and ease concerns about the need for permanent fiscal transfers. In turn, this would provide assurance and confidence for the development of much needed risk-sharing mechanisms at the Euro Area level.” and that the BICC “will be created in addition to the current instruments that are available to all EU members and which are justified by our common policies. (...) This will be a new instrument. One that can address the specific needs of the Euro Area and reinforces economic coordination among its members. (…)”.

According to currently available information, the BICC will be part of the EU budget, under discussion in the context of the Multiannual Financial Framework (MFF) proposed by the Commission in May 2018. More specifically, it will be integrated into the Commission proposals for a Reform Support Programme (see next section). It will be strongly interlinked with and within the European Semester for economic policy coordination.

Its main features are set out in term sheet agreed by the Eurogroup in its 9 October meeting, which complements the one agreed on 14 June:

- The BICC will be based on a legal instrument (the relevant MFF Commission proposal, to be amended) and on an additional act specifying the governance framework (Commission proposal, see section II.3 below);
- The size of the instrument will be decided in the context of the MFF discussions; the most recent public information points to an overall size below the Eurogroup foreseen €17bn;
- An Intergovernmental Agreement allowing Member States to add funds to the instrument will be negotiated among participant Member States;
- Priorities for financing will be defined in the context of the European Semester, through a reinforced euro area recommendation that reflects ex ante strategic guidance provided by euro area Member States (Euro Summit and the Eurogroup);
- The Commission will assess the Member States’ proposals on the basis of transparent criteria and involving the relevant preparatory committees of the Eurogroup;
✓ Access to financing will depend on the implementation of structural reforms and investments, the respect of the applicable macro-economic conditionality foreseen in the Common Provisions Regulation and the respect of horizontal rules applying to the implementation of the EU budget (e.g. Financial Regulation);
✓ The financial support will be delivered in the form of grants (direct financial contributions from the EU budget) and in instalments, subject to the fulfilment of agreed milestones; a national co-financing contribution of 25% is foreseen, subject to modulation in cases of severe economic downturns;
✓ Member States will be required to report on the implementation of reform and investment commitments regularly, in the context of the European Semester;
✓ The Commission will be responsible for budgetary implementation and the European Parliament for giving the discharge. Implementation will be subject to the scrutiny of the European Court of Auditors;
✓ Non-euro-area member states participating in the Exchange Rate Mechanism II will be able to participate in the BICC on a voluntary basis.

The Eurogroup discussed whether the BICC should be a “stand-alone instrument”: after the Eurogroup November 2019 meeting, the EG President reported that “several members asked for a dedicated regulation on the BICC on the grounds that it is a stand-alone instrument”.

Section IV further details the known characteristics of BICC. Reaching agreement on its features was underpinned by a number of initiatives, some of which are described in Section III below. In particular, the Commission proposals for a Reform Delivery Tool - as a financial incentive for Member States to promote structural reforms, as opposed to the current frameworks that mostly aim to prevent imbalances and excessive deficits - and of a European Investment Stabilisation Function - as a first step of a European macroeconomic stabilisation instrument - are very relevant. Both aspects are, to some extent, still reflected in the BICC (see section IV below), although the scope for stabilisation is, indeed, much more limited compared to what the Commission foresaw with the European Investment Stabilisation Function.

In January, the Committee of the Regions (CoR) published its stakeholders’ consultative document on the BICC; a draft opinion was also made available. Voting in CoR Plenary was scheduled to end of March and is possibly postponed to the July session.

III. The reference framework underpinning the budgetary instrument

The discussion on setting up a fiscal capacity for the euro area has been ongoing for a long time. It gained renewed momentum with the Commission proposals to establish the Reform Support Programme (RSP) and a European Investment Stabilisation Function (EISF) to strengthen Europe’s Economic and Monetary Union (EMU) of 31 May 2018, as part of the package for the upcoming MFF for 2021-2027, and with the Eurogroup discussions following the conclusions of the Euro Summit of December 2018. Other relevant proposals have been put forward over time, both by Member States and institutions.

