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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) 311 final}

Contents

Glossary

Term or acronym	***Meaning or definition***
AGS	Annual Growth Survey
AWP	Annual Work Programme
CPR	Common Provisions Regulation
CSP	Cooperation and Support Plan
CSRs	Country-Specific Recommendations
ECA	European Court of Auditors
ECB	European Central Bank
EFSM	European Financial Stabilisation Mechanism
EMU	Economic and Monetary Union
ERDF	European Regional Development Fund
ESF	European Social Fund
ESM	European Stability Mechanism
ESIF	European Structural and Investment Funds
EU	European Union
GDP	Gross Domestic Product
GNI	Gross National Income
IA	Impact Assessment
MFF	Multiannual Financial Framework
MIP	Macro-economic Imbalances Procedure
MS	Member State
NRP	National Reform Programme
RSB	Regulatory Scrutiny Board
SGCY	Support Group for Cyprus
SGP	Stability and Growth Pact
SRSS	Structural Reform Support Service
SRSP	Structural Reform Support Programme
TA	Technical Assistance
TFEU	Treaty on the Functioning of the EU
TFGR	Task Force for Greece
TO	Thematic Objective

1. INTRODUCTION: POLITICAL AND LEGAL CONTEXT

1.1. Scope and context

On 2 May 2018, the European Commission adopted its proposals for a new Multiannual Financial Framework (MFF) for 2021-2027[1]. Under these proposals, the Reform Support Programme (the Programme) will have a budget of EUR 25 billion over this period. The proposal to establish the Reform Support Programme includes three instruments: a reform delivery tool, a technical support instrument (the successor of the existing 2017-2020 Structural Reform Support Programme (SRSP); and a convergence facility (technical and financial support for non-euro-area Member States, to help them prepare for euro-area membership). This impact assessment report is in line with the MFF proposals and focuses on the changes and policy choices, which are specific to this Programme.

Structural reforms are defined as changes that modify in a lasting way the structure of economy and the institutional and regulatory framework in which businesses and people operate. Structural reforms aim to tackle obstacles to the operation of the drivers of growth by, for example, reorganising labour, products, services and financial markets, and thereby encouraging job creation, investment and productivity. They can also aim to improve the efficiency and quality of the public administration and of the services and benefits offered by the State to its citizens.

Structural reforms can accelerate the process of economic and social convergence among the Member States, both inside and outside the euro area, and strengthen the resilience of their economies. This will lead to greater prosperity and ensure smooth functioning of the Economic and Monetary Union (EMU) as a whole. Effective implementation of structural reforms is also necessary to enhance cohesion and competitiveness, raise productivity, and encourage growth and employment.

Available research on the impact of reforms on growth suggests important potential gains from the implementation of structural reforms. Under certain assumptions, quantitative model-based assessments of the potential impacts of structural reforms show, for example, that euro-area Gross Domestic Product (GDP) could increase by up to 6% in ten years if Member States were to 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).[2] There would also be positive cross-country spillovers from structural reforms, adding up to 10% to the gains in output in the long run – by boosting imports, supporting trade partners' growth, or leading to significant improvements in fiscal positions.[3] Moreover, again under certain assumptions, overall GDP could increase by up to 1.8% if all Member States implemented and enforced Single Market legislation in line with the best-performing Member States.[4]

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[1] European Commission, Communication from the Commission to the European Parliament, the European Council, the Council, the European Economic and Social Committee and the Committee of the Regions "A modern for a Union that protects, empowers and defends, The Multiannual Financial Framework for 2021-2027", 2018, COM(2018) 321 final.

[2] European Commission, "The growth impact of structural reforms, Quarterly report on the euro area", 2013, Vol. 12, Issue 4., p.17: http://ec.europa.eu/economy_finance/publications/qr_euro_area/2013/pdf/qrea4_section_2_en.pdf

[3] Varga, J. and in't Veld, J., 2014. "The potential growth impact of structural reforms in the EU. A benchmarking exercise", European Economy Economic Papers, No 541.

[4] European Commission, "Single Market Integration and Competitiveness in the EU and its Member States", 2015.

Implementation of reforms enables Member States to acquire resilient economic and social structures. The economic and financial crises exposed the vulnerabilities of Member States' economic and social structures[5], which were not sufficiently resilient to absorb shocks smoothly or to reallocate resources effectively. As argued in the Commission's Reflection paper on the deepening of the Economic and Monetary Union (EMU), after the years of crisis, the euro area economies need to get on a stronger path of growth and prosperity, which requires structural reforms to modernise economies and make them more resilient to shocks. This should go together with — and will benefit from — a sustained re-convergence across countries, to amplify the benefits of the euro for all citizens and businesses[6].

The crisis showed that having resilient economic and social structures is particularly important for euro-area Member States, which cannot use exchange rate and monetary policies as a way of adjusting to country-specific shocks. Thus, the implementation of structural reforms is important not only for the euro area, but also for Member States whose currency is not the euro and which are taking effective steps towards adopting the single currency within a given time-frame. Structural reforms will help them to further foster resilience in their economies and to prepare well for a successful transition to and participation in the euro area.

Due to the strong interconnections between the economies of the EU, insufficient reform efforts outside the euro area cannot be seen as a purely national problem. During the crisis, macroeconomic issues arising in one Member State had economic and social repercussions in other Member States. This is particularly true for those Member States that are sharing or about to be sharing the common currency. Therefore, implementation of reforms by non-euro-area Member States aspiring to adopt the euro within a specific time-frame deserves particular attention[7].

The implementation of reforms has been advancing slowly and unevenly across Member States, and it has not been satisfactory across all policy areas[8], leading to negative impacts on cohesion, convergence and resilience of the economies of the EU Member States and therefore of the Union as a whole (the problem is detailed in section 2.2). One of the reasons for the slow implementation of reforms is uneven administrative capacity. Another reason is that the benefits often materialise only over the long term, while their economic, social and political costs are often incurred in the short term. National governments might therefore refrain from embarking on the implementation of some reforms for different reasons such as the insufficient administrative capacity to conduct reforms, high political costs in the short term (e.g. pensions reforms) and/or to adverse effects on some segments of the population (e.g. adverse effects on employment in the coal mining sector as a consequence of transition to a low-carbon economy).[9] [10] Governments that do

[5] The underlying causes of the 2008 financial crisis and the euro-area crisis have been analysed in detail by a number of researchers and institutions, and both structural rigidities and the incomplete structure of the EMU have been listed as important factors in explaining those crises. Authors differ about the relative importance of these factors, but structural reforms have long been advocated by many as an important element in helping economies to withstand asymmetric shocks and minimise the costs of adjustments to such shocks. Recent publications by the European Commission show that differences in economic structures contributed to the length and depth of the euro-area crisis and that structural reforms are essential to strengthen the economic resilience of EU Member States by lowering the vulnerability and exposure to shocks and by fostering their capacity to adjust to them.

[6] Reflection paper on the deepening of the Economic and Monetary Union, 2017, p.13.

[7] Communication from the Commission to the European Parliament, the European Council and the Council on "A new, modern Multiannual Financial Framework for a European Union that delivers efficiently on its priorities post-2020", 2018, COM(2018) 98 final.

[8] ECFIN database on structural reforms: https://ec.europa.eu/info/business-economy-euro/indicators-statistics/economic-databases_en

[9] European Central Bank, "The short-term fiscal implications of structural reforms", 2015, ECB Economic Bulletin, issue 7: https://www.ecb.europa.eu/pub/pdf/other/eb201507_article02.en.pdf?728f2325a9269245f5f8b3d956c1ab20

[10] Banerji, A., Barkbu, J., John, J., Kinda, T., Saksonovs, S., Schoelermann, H. and Wu, T., "Building a better Union: incentivizing structural reforms in the euro area", 2015, IMF Working Paper, WP/15/201.

embark on reforms sometimes find it difficult to see the reforms through to the end because the duration of an electoral cycle is often shorter than the time needed for the implementation of "major" reforms. As a consequence, necessary reform efforts may be delayed, abandoned or even reversed (drivers of the low rate of implementation of reforms is further analysed in section 2.3).

The EU institutions have pressed on numerous occasions for faster implementation of reforms. In its conclusions of January 2018 on macroeconomic and fiscal guidance for the Member States, **the Council of the EU** stated that reform implementation remains uneven across the EU and that pressing economic and social priorities require decisive progress in implementing reforms to tackle the EU's structural challenge.[11] Better coordination of the implementation of structural reforms (in the euro area), in particular those prescribed in the country-specific recommendations, can create positive spillovers in Member States and strengthen their positive effects.[12] Also, **the European Parliament** acknowledges that further progress on the implementation of structural reform is needed to deliver on growth and jobs, and to carry on the fight against those inequalities that hamper economic growth[13]. Implementation of growth-enhancing structural reforms is essential to cope with macroeconomic shocks and to increase the competitiveness and stability of Member-State economies[14].