III.1 The Commission proposals in the context of the Multiannual Financial Framework

As part of the MFF, the Commission put forward in May 2018 two new proposals for instruments addressing the deepening of the EMU. These are the Reform Support Programme (with three specific instruments, see below) and the European Investment Stabilisation Function.

These new instruments would complement other EU funds, notably the European Structural and Investment Funds and the new InvestEU Fund, and would all be coordinated and integrated with the European Semester.

1 Please see specific EGOV briefing on the European Semester for economic policy coordination for a discussion on prevention and promotion of policies as objectives of the Semester (in particular section 3).
The main elements of the Reform Support Programme and the EISF are presented below.

(1) The Reform Support Programme

The Reform Support Programme (RSP) is a package consisting of the three instruments: the Reform Delivery Tool - RDT, the Convergence Facility - CF - and the Technical Support Instrument - TSI. The Technical Support Instrument builds up on the current Structural Reform Support Programme. The legal proposal is based on articles 175, third subparagraph\(^2\) and 197(2)\(^3\) of the Treaty on the Functioning of the European Union (TFUE), requiring agreement of Parliament and Council (ordinary legislative procedure, see here\(^4\)). The RDT and the TSI would be available to all Member States; the CF is aimed solely to non-euro area Member States “which have taken demonstrable steps towards adopting the single currency within a given timeframe.” The Programme would have an overall budget of €25 bn. The Annex to this note summarises the main elements of these three instruments.

The RSP is being jointly discussed by the Budget and ECON committees in Parliament. On 22 April, the two co-rapporteurs published a Press Release where they state “Within the EU long-term budget, the Budgetary Instrument for Convergence and Competitiveness (BICC), which is to be integrated within the Reform Support Programme (RSP), will be one of the key instruments to strengthen”. The rapporteurs draft report, to be debated and voted first by the joint committees and then in Plenary, has been published on 24 April. The draft report addresses the RSP taking into account the ongoing work in the Council, namely with the “new” instruments BICC and CRI. The Council is also discussing the proposals, but no compromise texts have been made publicly available.

(2) The European Investment Stabilisation Function

The European Investment Stabilisation Function (EISF) aims at providing euro area Member States with an instrument to better respond to rapidly changing economic circumstances and stabilise their economy in the event of large asymmetric shocks. The EISF would deploy up to €30 bn for back-to-back loans under the EU budget, coupled with a grant component (collected through a special vehicle) to cover the cost of interests and financed by euro area Member States in amounts equivalent to their monetary income (seigniorage\(^5\)). The Commission also foresees that Member States could, over time, decide to complement this fund with additional resources, namely building on the ESM (and the future European Monetary Fund) and a possible voluntary insurance mechanism to be set up by Member States. The instrument would be limited to euro area Member States, but open to non-euro area Member States wishing to participate, insofar also contributing to the financing (through the special vehicle to be set up). To better be able to absorb asymmetric shocks, the EIFS would kick in automatically, subject to clear eligibility criteria determined in advance and reflecting sound financial and macroeconomic policy goals\(^6\). The EIFS would complement the European Stability

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\(^2\) The relevant provision reads: “If specific actions prove necessary outside the Funds and without prejudice to the measures decided upon within the framework of the other Union policies, such actions may be adopted by the European Parliament and the Council acting in accordance with the ordinary legislative procedure and after consulting the Economic and Social Committee and the Committee of the Regions.”

\(^3\) The relevant provision reads: “The Union may support the efforts of Member States to improve their administrative capacity to implement Union law. Such action may include facilitating the exchange of information and of civil servants as well as supporting training schemes. No Member State shall be obliged to avail itself of such support. The European Parliament and the Council, acting by means of regulations in accordance with the ordinary legislative procedure, shall establish the necessary measures to this end, excluding any harmonisation of the laws and regulations of the Member States.”

\(^4\) The proposed RSP regulation foresees provisions applying in general to the financing programme (articles 1 to 7 and 33 to 39) and details in separate chapters dealing with the three instruments: the RDT (articles 8 to 17), the TSI (articles 18 to 23) and the CF (articles 24 to 32).