The **Juncker Commission**, building upon the vision set out in the Five Presidents' Report, focussed the Commission's priorities in the European Semester process of economic governance on the "virtuous triangle" of boosting investment, pursuing structural reforms, and ensuring responsible fiscal policies.

The Commission currently disposes of a number of instruments to support the implementation of structural reforms (see Box 1). However, for the moment, the Commission does not have at its disposal a tool to provide direct financial contributions for the implementation of reforms, nor does it have a tool to provide targeted support for reforms in non-euro-area Member States, which have taken demonstrable steps towards adopting the single currency within a given time-frame. Moreover, in the absence of a new proposal, the technical support provided under the Structural Reform Support Programme will end in 2020.

Box 1: Instruments supporting the implementation of structural reforms available at EU level

Several instruments are available at EU level, which support the implementation of structural reforms:

- The **European Semester** provides a framework for the coordination of economic policies across the European Union. Policy recommendations provided by the Union under the European Semester help to identify reform priorities and to reach agreement on these with Member States;
- **Flexibility rules within the Stability and Growth Pact (SGP)** allow for the direct

[11] Council conclusions on macroeconomic and fiscal guidance to the member states (annual growth survey), 2018: https://www.consilium.europa.eu/en/press/press-releases/2018/01/23/council-conclusions-on-macroeconomic-and-fiscal-guidance-to-the-member-states-annual-growth-survey/

[12] Council recommendation on the economic policy of the euro area, 2018: http://www.consilium.europa.eu/en/press/press-releases/2018/01/23/council-recommendation-on-the-economic-policy-of-the-euro-area/

[13] European Parliament, "Report on the European Semester for economic policy coordination: Annual Growth Survey 2018", 2018, 2017/2226(INI).

[14] European Parliament, "Resolution of 16 February 2017 on budgetary capacity for the euro area", 2017, 2015/2344(INI).

short-term fiscal costs of reforms to be taken into account, enabling European Union (EU) Member States implementing structural reforms to delay fiscal adjustment compared with the SGP benchmark requirement;

- EU support has also increasingly taken the form of technical support. With the establishment in 2015 of the **Structural Reform Support Service (SRSS)** and the adoption of the **Structural Reform Support Programme (SRSP)** in 2017, the Commission expanded its technical support by creating a dedicated tool, the SRSP, and is helping Member States, upon their request, to carry out reforms in key policy areas and to strengthen their public administrations and administrative capacities;
- **European Structural and Investment Funds (ESIF)** can finance investment project-related components of structural reforms in the ESIF policy areas and thereby provide accompanying measures for the implementation of reforms.
  A greater link between the priorities of the European Semester and the ESIF was established by introducing ex-ante and macroeconomic conditionalities;
  - **Ex-ante conditionalities** ensure that the necessary conditions for the effective and efficient use of the ESIF are in place.
    These conditions are linked to:
    - policy and strategic frameworks, to ensure that the strategic documents at national and regional levels, which underpin ESIF investments are of high quality and in line with standards commonly agreed by Member States at EU level;
    - regulatory frameworks, to ensure that implementation of operations co-financed by ESIF complies with the EU acquis;
    - sufficient administrative and institutional capacities of public administration and stakeholders implementing the ESIF.
  - **Macroeconomic conditionality** under ESIF allows the Commission to invite countries facing economic difficulties, or facing certain challenges under relevant economic governance procedures, to revise their national ESIF strategic and operational documents. The European Commission would subsequently be able to suspend ESIF payments if a Member State does not sufficiently modify its national ESIF strategic and operational documents.

However, the existing instruments at EU level have not managed to provide sufficient incentives to substantially accelerate the undertaking and pace of implementation of structural reforms and accordingly have not managed to reduce the vulnerability to shocks. Section 2.1 discusses this in more detail.

The Commission's Reflection paper on the deepening of the Economic and Monetary Union highlighted the mismatch in terms of instruments at the Commission's disposal for achieving its goal: strong fiscal rules leading to possible sanctions on one hand and, on the other hand, soft economic guidance provided through a process of coordination of economic policies under the European Semester. It concluded that "such a governance construct has too often contributed to a lack of progress in very much needed structural reforms and investment"[15].

The Commission's Reflection papers on the deepening of the EMU and the future of EU finances suggested a dedicated instrument to provide further incentives to Member States to carry out reforms. Achieving more convergence towards resilient economic structures was also highlighted as being equally important for those Member States on their way to joining the euro area. These political orientations materialised in a **Commission Communication on new**

[15] Reflection paper on the deepening of the Economic and Monetary Union, 2017, p. 16.

budgetary instruments for a stable euro area within the Union framework (6 December 2017), which proposed to:

1. **Amend the SRSP Regulation** to increase its budget for the period 2019-2020 by EUR 80 million and create a dedicated work stream for Member States that intend to adopt the euro to help them acquire resilient economic structures and prepare them for euro-area membership (*under negotiation at present*);
2. **Amend the Common Provisions Regulation (CPR)** to introduce a possibility for Member States to use all or part of the performance reserve in the current European Structural and Investment Funds (ESIF) to provide financial incentives for the implementation of agreed reform commitments – a pilot of the future reform delivery tool (*under negotiation at present*); and
3. **Create a follow-up programme to the SRSP under the post-2020 Multiannual Financial Framework (MFF)**, also integrating a dedicated convergence facility to support preparation for euro-area membership and a new reform delivery tool to support the implementation of reforms identified in the context of the European Semester *(present proposal)*.

In the Communication on new budgetary instruments for a stable euro area within the Union framework, the Commission also committed to continue strengthening the link between investment, structural reforms and fiscal responsibility by making the best use of the flexibility built into the existing rules of the Stability and Growth Pact[16].The Commission's communication on a new, modern MFF post-2020[17], prepared ahead of the Informal Leaders' meeting of 23 February 2018, confirmed the announcement in the Communication on new budgetary instruments by announcing that the reform delivery tool and the convergence facility would need to provide strong support and incentives for a broad range of reforms across Member States, and indicating a budget line for all instruments in the order of at least EUR 25 billion over a seven-year period.

The proposal for a Reform Support Programme post-2020 thus integrates three instruments into one Programme: the technical support instrument (the former SRSP), a reform delivery tool and a convergence facility for non-euro-area Member States. The Reform Support Programme aims to support Member States' authorities in their efforts to design and implement growth-sustaining structural reforms by providing both technical and financial support. The Programme aims to contribute to the overall objective of enhancing cohesion, competitiveness, productivity, growth and employment. For that purpose, it provides financial incentives to Member States to overcome political hesitation to undertake reforms (which could be partly related to financial or political short-term costs), and technical support to Member States to strengthen their administrative capacities in relation to challenges faced by institutions, governance, public administration, and economic and social sectors. Additional financial and technical support will be made available through the convergence facility to those Member States

[16] Communication from the Commission to the European Parliament, the European Council and the Council on "A new, modern Multiannual Financial Framework for a European Union that delivers efficiently on its priorities post-2020", 2018, COM(2018) 98 final, p.6.

[17] Communication from the Commission to the European Parliament, the European Council and the Council on "A new, modern Multiannual Financial Framework for a European Union that delivers efficiently on its priorities post-2020", 2018, COM(2018) 98 final, p.10: https://ec.europa.eu/commission/sites/beta-political/files/communication-new-modern-multiannual-financial-framework_en.pdf

whose currency is not the euro and which have taken demonstrable steps towards adopting the single currency within a given time-frame. Participation in the programme is purely voluntary: technical support will only be provided at the request of a Member State; and the basis for financial contributions through the Reform Delivery Tool is a voluntary reform proposals put forward by a Member State. While participation in the Programme is voluntary, Member States experiencing excessive imbalances will be particularly encouraged to come forward with reform proposals under the Reform Delivery Tool.

This impact assessment examines the proposal for the Reform Support Programme post-2020. It presents the objectives and the structure of the Programme, considers different delivery mechanisms and assesses the impacts of the new instrument. This impact assessment also satisfies the requirements set in Financial Regulation currently in force[18] and the provisions of the revised Regulation, which will enter in force in July 2018.

1.2. Lessons learned from previous programmes

The Regulation setting up the Reform Support Programme for the period 2021 to 2027 proposes to continue with the provision of technical support as defined by the SRSP Regulation 2017/825 without substantive changes, and to add two new instruments to the Commission's toolbox to support the implementation of reform – a reform delivery tool and a convergence facility.

1.2.1 Lessons learned on technical support provision

The Commission has a long experience in the provision of technical support to developing countries and to accession countries. The fundamental lesson from this experience (as well as experience from other institutions) is the importance of ownership, dialogue, results orientation, and sound implementation arrangements[19]. Experience has shown time and again that, if the reforms are not "owned" by the recipient, the technical support is unlikely to lead to sustainable reforms. For this reason, it is of paramount importance that technical support is demand driven and tailored to the need of the recipient. This important lesson has already been incorporated in the SRSP and will continue to be the guiding principle under the new programme.

Experience with technical support for structural and administrative reforms within the EU is more recent. The Commission gained important experience through the provision of technical support through the Taskforce for Greece (TFGR) and the Support Group for Cyprus (SGCY). Both (ad-hoc) structures were integrated in the SRSS. The technical support for structural reforms provided to Greece by the Commission services and coordinated by the TFGR was subject to both internal and external evaluations, which provided useful lessons for the design of the future Reform Support Programme. The SRSS is currently also carrying out an ex-post external evaluation of the technical support delivered to Greece by the TFGR. [20]

[18] Regulation (EU, EURATOM) No 966/2012 of the European Parliament and of the Council of 25 October 2012 on the financial rules applicable to the general budget of the Union and repealing Council Regulation (EC, Euratom) No 1605/2002, OJ L 298, 26.10.2012, p. 1.
[19] European Commission, "Making Technical Cooperation More Effective", Guidelines no 3, 2009.
[20] See https://ec.europa.eu/info/law/better-regulation/initiatives/ares-2017-5585177_en

An evaluation was carried out by an independent consultancy in July 2014.[21] Overall, it concluded that, in the areas covered by the evaluation, the technical assistance delivered and coordinated by the TFGR contributed significantly to the implementation of the reform programme in Greece. This conclusion was based on an assessment of the effectiveness, efficiency, relevance and sustainability of the assistance delivered and was largely confirmed by the responses of most of the stakeholders involved. They indicated that, in the absence of technical assistance delivered by the TFGR, the reforms undertaken would not have materialised.

Other important conclusions of the evaluation included:

- Continuity of technical assistance is an essential factor if a reform is to be sustainable;
- Clear leadership, structure and funding models are required for the future;
- Technical assistance should be provided not only when an EU country is in crisis - it should be a normal activity within the EU;
- The European Commission can work with Member States to establish a permanent structure with a dedicated budget to enable co-operation and exchange of expertise between Member States and co-ordinate the provision of technical assistance to all Member States to enable sharing and adoption of best practices;
- Exchanging best practice, not just ideas but also implementation of those ideas, was highlighted as being important; and
- Provision of technical support should be based on the commitment from the authorities concerned to use the technical support to implement reforms.

In addition, an audit of the TFGR was conducted in 2015 by the European Court of Auditors (ECA)[22] to assess how effectively the assistance to Greece had been managed and whether it had contributed positively to the process of reform implementation in Greece (limited to the economic adjustment programme). The contribution of technical support to the implementation of reforms was confirmed by the ECA evaluation of the TFGR. The ECA concluded that, overall, the TFGR had been successful in achieving its mandate – providing relevant technical assistance in areas covering almost the entire spectrum of public policy, which was largely in line with the conditions of the economic adjustment programme. Some shortcomings identified by the ECA, notably the lack of a dedicated budget, the lack of a comprehensive strategy and the lack of systematic monitoring of the results, were subsequently addressed within the SRSS and in the design of the 2017-2020 SRSP.

The Structural Reform Support Programme (SRSP) entered into force on 20 May 2017. It incorporated a number of important lessons from the experience with technical support inside and outside of the EU. The SRSP is fully demand driven; it is accessible for all Member States, whether they are in crisis or not; and it focuses on results/implementation. The implementation of the SRSP began following the adoption of the 2017 Annual Work Programme (AWP)[23] of

[21] Alvarez & Marsal Taxand, Adam Smith International, "VC/2014/0002 "Preliminary Evaluation of the Technical Assistance provided to Greece in 2011-2013 in the areas of Tax Administration and Central Administration Reform", 2014.

[22] European Court of Auditors, "More attention to results needed to improve the delivery of technical assistance to Greece", 2015: http://www.eca.europa.eu/Lists/ECADocuments/SR15_19/SR_TFGR_EN.pdf

[23] Annex to Commission Implementing Decision on the adoption of the work programme for 2017 and on the financing of Structural Reform Support Programme and repealing Decision C(2017)3093, 2017, C(2017) 5780 final: https://ec.europa.eu/info/sites/info/files/srsp2017_annual_work_programme.pdf

September 2017 and has continued with the adoption of the 2018 AWP[24] in March 2018. In accordance with Article 16 of the SRSP Regulation, the Commission will provide the European Parliament and the Council with an annual monitoring report on the implementation of the Programme and an independent evaluation report by mid-2019.

So far, the SRSS has completed two selection rounds of SRSP requests.[25] In the 2017 cycle, 271 requests for support were submitted by 16 Member States for an estimated amount equal to 4 times the available annual SRSP 2017 budget of EUR 22.5 million. In the 2018 cycle, despite the close proximity of the two rounds (due to the late adoption of the SRSP), 444 requests were submitted by 24 Member States for an estimated amount equal to 5 times the available annual SRSP 2018 budget of EUR 30.5 million. It can thus be observed that, 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.

Box 2: Added value of the technical support provided by the SRSS to date

Since the SRSP has been in operation only since May 2017 and as structural reforms take time to be completed, it is not yet possible to evaluate the impact of the SRSP on reform implementation; however, some useful lessons can still be drawn from the experience so far. The proposal to continue with technical support is based on the overall positive experience gained since 2011 with the provision of technical support, first in the context of the Task Force for Greece (TFGR) and Support Group for Cyprus (SGCY) and later by the SRSS (section 1.2). Even though the technical support provided by the TFGR and the SGCY to Greece and Cyprus was linked to their economic adjustment programmes, which constitute a different context than for the new tool, very relevant lessons and conclusions can be drawn from these two experiences, notably in relation to the impact of technical support and on its operational modalities. In addition, while several requests for support to TFGR and SGCY were linked to conditionalities of the macroeconomic adjustment programme, technical support was also provided outside of the scope of the adjustment programme. Furthermore, Cyprus, for example, has continued to request a substantial amount of technical support even though it exited the economic adjustment programme. Cyprus is in fact one of the Member States that has submitted the highest number of requests under the SRSP. In addition, the very high demand for support under the two selection rounds of the SRSP implies that there is a clear demand for technical support, even in the absence of a macroeconomic adjustment programme.

Since 2015, the SRSS has been handling around 500 projects (SRSP, Preparatory Action and projects coordinated by the TFGR and the SGCY), out of which: around 20% have already been completed; 65% are currently being implemented on the ground; and the remainder are still in the preparation phase (projects selected only recently through the SRSP 2018 selection round).

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[24] Annex to Commission Implementing Decision on the adoption of the work programme for 2018 and on the financing of Structural Reform Support Programme, 2018, C(2018) 1358 final. https://ec.europa.eu/info/sites/info/files/srsp2018_annual_work_programme.pdf

[25] Before the SRSP Regulation entered into force in 2017, some countries had already benefitted from support provided under the Preparatory Action.

The distribution across the policy areas covered is as follows:

- 35% business environment and growth;
- 22% labour market, health, education and social services;
- 14% governance and public administration;
- 18% revenue administration and public financial management; and
- 11% financial services and access to finance.

Results of projects completed so far show that the support delivered by the SRSS is crucial for achieving the objectives set in the different intervention areas due to the specific expertise that the support provides, the exchange of the existing good practices across the Member States and the centralised coordination of the various support activities.

The feedback received from Member States benefiting from SRSS support or from participants in the workshops organised to present the proposal for a pilot phase of the reform delivery tool, which took place in spring 2018 (see Annex 2), confirmed the added value of the support that the SRSS technical support may bring and the high appreciation by the Member States of the support provided.

Projects are currently ongoing in 24 Member States in all policy areas of the economy. While the SRSP can address individual stages of the reforms, the experience so far shows that Member States are asking for a more comprehensive approach, addressing preparation, design and implementation of reforms.

Reforms supported by the SRSS through the technical support projects cover a wide range of areas: reforms in tax administrations, education, healthcare, judicial systems, labour market, pension systems, reforms in the field of climate action and energy, reforms in the customs law, restructuring of state-owned enterprises, enforcement of competition legislation, review of transport infrastructure, human-resources management, development of internal audit procedures, improvement of regulatory frameworks (e.g. regulated professions), strengthening of insolvency frameworks, financial supervision, digital transformation, medical assistance for disability, development of capital markets, fight against corruption and money laundering, management of non-performing loans, or reforms of statistical and budgetary systems.

Examples of support provided by the SRSS (SRSP and pre-SRSP)

The **Cypriot** authorities received support to enhance the entrepreneurial ecosystem. A governance body of representatives from the public and private sectors was created to help implement the national strategy on entrepreneurship (National Policy Statement on Enhancing the Entrepreneurial Ecosystem) and over 50% of all actions in this statement have been implemented. The provision of technical support contributed to preparing a law on social entrepreneurship. In the last few years, the **number of new business and employees in the SME sector has increased substantially**.