\(^5\) See ECB explainer. Each Member State would be contributing to the fund a percentage of the amount it receives as seigniorage from the single currency. The ECB passes it, as dividends, to national central banks which pass it to their national governments. It would not be monetary financing because the amount would only be considered a reference value, and Member States would have to use their budgetary resources to finance this fund.

\(^6\) As set out in the Commission Communication proposing the Multiannual Financial Framework (MFF), of May 2018, the EIFS would be a programme outside the ceilings of the EU Budget whilst the SRP (together with the Cohesion and Regional Funds) would be
Mechanism (ESM), the European Financial Stabilisation Mechanism (EFSM) and the balance of payments facility (BoP), providing EU Member States instruments allowing rapid economic rebound in case of shocks and preventing these from evolving into crisis and spilling over to other EU economies.

These features are reflected in a May 2018 Commission proposal for a Regulation based on Article 175, third subparagraph, of the TFUE. The Commission noted in the explanatory memorandum to its proposal that “It is also important to recall that the EISF instrument established under the proposed Regulation should be seen as a first step in the development over time of a voluntary insurance mechanism for the purpose of macro-economic stabilisation. The latter mechanism would be based on voluntary contributions by euro area Member States and could have a borrowing capacity.”

The Council has been reluctant in discussing the Commission proposal on EISF, insofar having a stabilisation function at European level is highly debatable among the Member States. The Parliament position is still awaited as well.

Discussions on these proposals may be superseded by new initiatives (namely, a revamped EU budget and MFF) the Commission is planning in the wake of the corona crisis.

III.2 The Euro Summit and Eurogroup decisions

Following up on earlier Commission’s proposals and discussions at the Euro Summit, the Eurogroup (EG) agreed in January 2018 that its upcoming policy work would focus on two priority areas: completing the Banking Union and reforming of the European Stability Mechanism (ESM). Nevertheless, requests were made to continue discussing a fiscal capacity and improved fiscal rules – in order to reach a comprehensive political decision by June 2018. The 3 December 2018 Eurogroup delivered political agreement on a “comprehensive plan to strengthen the Euro” that materialised in:

1. A report to the Euro Leaders meeting of 14 December and 3 annexes, dealing with (a) the terms of reference for the SRF backstop, (b) the ESM Term sheet and (c) the ESM-COM cooperation agreement;

2. A proposal for the establishment of a High Level Working Group on a European deposit insurance scheme (HLWG on EDIS), with a broad mandate encompassing other missing elements such as liquidity in resolution; and

3. A possible budgetary instrument for the euro area (the budgetary instrument for convergence and competitiveness, BICC), which Ministers continued discussing throughout their meetings in 2019 and 2020.

part of heading II (Cohesion and Values). For an overview of instruments and policies covered by Heading II, please see EPRS specific briefing and also on EISF.