The SRSS supports national authorities in **Latvia** and **Slovenia** in their efforts to develop and implement frameworks for assessing the performance of their health systems. The project is ongoing, with the aim of improving the **quality and effectiveness of health care and, therefore, the well-being of the population**.

The SRSS provided technical support to the **Bulgarian** authorities by carrying out an independent analysis of the structure and independence of the Public Prosecutors' Office with the objective of contributing to the implementation of a strategy for judicial reform. In response to the recommendations prepared through the support from the SRSS, the authorities **set out a joint roadmap covering both organisational and potential legislative measures**. The roadmap is currently being implemented.

For several years, the **Greek authorities** received support to establish an independent agency for public revenue, which was created in January 2017. A variety of work streams came as a follow-up to the creation of this agency and support was provided for the core functions of the tax administration: debt collection, taxpayer audit, dispute resolution, customs reorganisation, fuel and tobacco smuggling, IT, property revaluation and taxpayer services. Additional support measures helped the authorities to establish new processes to improve the national tax collection system. In the last few years, the rate of **tax and debt collection increased markedly**.

The SRSS is supporting **Estonia, Latvia and Lithuania** in their efforts to improve regional capital markets in the Baltic States with the introduction of a pan-Baltic covered bond framework. The support measures are ongoing and the projects are expected to contribute towards well-functioning and larger capital markets in the region; open up long-term funding options for banks, allowing them to increase lending to regional economies and ultimately, **increase the resilience and competitiveness of the Baltic economies** in the face of external shocks.

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 European added value of the SRSP can so far be described as follows**:

- The Programme fills a gap in the implementation of structural reforms by supporting the Member States at various stages of the reform process: preparation, design, implementation, and monitoring of reforms;
- Member States appreciate the fact that support is provided without any co-financing from national budgets;
- Participation entails a rather low administrative burden compared to other Union programmes, and the support can be delivered relatively rapidly;
- The SRSP contributes strongly to consistent implementation of strategic Union priorities. Around 90% of the projects selected for funding in 2017 and 2018 directly contribute to either EU economic governance, Union priorities, Union law, or the economic adjustment programme; and around 10% contribute to Member States' own priorities;[26]
- The SRSP actions often contribute 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 or integrate projects under the ESIF;

[26] Internal SRSS assessment.

- Member States seem to especially appreciate the sharing of expertise with other Member States or experts;
- The voluntary character of the participation in the Programme and the consensual nature of the cooperation throughout the entire support process help to develop mutual trust and promote cooperation.

The first internal assessment and the results of the relevant parts of the stakeholder consultation[27] allow a number of key conclusions from the first two rounds to be drawn:

1. The high number of requests for support submitted by the Member States in the two rounds indicates that there is a high demand for the specific support provided by the SRSP and thus a need for support for reform design and implementation. The importance of the implementation of structural reforms was also highlighted in the open public consultation – a total of 63% respondents consider sound economic governance and implementation of reforms to be very important;[28]
2. The quality of the requests submitted by the Member States has been increasing over the years as a consequence of the learning process and thanks to the interaction and discussions between the SRSS and the Member States prior to the submission of requests. It can thus be assumed that submission of relevant requests for support will continue to grow in the coming years;
3. A number of good quality requests, which had met the criteria defined by the SRSP Regulation (worth almost EUR 100 million), could not be selected due to the budgetary constraints. Only 13% of the requests submitted were considered to be not mature enough to be financed by the SRSP immediately in 2018;
4. The experience on the ground so far has shown that tailor-made support, which may consist of analysis of the problems, development of action plans, guidance and other outputs to be used for the successful implementation of the reform, is effective in delivering the expected results;
5. During the first two SRSP rounds, Member States, whose currency is not the euro and which have publicly announced their wish to adopt the single currency (Bulgaria, Croatia, and Romania), submitted requests for support, of which around 50% could be considered relevant for preparation for future accession to the euro area. Due to the budgetary constraints, the current SRSP has not been able to adequately satisfy all of these requests.

In summary, the experience with the provision of technical support to Member States is positive. In Member States where the SRSS has been active for a longer period of time, notably Greece and Cyprus, some very important and tangible results have been achieved. In addition to the lessons from this experience, the SRSP had already incorporated some very important lessons from the Commission's experience in providing technical support to non-EU countries. The key lesson from this experience is the importance of country ownership of reforms. This is a central element in the design of SRSP, which will be retained in the new programme. The main bottleneck at present appears to be the limited size of the available amounts within the SRSP. In

[27] See Annex 2.
[28] See Annex 2.

addition, it is important to ensure that Member States follow up on the technical support and carry on with implementation of the reforms. This underlines once again the importance of full ownership of reforms.

1.2.2. Relevant lessons for the future provision of financial support

While technical support provides crucial support to Member States for the preparation, design and implementation of reforms, it does not always offer sufficient incentives to start and/or accelerate and/or complete the reforms. Effectiveness of the support depends on the Member State's commitment to actually use the support provided, as well as the Member State's ownership of the reforms. Some challenges identified by the previous evaluations and the ECA still remain. Therefore, having an additional tool to strengthen the ownership of and the commitment by the Member States to implement reforms to use the outputs of the technical support could help to make this programme more effective and even more result-oriented.

The Commission has significant experience with budget support to countries outside the EU[29]. Evaluations[30] have pointed to significant developmental results of budget support arrangements. These include important contributions to economic growth, improved financial management and expansion of service delivery to the population[31]. Positive aspects of budget support include that: it is results-based; it is non-distortive since it is an integral part of a country's policy-making, planning, budgeting and execution cycle; and it is a relatively cost-effective way of delivering support. Budget support has also proven to be an effective way to deepen the policy dialogue. As it is directly linked to reforms, it implies the existence or the building of effective country systems to collect information and statistics on results in order to monitor progress and evaluate impact. Clarity on the choices of indicators, realistic targets, resource requirements and institutional set-up are all important elements for the effectiveness and reliability of the system.

Evaluations of budget support instruments also point to the fact that the impacts of this instrument are positively correlated with the administrative capacity of the recipient and indicate that the combination of financial and non-financial (technical support) inputs is expected to have reciprocal effects, increasing the effectiveness of both financial and non-financial elements[32].

Given that on average the administrative capacity in the EU is higher than that of the typical recipient of budget support outside of the EU, this bodes well for the future reform delivery tool. It also means that, in case of administrative shortcomings, it would be important to complement the provision of financial support with technical support.

Despite important differences in the type of support, some lessons can also be learned from the Commission's experience with macroeconomic adjustment programmes in the EU. Under a macroeconomic adjustment programme, Member States receive financing from either

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[29] European Commission, Budget Support Guidelines no 7, 2017.
[30] All relevant European Commission evaluations can be found at https://ec.europa.eu/europeaid/node/80199
[31] European Commission, "Analysis of the findings, conclusions and recommendations of seven country evaluations of budget support", Synthesis of budget support evaluations, 2014.
[32] German Institute for Development Evaluation (Deval), "What we know about the effectiveness of budget support", Evaluation synthesis, 2017.

the ESM or the Balance of Payments (BoP) assistance or the EFSM, conditional on implementing reforms. A clear difference is that under the proposed reform delivery tool, the initiative for the reform proposal lies with the Member State. However, in terms of the definition of the planned reforms, the formulation of targets, milestones and the arrangements for monitoring, a similar level of detail will be required.

The European Structural and Investment Funds (ESIF) provide limited incentives for reforms. Under the current MFF, the link between the ESIF and structural reforms has been strengthened. The main instrument to incentivise reforms through the ESIF is the so-called ex-ante conditionalities (now called enabling conditions). The ex-ante conditionalities specify the conditions that must be fulfilled before the programme implementation is launched. The European Court of Auditors (ECA)[33] concluded that whereas the ex-ante conditionalities provided a consistent framework for assessing the Member States readiness to implement EU funds, the extent to which it has effectively led to changes on the ground is still unclear.

A number of shortcomings of the ESIF were identified by ECA, some of which are inherent to the ESIF instruments. It was noted that the Commission has not made use of the possibility to stop ESIF payments even though some Member States failed to fulfil the applicable ex-ante conditionalities. In addition, it was noted that the monitoring framework did not extend beyond 2016. Lastly, it was highlighted that the scope of the ex-ante conditionalities is by definition rather limited. In addition, the Court pointed to a number of issues that are also highly relevant for the design of the reform delivery tool. This applies in particular to the need for specific and clear assessment criteria for instruments such as the ex-ante conditionalities and to the need to ensure consistency with the analysis in the European Semester.

Macroeconomic conditionality under ESIF allows the Commission to invite countries facing economic difficulties, or facing certain challenges under relevant economic governance procedures, to revise their national ESIF strategic and operational documents. The European Commission would subsequently be able to suspend ESIF payments if a Member State does not sufficiently modify its national ESIF strategic and operational documents. However, given that macroeconomic conditionality is an instrument of last resort, it is by its very nature not well-suited to promote reforms in good times.

Studies and evaluations[34] show that the ESIF can finance actions and can provide support to the investment components of some structural challenges (implementation costs and related investment measures). On the other hand, in the case of reforms that are mostly regulatory, with no implementation or investment costs that could be eligible for ESIF financing, the relevance of the ESIF is very limited. Whereas the ESIF can help to finance some actions related to reforms, they have not been very effective in promoting the design and implementation of structural reforms in their entirety.[35]

[33] European Court of Auditors, Special Report, ex-ante conditionalities and performance reserve in cohesion: innovative but not yet effective instruments, 2017.

[34] European Commission, study on "Support of ESI Funds to the implementation of the Country Specific Recommendations and to structural reforms in Member States", 2018, under finalisation.

[35] Kersan-Skabic, I., Tijanic, L. "Regional absorption capacity of EU funds", 2017, Economic research-Ekonomska Istrazivanja, Vol. 30, No. 1, 1191-1208.

To gather ideas on the design of the future reform delivery tool, the Commission organised a number of technical workshops in each Member State. The main feedback from Member States can be summarised as follows:[36]

- There is a need to clearly define potentially eligible reforms and how these would be assessed, evaluated and monitored;
- All EU Member States should be able to benefit from the tool;
- Concentration of funds on a limited number of Member States should be avoided;
- Complementarity with the other instruments (especially the ESIF and the SRSP) must be ensured;
- The tool should be designed so as to avoid "strategic delays" (moral hazard);
- The scope of reforms covered by the future instrument should be broader than the Country-Specific Recommendations; and
- The European Semester should be the right vehicle to monitor the implementation of reform commitments under the future reform delivery tool, even though some Member States were concerned that the European Semester process could become too complex and burdensome after integrating the future reform delivery tool.

In summary, the Commission's experience with budget support to countries outside of the EU and experience with ESIF funds suggest that a reform delivery tool can be a very valuable additional tool to promote the necessary reforms in Member States. Whereas the ESIF can finance some of the investment-related costs of reforms, the ESIF have only a limited relevance for structural reforms. This is not surprising given that the mission and goals of the ESIF are defined in terms of investment. As is well known from the field of economics, promoting two objectives with a single instrument is unlikely to be effective, because inconsistencies between the objectives may and typically do arise. This phenomenon is captured by the Tinbergen rule. The possibility of suspending payments under ESIF – for example if ex-ante conditionalities are not met – is a case in point. The possibility to suspend may have a positive impact on the prospects for reform implementation. At the same time, it risks to undermine – at least in the short run – the investment agenda. By adding a dedicated policy instrument – i.e. the reform delivery tool – this tension is resolved. In the design and application of the instrument, a number of important lessons will need to be heeded. These include the importance of country ownership, and the need for clear assessment criteria and appropriate monitoring arrangements.

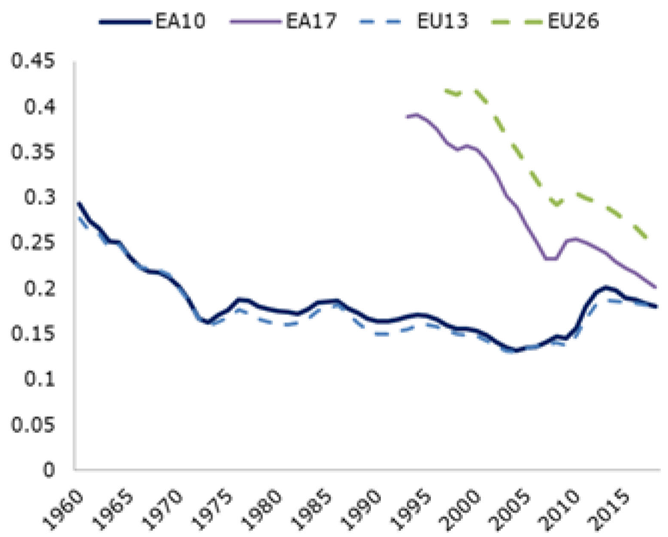
1.2.3. Lessons learned from past experience related to euro-area membership and convergence

According to a Commission internal study[37], the majority of non-euro-area Member States, which entered the EU in 2004 and 2007, achieved significant real convergence vis-à-vis the original euro area members after 2004, but a convergence gap remains. Average real GDP growth in these Member States was strong prior to the global financial crisis; it declined considerably in the post-crisis period, and picked up recently. A sizeable real convergence gap, in terms of average GDP per capita in purchasing power standards thus still exists between the

[36] See Annex 2 for more details.
[37] European Commission, internal study, 2017.

majority of the non-euro-area Member States that joined EU in 2004-2007 and the rest of the euro area. In addition, dispersion of real GDP per capita of the countries that were members of the euro area before 2007 shows a broadly stable path in the first ten years of EMU, but the dispersion increased over 2009-2012, when the crisis hit, and has broadly stabilised at a higher level thereafter. Membership in a monetary area is therefore not a sufficient condition to ensure real conversion amongst the countries.

Figure 1: Dispersion of real GDP per capita (coefficient of variation, in 2010 purchasing power standards), 1960-2018



As multiple euro-area experiences and available data suggest,[38] fulfilling the formal convergence criteria does not necessarily lead to the long-term sustainable economic performance needed for a well-functioning monetary union. Factors such as lack of competitiveness, poorly performing labour market, inefficient public administration or weaknesses of banking sector, which are not tackled before membership, can impede and complicate adjustment in crisis situations and their effects spill over rapidly once a country joins the euro area. Therefore, as already emphasised by the European Central Bank and European Commission in their Convergence Reports,[39] in addition to the formal convergence criteria, it is also important to look at non-euro-area Member States in terms of their overall competitiveness and institutional capacities.

Box 3: Convergence criteria

In order to adopt the euro and join the euro area, Member States must meet certain conditions known as 'convergence criteria' and they have a duty to align their legal framework concerning their national banks. Agreed in Maastricht by the Member States in 1991 as part of the

[38] European Commission, *op.cit.*
[39] I.e. European Central Bank, "Convergence Report", 2016.

preparations for introducing the euro, the convergence criteria are formally defined in terms of a set of macroeconomic indicators which measure:

- Price stability, to show that inflation is under control;
- Soundness and sustainability of public finances, through limits on government borrowing and national debt to avoid excessive deficits;
- Exchange-rate stability, through participation in the Exchange Rate Mechanism (ERM II) for at least two years without strong deviations from the ERM II central rate. Currently, only Denmark participates in ERM II; and
- Long-term interest rates, to assess the durability of the convergence achieved by fulfilling the other criteria.

The European Semester plays an important role in identifying necessary reforms and in following up on their implementation. On top of that, there is a lot of know-how in the Commission services and in other Member States, which can be offered to non-euro-area Member States in designing their national reforms, which may help foster economic and legal convergence, thus helping them on their way to adopting the single currency.

A targeted instrument to facilitate practical preparation and convergence, without interfering with the convergence criteria in place for accession to the euro, could prove particularly beneficial. Such an instrument would provide additional technical and financial support for reforms that are of particular relevance for Member States, which will relinquish the exchange rate instrument.

In summary, experience related to previous examples of accession of Member States to the euro area and to the convergence with euro-area standards achieved so far by prospective euro-area members has shown that implementation of structural reforms is especially important for Member States on their way to adopting the euro. For this reason there is a strong argument for providing additional technical and financial support to those Member States that confirm that they want to adopt the euro within a specific time-frame. This support should be targeted to reforms that are most relevant for their economies to function successfully within the euro area.

1.2.4. Conclusions on lessons learned

Based on the lessons described above, there appears to be a need not only to continue, but also to complement the technical support for the completion of reforms with a dedicated tool,[40] which provides financial incentives for the implementation of reforms in all Member States and helps to strengthen the national ownership of reforms. Given the importance of reform implementation prior to euro adoption, special support is warranted to encourage the implementation of reforms in Member States that would like to adopt the euro within a given time-frame.

Technical support can help Member States with the design and implementation of reforms but cannot replace the ownership of their implementation itself. **Providing additional**

[40] This conclusion is also in line with the results of the open public consultation, where respondents identified lack of funding to be the main obstacle towards the implementation of reforms.

incentives for the completion of reforms would complement investments under the ESIF, which can finance the implementation of certain investments accompanying reforms. A well-designed tool incentivising needed structural reforms in EU Member States would have the potential not only to significantly boost economic growth in the Member States concerned but also to deliver significant positive spillover effects within the EMU.