7 For an overview of ESM see specific EGOV briefing.
8 For an overview of the EFSM see specific EGOV briefing.
9 See footnote 3 above.
10 To be adopted under the co-decision procedure by the European Parliament and Council.
11 Of particular note, one should mention the discussions and decisions taken at the December 2017 Euro Summit.
12 The report to Euro Leaders mentions Ministers having reached agreement on a “possible instruments for competitiveness, convergence and stabilisation in EMU” but limited in scope to convergence and competitiveness. As referred in the report: “The possible features of a stabilisation function were also discussed, including the unemployment insurance scheme. We did not reach a common view on the need and design of such a function. Technical discussions continue.”. The Euro Summit statement further mentions that: “In the context of the Multianual Financial Framework (MFF), we mandate the Eurogroup to work on the design, modalities of implementation and timing of a budgetary instrument for convergence and competitiveness for the euro area, and ERM II Member States on a voluntary basis. It will be part of the EU budget, coherent with other EU policies, and subject to criteria and strategic guidance from the euro area Member States. We will determine its size in the context of the MFF. The features of the budgetary instrument will be agreed in June 2019. The instrument will be adopted in accordance with the legislative procedure, as foreseen by the Treaties, on the basis of the relevant Commission proposal to be amended if necessary.”.
13 Ministers held discussions in January, February, March, April and May 2019. In their June meeting, Ministers reached agreement on the instrument term sheet, but nevertheless could not agree on appropriate options for its financing and no consensus emerged
A first agreement on the main features of the BICC was reached in June 2019, and the relevant details on financial allocations were agreed at the October 2019 EG meeting. In its remarks, the PEG concluded that the “BICC [will be] an innovative tool, different from other EU funds. (…) But this is not a cohesion fund. It is an instrument for all members of the euro area. Each and every Member State will receive funding – even the wealthiest Member States get back at least 70% of what they put in.” The EG also is said to “understand[s]” that the agreement on BICC will not preclude discussions on the Commission’s proposals on the CF and the TSI. The EG is nevertheless silent in respect to other pillars of Commission’ proposals, namely, the RDT and the EISF. The main characteristics of BICC are set out further below in section III.

More recently, in a hearing before the ECON committee, the EG President said “A possible part of our response [to the corona crisis] is the budgetary instrument for convergence and competitiveness, the so-called BICC. I believe there is a strong case to reflect about its potential role and, naturally, to rethink its size. The BICC would allow for a form of shared governance, a degree of flexibility and complementarity with other policies, which seems appropriate in the present context. Member states could provide strategic guidance on the spending priorities and be involved in the implementation monitoring, while fully respecting the competences of the Commission and the Parliament.”. BICC is also mentioned in a leaked Commission paper outlining a revised Commission proposal for the MFF to be put forward by the end of April.

An investment stabilisation function at euro area level appears to be currently absent from EG discussions. One should note that the EG President summing up letter after the July 2019 meeting points to some Ministers having requested work on a stabilisation function for the euro area to continue. Nevertheless, no further references are found to that on EG public information.

In parallel with the BICC, the EG - in extended format - also discussed a possible instrument for the non-euro area Member States not participating in the BICC: the Convergence and Reform Instrument (CRI), aimed to support the convergence of non-euro area Member States towards the euro area, by providing financial support for structural reforms. It is aimed at non euro area countries with structural challenges, as evidenced by income per capita below the euro area average. EG President mentions the CRI would build on the existing Commission legislative proposal (namely the Reform Delivery Tool and the Convergence Facility under the Reform Support Programme). The amounts to be allocated could comprise the non-euro area share of the financial envelope of the Reform Delivery Tool, as well as the envelope assigned for the Convergence Facility as proposed by the Commission in its original MFF proposal (both the Finnish Presidency MFF negotiation box and that put forward ahead of the 20 February European Council foresee, nevertheless, a smaller amount - EUR 5 511 million). Its governance would be clearly distinct from the governance framework of the BICC. The CRI would draw on the coordination mechanisms of the European Semester, including the country-specific recommendations, to identify the focus areas of the instrument.

**III.3 The Commission proposal on a governance framework**

In July 2019 (between the two relevant EG meetings setting up the BICC), the Commission put forward a legislative proposal for a regulation on a governance framework for BICC, based on articles 136(1)(b) and 121(6) of TFUE. The proposal is under the ordinary legislative procedure. The explanatory memorandum of the proposed regulation states that such proposal follows up on the agreements at the June 2019
What do we know about the BICC today?

Eurogroup and Euro Leaders’ requests for codifying the BICC governance framework in an “additional act”, which would secure the euro area Member States autonomous decision. The Commission proposal is closely aligned with the decisions taken at euro area level.

The Commission intends to integrate the BICC governance framework in the European Semester and foresees two steps:

(a) one at euro area level, to be part of the traditional euro area recommendations: the Eurogroup would set out strategic orientations on the reform and investment priorities for the euro area (article 4 of the proposed regulation), and

(b) a second one, with the Eurogroup addressing the country-specific reforms and investments that could be considered under the BICC, aligned with the country specific recommendations for each euro area Member State, taking duly into account any macroeconomic adjustment programme (article 5 of the proposed regulation).