This new instrument should help 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 EU economies. As highlighted in the evaluation of technical assistance provided by the TFGR, the new Reform Support Programme should be based on a commitment coming from the national authorities concerned and its goal should be to further stimulate the implementation of structural reforms in the EU Member States by providing financial incentives and offering complementary technical support to help in the implementation of the reforms. As acknowledged in the Reflection paper on the deepening of the EMU and other studies, structural reforms may have economic, financial or political costs in the short term (some of them due to the need to implement flanking measures), which can create political hesitation to undertake the reforms and therefore prevent or slowdown their implementation. The provision of a financial incentive can help overcome such barriers. Those incentives would have to be offered in conjunction with the possibility for Member States to follow up on the technical support and carry out the full implementation of the reforms.

Given the specific needs of those non-euro-area Member States that wish to join the single currency within a given time-frame, a targeted instrument appears to be needed also for non-euro-area Member States to help them better prepare for euro-area membership. For example, such targeted instrument would help strengthen competitiveness, labour markets, administration or tackle weaknesses in the banking sector. This would strengthen the resilience of their economies, help them to withstand shocks during crisis periods and quickly recover from such shocks, and thereby, ultimately, better protecting the euro area as a whole from external shocks.

2. THE OBJECTIVES

2.1. Baseline - existing Commission's instruments to support implementation of reforms

Under an unchanged SRSP and with the current instruments at EU's disposal described in Box 1 – the baseline – the EU would continue to have a limited **capacity to incentivise the implementation of structural reforms** and improve the uneven reform implementation across Member States and policy areas – the main challenge to be addressed by this policy proposal.

2.1.1. European Semester continues to be the main vehicle for monitoring reform implementation

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.

It provides a framework for the coordination of economic policies across the European Union and allows Member States to discuss their economic and budgetary plans with the Commission and the Council. The Commission monitors progress made by the Member States at specific times throughout the year. The European Semester process identifies, *inter alia*, the need for structural reform in Member States. The adoption of country-specific recommendations by the Council promotes ownership and peer pressure.

However, the European Semester mechanism itself has no enforcement arm and no tool to provide an actual incentive for reform. The nature of CSRs is such that while they are a very good tool for outlining challenges and reform needs and keeping track of responses from Member States for meeting those needs, they do not provide an actual incentive for reform. Apart from this framework and peer pressure, there is no specific governance mechanism in the European Semester process to ensure compliance with recommendations related to structural reforms; therefore, non-implementation of CSRs or lack of sufficient progress towards reform implementation in principle has no direct implication for the Member States concerned. Evidence from the CeSaR database[41] confirms that reform implementation remains uneven and takes longer than expected given, *inter alia*, that the CSRs are proposed and repeated across the years (section 2.2.1). In addition, results of the post-mortem exercise in the Economic and Financial Committee (EFC) testify that peer pressure seems to be lacking among the Member States[42], despite an increase in thematic discussions on reform implementation at the EU level.

The Stability and Growth Pact and the Macro-economic Imbalance Procedure[43] contain provisions that allows for the imposition of sanctions on non-compliant Member States. Whereas these provisions could be useful as a last resort option, there are clear limits to their effectiveness, in particular when it comes to the promotion of implementation of structural reforms. A major problem is effectively distinguishing between "bad policy" and "bad luck". Given the punitive nature of sanctions, there is a natural inclination to give Member States the benefit of the doubt. As a result, the barrier to imposing sanctions is very high and, in practice, sanctions have never been imposed. In addition, the concept of sanctions is diametrically opposed to the concept of ownership. Whereas a (real) threat of sanctions may lead to a temporary adjustment in behaviour, it is unlikely to result in sustainable reforms.

2.1.2. The SRSP continues in its present form

In the absence of a new legislative proposal, the SRSP would end in 2020. This would lead to an immediate gap in the provision of technical support to Member States for the identification, design and implementation of structural and administrative reforms. Nevertheless, the baseline of the current proposal assumes that the ongoing programme will continue in the post-2020 period in its current form. The SRSP would continue to provide technical support to the Member States under the current limited financial resources. By extrapolating the financial envelope of EUR 142.8 million available for the SRSP for the period 2017-2020, the SRSP under the post-2020 MFF would reach EUR 250 million over a 7-year period.

[41] ECFIN database on structural reforms: https://ec.europa.eu/info/business-economy-euro/indicators-statistics/economic-databases_en

[42] Economic and Financial Committee (EFC) meeting discussion on the 2017 European semester post-mortem, 2017.

[43] In the framework of the Macroeconomic Imbalance Procedure (MIP), the Commission takes macroeconomic imbalances into account when formulating CSRs. Countries found to have severe imbalances can be put under the corrective arm—the Excessive Imbalance Procedure (EIP), which requires submission of a corrective action plan with a clear roadmap and deadlines for implementing structural reforms. For euro-area countries, failure to deliver a sufficient corrective action plan or comply with commitments can lead to financial sanctions of up to 0.1 percent of GDP per year.

Already during the first two years of operation, the SRSP was faced with an important excess demand. The available budget for SRSP was four times oversubscribed in 2017 and five times oversubscribed in 2018. Given that the quality and quantity of requests submitted by the Member States is increasing as Member State become more familiar with the SRSP, it is assumed that a large majority of the excess in demand in the coming years will qualify for the support from the SRSS. At the time of the preparation of this impact assessment, an amendment to the SRSP Regulation was being negotiated in the European Parliament and the Council.[44] Successful adoption of the proposed amendment – an increase of EUR 80 million – would enable the excess demand to be partially addressed in the current MFF. However, based on the projections of future demand under current trends[45], future demand might well exceed even this increased amount. With no further budgetary increase, the selection for funding would need to be highly selective and it might not be sufficient to provide all the support required for important structural reforms in the Member States requesting technical support, including reforms relevant for the European Semester and the Union priorities.

Preliminary indications from the first two rounds of selection of requests thus show that under the baseline, the budgetary capacity of the instrument is likely to be insufficient.[46] At the same time, while the SRSP provides technical support to Member States for the preparation, design and implementation of reforms, it does not have sufficient capacity to ensure that technical support will be used further – it does not always generate sufficient incentives to start, accelerate and/or complete the reforms.

The challenge that remains in respect to the current SRSP is the need to ensure commitments by Member States to use technical support to implement reforms. This applies not only to the euro-area Member States, but also to non-euro-area Member States seeking to adopt the euro.

2.1.3. ESIF investments continue in their present form

In the absence of targeted financial support for Member States, the ESIFs would continue to provide financing for the investment components of some structural reforms. In addition, the ESIF would continue to provide encouragement to some reforms, notably through the application of ex-ante conditionalities. **Whilst progress has been made in establishing a closer link between the European Semester and the ESIF through ex-ante conditionalities and macroeconomic governance, in practice, the impact on the framework conditions under which economic agents operate has been rather limited and it is also highly likely that important limitations will persist under the next MFF**:

- **The ESIF can finance the investment project-related components** of structural reforms in the ESIF policy areas and thereby provide accompanying measures for the implementation of reforms. However, while those actions are instrumental for achieving

[44] Proposal of a Regulation to the European Parliament and the Council amending Regulation (EU) 2017/825 to increase the financial envelope of the Structural Reform Support Programme and adapt its general objective, 2017, COM(2017) 825 final.
[45] Internal SRSS assessment.
[46] For the 2017 cycle, despite the late adoption of the SRSP, 271 requests for support were submitted by 16 Member States for an estimated amount 4 times the available annual SRSP 2017 budget of EUR 22.5 million. For the 2018 cycle, 444 requests were submitted by 24 Member States for an estimated amount 5 times the available annual SRSP 2018 budget of EUR 30.5 million. Given that the maturity of requests submitted by the Member States increases over the years and most of the requests are discussed with the SRSS prior to the official submission, it is assumed that a majority of the requests submitted and not selected were mature and relevant enough to apply for the support from the SRSS.

the cohesion policy objectives, they are however not sufficient to address the obstacles to a more rapid implementation of structural reforms;

- **The ESIF are not well-suited for incentivising reforms, notably those that are largely regulatory (legislative) in nature**, reforms that require a complex mix of policy actions and legislation, improvements in the governance of institutions and systems, and reforms that entail high short-term political costs;
- **The annual character of the European Semester process** is not easily applicable to the ESIF given their scope and multi-annual implementation cycle;
- **Some reform areas are not covered by the ESIF's ex-ante conditionalities**. These include, in particular, reforms of a regulatory/legislative nature, which may or may not have a direct link to ESIF investments but are covered by CSRs. Among such reforms, many may have important spillover effects within the EMU;
- **The process inherent to the definition of applicable ex-ante conditionalities in the context of the ESIF operational programmes is limited in terms of efficiency**, due to a lack of measurable targets and the limitations of the ESIF legal framework in terms of securing implementation over time; [47] [48] [49]
- **Macroeconomic conditionalities are difficult to use** as they can lead to a halt in investment if the suspension mechanism is triggered.

More fundamentally, the objectives of the ESIF are very different from those of the proposed Reform Support Programme. Article 4 (2) of the new Common Provisions Regulation defines the goals of the ESIF as follows:

The ERDF, the ESF+ and the Cohesion Fund shall contribute to the actions of the Union leading to strengthening of its economic, social and territorial cohesion in accordance with Article 174 TFEU by pursuing the following goals:

***i) Investment** for growth and jobs in Member States and regions, to be supported by the ERDF, the ESF+ and the Cohesion Fund; and*

ii) European territorial cooperation (Interreg), to be supported by the ERDF.

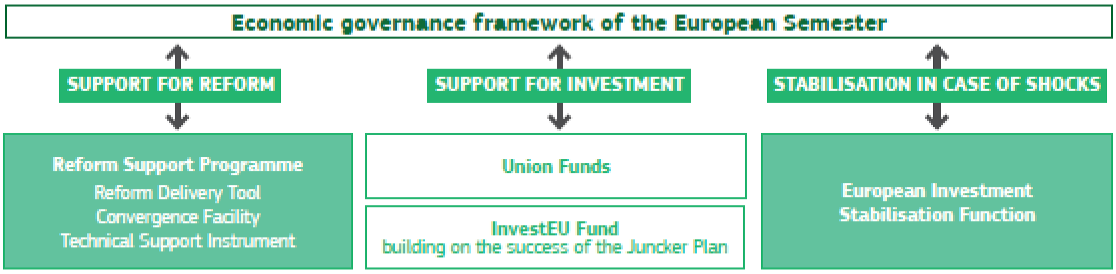
The proposed Reform Support Programme will be fully complementary to the goals of the ESIF. Whereas the Reform Support Programme is concerned with support for the creation of the right regulatory and institutional framework conditions, the primary goal of the ESIF is investments. In support of its primary objective, the ESIF can provide support for capacity building and some sectoral reforms, but only to the extent that those reforms are necessary for the fulfilment of the objectives of the Funds. Such support should always be complementary to and well-coordinated with technical and financial support provided under the Reform Support Programme. To this end, the Commission will further strengthen the coordination mechanism that was created at the time of the launch of the Structural Reform Support Programme.

[47] European Commission, "The Value Added of ex-ante conditionalities in the European Structural and Investment Funds", 2017, SWD(2017) 127.

[48] This aspect related to the ex-ante conditionalities under the ESIF as such will be addressed as part of the proposals for the future ESIF regulations and thus is discussed in the relevant Impact Assessments underlying those proposals.

[49] Working Group on support to Structural Reforms, "Link between the EU budget and the European Semester.", non-paper, Issues and Options for the next MFF.

Figure 2: The EU budget and the Economic and Monetary Union[50]



2.1.4. No targeted support for non-euro-area Member States

Under the baseline, ongoing Commission's programmes would continue in the post-2020 period in its current form. There would be no instrument to provide specific and targeted support to non-euro-area Member States wishing to join the euro area, which could accelerate the process of convergence in those countries and have positive spillovers on the euro area.

2.1.5. Conclusions as regards the no-policy-change scenario

In the absence of a Reform Support Programme, the Commission would have insufficient instruments to facilitate and promote the needed structural and administrative reforms in the EU Member States. Without this proposal, the SRSP would stop at the end of this MFF period, leaving a gap in the provision of technical support for the identification, design and implementation of structural reforms. Even a continuation of the technical support at the current level would fall far short of actual needs. Whereas the ESIF could provide some incentives for reforms, it should be acknowledged that the goals and intervention logic of the ESIF are geared toward investment rather than reform. The reform delivery tool would provide additional financial incentives for Member States to pursue reforms and ensure that tensions that may arise as a result of conflicting policy goals within one instrument are avoided (see also the comment in section 1.2.2. on the so-called Tinbergen rule).

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. Whereas this is primarily the responsibility of the Member States concerned, the additional support is warranted given the common interest throughout the EU in a well-functioning Economic and Monetary Union.

2.2. Challenges for the Programme of the next MFF - problem definition

Structural reforms are needed to enhance cohesion and competitiveness, raise productivity, and encourage growth and employment. Europe's economy is growing at its fastest pace in a decade, supported by record high employment, recovering investment and improved public finances. The current favourable EU-wide economic situation provides a window of opportunity to put in place much needed reforms. However, even with the instruments at the disposal of the European Commission, the implementation of reforms has been advancing slowly and unevenly across Member States both inside and outside the euro area, leading to negative impacts on

[50] European Commission, Factsheet, "EU Budget and the Economic and Monetary Union", Communication on the MFF for 2021-2027, 2018, https://ec.europa.eu/commission/sites/beta-political/files/budget-proposals-economic-monetary-union-may2018_en.pdf

cohesion, convergence and resilience of the economies of the EU Member States and therefore of the Union as a whole.

2.2.1. Slow and uneven implementation of structural reforms

Even with the European Semester process and support through the ESIF and the SRSP, progress towards more competitive economic structures and improved institutional capacity has slowed down in the recent years. This could potentially have adverse effects on growth and competitiveness in the euro area and the EU as a whole.[51][52] Experience with the European Semester[53] has confirmed that the implementation of reforms needed to address the CSRs has so far been uneven across Member States. Even though reform implementation has increased slightly overall compared to May 2017, reforms often take longer to implement than anticipated.

From a multiannual perspective, the latest Commission assessment of the progress in the implementation of structural reforms[54] indicates that Member States have made most progress in financial services, fiscal policy and fiscal governance. This continues to reflect the priority that was given to the stabilisation of public finances and of the financial sector, following the economic and financial crises. Significant progress has also been made in addressing access to finance, employment protection legislation and frameworks for labour contracts. However, more modest progress has been made in areas like broadening tax bases or in the field of transport. In many Member States, progress has been slow in addressing the important challenges related to the long-term sustainability of public finances, including pension systems. Regulatory reforms have improved the business environment especially in those Member States that needed them most. These reforms have reduced administrative barriers to the creation of new business. However, entrepreneurship remains weak in many Member States. Access to bank credit and loans have improved for SMEs but availability of venture capital is still insufficient in many parts of the Union. Significant progress can also be reported in public procurement. The pace of reform in services markets is slow, in particular in business services, construction and real estate. Analyses based on CeSaR database[55] confirm that reform implementation often takes longer than expected given that the CSRs are proposed and repeated across the years (see Figure 2 below).

Overall, the implementation of structural reforms has decelerated following the reform impetus at the peak of the financial crisis[56] as the aftermath of the economic and financial crisis may be characterised by a certain quest for stability and reform fatigue.[57] Possible specific drivers of the problem of low/suboptimal implementation of reforms are discussed in the following section.

[51] For an overview of reform efforts during the economic and financial crisis, see ECB "Progress with structural reforms across the euro area and their possible impacts", 2015, Economic Bulletin, Issue 2/2015.

[52] The existing gaps between EU Member States and best performers in terms of institutional quality and labour and product market functioning is illustrated in ECB, "Increasing resilience and long-term growth: the importance of sound institutions and economic structures for euro-area countries and EMU", 2016, Economic Bulletin, Issue 5/2016.

[53] ECFIN database on structural reforms: http://intragate.ec.europa.eu/scopax/csr/.

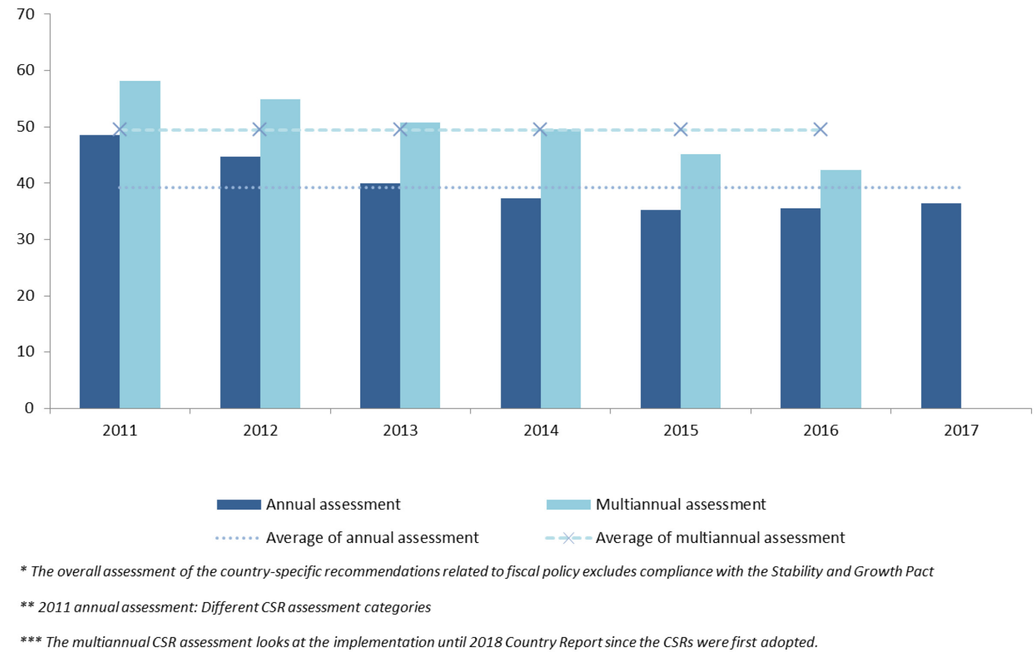
[54] Communication from the Commission to the European Parliament, the European Council and the Council on "2018 European Semester: Assessment of progress on structural reforms, prevention and correction of macroeconomic imbalances, and results of in-depth reviews under Regulation (EU) No 1176/2011", 2018, COM(2018) 120 final.