Both procedural steps relating to the involvement of the Eurogroup are not yet foreseen in the current Semester timeline, but will add further aspects to the coordination of economic policies, as recognised in the Commission BICC governance proposal. Likewise, the discussions among Member States on their respective national proposals for reform and investment will add further procedural steps to the current Semester timeline. As it is currently defined (article 2-A of regulation 1466/2011), the Semester does not cover the new BICC framework.

Furthermore, the Commission proposal sets out provisions on accountability by requiring an Economic Dialogue involving the Commission, the European Parliament competent committee and the EG when measures are taken under the new framework.

The Commission is required by the proposed regulation to inform Council and Parliament every 4 years on implementation of the proposed regulation.

The European Central Bank (ECB) issued its opinion on the proposed regulation last 30 October. In its opinion, the ECB namely states “To the extent possible, the governance of the BICC should go hand in hand with the European Semester and all other existing mechanisms of economic policy coordination. (...) Moreover, it is essential, as currently foreseen, that the reform and investment packages submitted by Member States are assessed against commonly agreed country-specific policy needs (...) CSRs (...) should be the main reference point for Member States and they should explicitly refer to existing CSRs when they submit their reform and investment packages.”. The ECB further notes that “The BICC should be endowed with sufficient resources to fulfil its intended goals.” and that “(...) further discussions beyond the BICC are necessary on how to establish a macroeconomic stabilisation function, which remains absent at euro area level.”.

Dragoş Pîslaru, the Parliament rapporteur (ECON Committee) of the file, put forward his draft report on 22 April. The rapporteur suggests to amend the Commission proposal around three main themes: (a) simplification of the governance framework (by deleting the references to the “country-specific guidance”), (b) strengthening the democratic legitimacy of the BICC by giving the EP a stronger voice and establishing...

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14 The proposal would be adopted by Council (where only euro area Member States would vote, as foreseen in article 136 of the TFUE), on a proposal by the Commission and preceded by an Eurogroup discussion (where Leaders could also be involved) setting out the reforms and investments considered priority for the euro area as a whole. Looking at the EG work programme for the past years, such discussion currently does not take place.

15 Member States under financial assistance are currently outside of the scope of the European Semester. An amendment to these regulations might therefore be necessary to reintegrate member states receiving financial assistance within the scope of economic policy coordination of the Semester.

16 The new framework would also imply changes to the current practise of the Euro Summits, if Leaders need to be involved. According to the Treaty on Stability, Coordination and Governance (TSCG) in the Economic and Monetary Union, Euro Summit meetings should take place at least twice a year, if possible, held after European Council meetings in Brussels. Further integrating Euro Summits in the Semester timeline will render meetings of euro leaders “mandatory” at appropriate dates.

17 One may note that no role of the European Parliament is foreseen, while one could consider important to ensure that Parliament’s concerns are heard before strategic decisions are made at the euro level.
an EU finance minister accountable to the EP, and (c) adapt the BICC to the current corona crisis and equip it for future crisis. Voting in ECON is scheduled for June 2020.

IV. (So far known) features of the instrument

The BICC term sheet agreed in October 2019 further details the governance, financing, allocation and modulation of the BICC. Previously, in June, the Eurogroup had already agreed on general principles, key features, financing and governance. The relevant details of the BICC, as agreed, are described below, around the main themes identified in October.

(1) Governance

Governance of the instrument will rest with the Euro Summit and EG (as already decided in June) and key principles are to be reflected in a draft Regulation under Art. 136 of the TFEU. The process will start by a discussion on strategic priorities by the Euro Summit and Eurogroup and will result in a strengthened euro area recommendation (EAR) including priorities relevant to the BICC, to be issued in the context of the European Semester and revised annually (as explained in the June term sheet).

In spring, Member States would submit “duly substantiated reform and investment proposals” (as indicated in the June term sheet) for financing, which should - as a rule - consist of packages of reforms and investments linked to the National Reform Programmes and compatible with the national budgetary process. Such proposals should indicate the estimated costs of investment and of structural reforms, and their justification, as well as the timeline for implementation (with milestones and targets).

Proposals would be analysed by the relevant preparatory committees (the EPC and the EFC) and, if warranted, by the Eurogroup, based on Commission initial feedback based on transparent criteria. The provision of funds is subject to approval by the Commission, taking into account the strategic priorities included in the EAR and the previous year’s Country Specific Recommendations. Access to financing will depend on the implementation of structural reforms and investments, the respect of the applicable macroeconomic conditionality foreseen in the Common Provisions Regulation and respect of horizontal rules applying to the implementation of the EU budget. Being entrenched in the EU budget, the BICC will be subject to execution by the Commission and to the discharge by the European Parliament. The European Court of Auditors will scrutinise the implementation of the instrument. The Eurogroup commits to ensure the participation of ERM II Member States in meetings and to take their views into account to the largest extent possible.

(2) Financing

The size of the instrument will be defined in the context of the MFF discussions. Eurogroup intended taking into account the euro area share of the financial envelope of the Reform Delivery Tool, as in the Commission original MFF proposal; in fact, the negotiations on MFF have evolved differently and the last available numbers are smaller than initially foreseen. The Commission proposal had allocated €25bn to the RDT, for both euro area and non-euro area Member States; an amount of €17bn would be allocated for euro area Member States. Both the Finnish Presidency MFF negotiation box and that presented ahead of the European Council meeting of 20 February foresee a smaller amount - EUR 12,903 million.

On the basis of Article 175 TFUE, an enabling clause will be included in the Regulation to allow Member States to negotiate among themselves an Intergovernmental Agreement (IGA) to permit adding other funds to the facility, thus increasing its potential impact. Following the Eurogroup and Eurogroup Working Group discussions, Ministers reached an agreement in February 2020 on a report addressing the need, content, modalities and considerations on the size of such possible IGA. The report recognises that the main objective of the IGA would be to “serve as a vehicle for agreeing on the transfer of additional contributions to be assigned to the BICC”, and:

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18 In the meantime, the Commission proposed a regulation addressing the governance framework of the BICC, see above section II.3.
19 Such enabling clause aims to authorise additional contributions by Member States to the budget of the Union and earmark them to finance expenditure arising from the BICC, as explained in a note by the Council Legal Services.
What do we know about the BICC today?

(a) discusses whether an IGA (or, indeed, other forms of cooperation among member States) should be agreed, presenting arguments in favour and against it;

(b) if such agreement is to be established, it would address its geographical and possibly temporal scopes, amounts to be transferred and the contributions\(^{20}\), and a number of operational provisions dealing, namely, with the links to EU law\(^{21}\), consequences of substantial modifications to the regulations setting out the BICC and its governance\(^{22}\), clauses recognising the role of the Commission in ensuring consistency with EU law and on granting jurisdiction to the European Court of Justice;

(c) details provisions dealing with involvement of non-euro area Member States. The EG has stated it stands ready to prepare the text of a possible agreement.

(3) Allocation and modulation

Every year, at least 80% of the total BICC funds will be allocated based on population and inverse of GDP per capita. The remaining maximum 20% could be used on a flexible basis to react to country specific challenges, by supporting packages of reforms and investments that are especially ambitious as measured against the euro area priorities. Each Member State will receive at least 70% of its contribution.

The instrument will require a national co-financing rate of 25%, but this share can be modulated on the basis of a trigger related to severe economic circumstances, as defined in the flexibility rules\(^{23}\) in the SGP, agreed in 2015, to be applied in a transparent and predictable manner by the Commission, following a discussion in the Eurogroup. When warranted, based on the trigger, national co-financing rate should be reduced to half: this represent a relevant, even if minimal, step towards a form of stabilisation function. The modalities will be defined in the context of the ongoing legislative process, following further discussions in the Eurogroup.

Member States will receive financing in instalments, subject to complying with the agreed milestones, and will report regularly on implementation of investments and reforms. Payments may be suspended or cancelled in case of unsatisfactory compliance. Support from the instrument will be delivered in the form of grants (direct financial contributions from the EU budget), as foreseen in the June term sheet.

In accordance with the February report on a possible IGA, the allocation of the additional funds would follow the same rules as those applicable to the BICC funds.

Appropriate arrangements are still to be defined for non-euro area Member States not participating in the BICC. These arrangements should take the form of a dedicated instrument or a financial arrangement to address their full financial liability in relation to the BICC, depending on the circumstances of each Member State\(^{24}\), and should be reflected in MFF discussions.

V. Comparing the Budgetary instrument for Convergence and Competitiveness and the Reform Delivery Tool

Based on the information available, the BICC and the CRI will most likely amend and replace the Commission RDT and CF proposals; such amendments will be reflected in a Council general approach to be discussed with the European Parliament. The two instruments - the BICC and the RDT, coupled with the CF and the CRI - share a number of common features, in particular a strong connection to the Semester for economic policy coordination. The noteworthy differences, which will have to be reflected in an amended text, are:

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\(^{20}\) The Eurogroup seems to be considering two possibilities: either to set in the IGA the amounts and contributions or to establish just a maximum amount for a specific period and determine the frequency at which the contributions would be defined with more precision. The second approach seems more flexible as it would, for instance, allow considering the economic cycle in each contributing Member State.

\(^{21}\) The additional funds would be managed by the Commission, likewise to the other BICC available funds.

\(^{22}\) Similar clauses can be found, for instance, in the intergovernmental agreement on the Single Resolution Fund.

\(^{23}\) See Commission Communication.

\(^{24}\) Sweden and Denmark are expected to decide on the latter option subject to decision in the national Parliaments.
The BICC is limited to euro area Member States, whilst the RDT aimed all Member States. Nevertheless, the BICC (euro area Member States), if combined with the CRI (non-euro area Member States), would cover the same scope of the RDT;

The BICC proposal foresees 20% of funds being retained for financing “packages of reforms and investments that are especially ambitious as measured against the euro area priorities”; this feature is absent in the RDT and, if properly used, can be an important element to foster convergence and provide (limited and not automatic) stabilisation, if so warranted;

The BICC requires a national co-financing of 25%, which reinforces ownership of proposals, but can act as a disincentive if Member States have limited room of manoeuvre. Relevantly, such co-financing can be modulated (i.e. reduced), if there are demonstrable “severe economic circumstances”. The modulation is an important feature of BICC insofar it allows taking into account country-specific negative developments (thus, contributing to the stabilisation of the euro area)\(^25\);

Through an intergovernmental agreement, to be based on an enabling clause, the BICC would allow Member States to add funds to the facility. This possibility can be seen as a possible embryo of a “rainy days fund”\(^26\), depending on the modality of financing to be finally agreed. The IGA would, nevertheless, reinforce the intergovernmental dimension of the BICC;

The RDT foresees funds being disbursed in one single instalment, once milestones and targets set \textit{ex ante} have been met. The BICC foresees disbursements in tranches, on the basis of \textit{ex ante} agreed milestones, thus potentially reducing the upfront financial effort required from a Member State;

The BICC allocation criteria (population and inverse GDP per capita, with a 70% floor) will, at face value, benefit Member States that have lower GDP, thus reinforcing convergence;

The BICC implies a stronger involvement of Member States in decision making, namely, in setting priorities for investments and reforms. The RDT was mostly based on Commission’s technical assessments. The Commission proposal for the BICC governance somehow reflects a stronger involvement of Member States in setting priorities (\textit{ex ante}). This specific feature of BICC has been highlighted by the EG President in a recent hearing in the European Parliament, where he stated that the governance of BICC would rely on priorities set by euro area Member States;

The BICC seems to encompass both structural reforms and public investment (whereas the RDT encompassed only incentives for structural reforms, leaving support for investment - in the particular circumstances of a large asymmetric shock - for the EISF). It is nevertheless unclear which amounts will be available in BICC for supporting structural reforms and those to support public investment, or whether such a distinction will be made. In any case, the BICC does not intend to address asymmetric shocks.

\textbf{Annex: Instruments under the Reform Support Programme as per the Commission proposals (MFF)}

<table>
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<tr>
<th>Reform Delivery Tool</th>
<th>Technical Support Instrument</th>
<th>Convergence Facility (for non-euro area MSs)</th>
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</table>
| \textbf{Objectives} | \begin{itemize}
  \item Provide financial incentives to structural reforms (on the basis of reform commitments entered into by Member States with the Commission)
\end{itemize} | \begin{itemize}
  \item Provide financial incentives to facilitate accession to the euro (provisions covering the RDT applicable \textit{mutatis mutandis})
  \item Support Member States efforts to improve administrative capacity
\end{itemize} |

\textsuperscript{25} The stabilisation effect is, nevertheless, very limited due to the sheer size of the instrument - around €17bn, for seven years, to be divided by all euro area Member States. Such stabilisation effects would also not operate automatically, contrary to what previous discussions pointed out would be needed for a real stabilisation instrument. President-elect Von der Leyen has committed to further work on a European Unemployment Benefit Reinsurance Scheme that could have an automatic macro-economic stabilisation effect.

\textsuperscript{26} One may note that Member States might consider to grant to the European Stability Mechanism the task of managing such facility (the additional funds). The ESM already has human resources managing large amounts of funds, has experience, will be - following the ESM Treaty reform - more closely involved in economic policy coordination at euro area level, and has been issuing and managing funds for financial assistance for some time now.
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<th>What do we know about the BICC today?</th>
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**Amounts available from the EU budget**
- Reforms to be identified in the context of the European Semester
  - Up to €22 bn
  - Maximum limits defined per Member State (annex 1 to the proposed regulation) on the basis of each Member State population
  - Up to € 0.84
  - Member States may voluntarily add funds to the facility
  - Projects financed may cumulatively benefit from other EU sources
  - Up to € 2.16 bn, of which up to € 2 bn for the financial support component and up to € 0.16 bn for the technical support component
  - Maximum limits defined per Member State (annex 1 to the proposed regulation) on the basis of each Member State population

**Policy areas to be covered**
- Wide list of policy areas (article 6) inter alia, competitiveness, research and innovation, smart, sustainable and inclusive growth and addressing a multitude of actions including financial management, climate action, education and training and financial sector policies

**Eligibility**
- Reforms aimed at addressing challenges identified in the European Semester
- Provision of expertise, capacity building and research facilities (including in the context of EU financial assistance or implementation of Country Specific Recommendations)
- Reforms aimed at helping euro accession and addressing challenges identified in the European Semester

**Reporting**
- Member States to report regularly on implementation of reform commitments in the context of the European Semester
- Commission to transmit the reform commitments adopted to the European Parliament and to the Council
- Commission to transmit the cooperation and support plan (setting out priorities, actions and timetables) to the European Parliament and to the Council
- Similar to the RDT and TSI

**Decision making**
- Commission assesses proposed reform commitments and decides on allocation of funds
- Set of criteria and guidelines (annex II to the proposed regulation) defined in advance for reform commitments to be deemed compatible (namely, whether the measures address challenges identified in CSRs or MIP procedures) and allocate funds
- Economic Policy Committee to be involved
- Commission decision by implementing act adopting the work programme
- Commission to organise calls for requests to be submitted
- Commission to assess requests and agree with the MS in a cooperation and support plan
- Commission decision by implementing act adopting the work programme
- Similar to the RDT and TSI, as applicable
| Disbursements | reform commitments to be implemented | - Funds to be disbursed as direct contributions from the EU budget  
- Funds made available in one instalment after implementation of the agreed measures | - Multitude of forms (grants, public procurement, reimbursement of costs incurred, etc.) | Similar to the RDT and TSI |