[55] ECFIN database on structural reforms: http://intragate.ec.europa.eu/scopax/csr/

[56] Gros, D., Alcidi. C, "Is debt deflation a risk? The trade-off between fiscal and competitiveness adjustments", 2013: http://www.europarl.europa.eu/thinktank/en/document.html?reference=IPOL-ECON_NT(2013)497725

[57] Claeys, P., "On Measuring Structural Reform", 2015, Romanian Journal of Fiscal Policy 6 (1), 17.

Figure 3: CSR implementation comparing the annual and multiannual perspectives



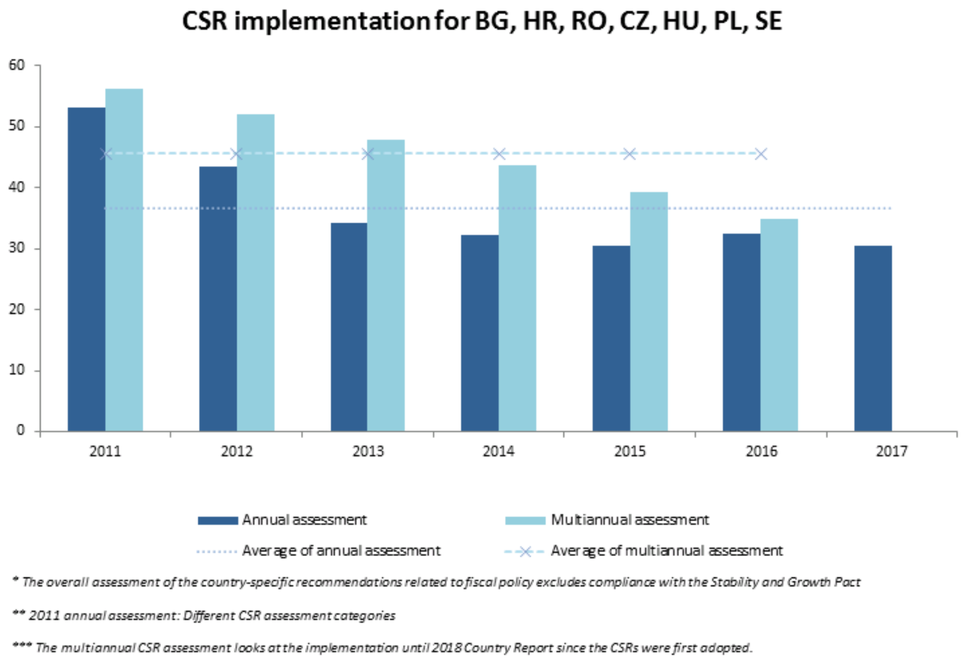
Source: Commission internal data source

2.2.2. Slow and uneven implementation of structural reforms in non-euro-area Member States, which have taken demonstrable steps towards adopting the single currency within a given time-frame

Limited progress with the implementation of structural reforms can undermine the efficient and smooth adjustment of economies to shocks, weaken the economic resilience of Member States in the face of shocks and delay economic and social convergence among Member States. This applies to both euro-area and non-euro-area Member States. Analyses based on the CeSaR database[58] confirm that reform implementation often takes longer than expected also for non-euro-area Member States, which are obliged by the Treaties to join the euro area (Bulgaria, Croatia, Czech Republic, Hungary, Poland, Romania, Sweden) (see Figure 3 below). On the basis of the latest available data (2017), it seems that implementation of reforms in these 7 non-euro-area Member States is even slower than in the EU as a whole.

Figure 4: CSR implementation comparing the annual and multiannual perspectives for 7 non-euro-area Member States

[58] ECFIN database on structural reforms: http://intragate.ec.europa.eu/scopax/csr/



Implementation of reforms in prospective euro-area members deserves particular attention. The financial crisis has shown that within the euro area, having resilient economic and social structures, meaning structures that are sufficiently responsive in case of shocks in order to limit economic or social distress, is of particular importance because euro-area Member States cannot use exchange rate and monetary policies as a way of adjusting to country-specific shocks. **Due to the strong interconnections between the economies of the EU, insufficient reform efforts outside the euro area cannot be seen as a purely national problem**. During the crisis, macroeconomic issues occurring in one Member State had economic and social repercussions in other Member States. Failure to address reform before euro adoption may have an adverse effects on the smooth functioning of the euro area as a whole.

2.3. Drivers of the problem

Lack of administrative capacity, short-term political cost of reforms, and lack of political ownership have been identified as the main drivers of the suboptimal implementation of structural reforms. These drivers apply to both euro-area and non-euro-area Member States and they constitute challenges for action at EU level.

2.3.1. Uneven administrative and institutional capacity for implementing structural reforms

Effective reforms require more than just passing legislation. Reforms need to be well-designed and carefully planned and they also require effective and efficient implementation. Having well-functioning and competent administrations is crucial for Member States to be able to implement reforms. Institutions and well-functioning administrations play a fundamental role in setting the right incentives, lowering uncertainty and paving the way for prosperity in the long run.[59] Weaknesses in the functioning of public administration can create obstacles for the functioning of the internal market, for investment at regional and local levels,[60] and for innovation.[61] Finally, some recent reports[62] demonstrate that a weak government can undermine the wider human capital through waste of public resources, stimulation of emigration, and limited investments in education and innovation.

Assessments[63] show that serious differences in quality and capacity of public administration remain, with many Southern and Eastern European countries still demonstrating important weaknesses. New divergent trends are expected to emerge due to slow adaptation to technological change, low civic engagement and limited evidence-based policy-making practices. Lagging compliance with Single Market legislation in some countries is also a cause for concern. In many Member States, prolonged and intensive administrative restructuring has led to general reform fatigue; for example, Member States that joined the EU after 2004 carried out substantial administrative reforms as part of their preparation for EU membership. Several years after accession, however, the reform momentum was lost.[64] To date, despite the significant investment provided through EU funding under the ESIF and the support provided under the current SRSP, many aspects of administrative adjustment remain fragile and fragmented. Sustainability can often be compromised by a lack of political consensus, a failure to tackle political divisions, or weak, unstable core government institutions. Member States often lack practical advice on the implementation of reforms, which is often available in other Member States having faced similar reform challenges.

2.3.2. Short-term economic, social and political costs of reforms

While structural reforms are designed to boost an economy's competitiveness, potential growth and economic and social resilience, their benefits often materialise only over the long term, while their economic, social and political costs are often incurred in the short term. In particular, the redistributive effect of a number of reforms and their impact on certain economic or social actors can increase the difficulty of implementing reforms and lead to the need for transitional and/or compensatory measures. These measures have a cost, which can be a barrier to reforms.[65] National governments might therefore refrain from embarking on the implementation of some reforms. For example, in the case of skill-enhancing reforms in general, and for education and training reforms in particular, reform implementation is characterised by short-term reform costs, while most benefits and outcomes will materialize over the long term; this is not well-aligned with the political cycle. While the EU is able to provide technical support to kick start the process of reform and contribute to investment costs through the ESIF, in the

[59] Commission Staff Working Document, Ex-ante Evaluation accompanying the proposal for a Regulation of the European Parliament and of the Council on the establishment of the Structural Reform Support Programme for the period 2017 to 2020 and amending Regulations (EU) No 1303/2013 and (EU) No 1305/2013, SWD(2015) 750 final.

[60] Committee of the Regions, "Results of the CoR online consultation on obstacles to investments at local and regional level", Secretariat of the Commission for Economic Policy (ECON), Brussels, September 2016.

[61] European Commission, European Semester thematic factsheet, Quality of Public Administration: https://ec.europa.eu/info/sites/info/files/file_import/european-semester_thematic-factsheet_quality-public-administration_en.pdf

[62] See IMF, Emigration and Its Economic Impact on Eastern Europe; https://www.imf.org/external/pubs/ft/sdn/2016/sdn1607.pdf and ERCAS, Public Integrity and Trust in Europe: http://www.againstcorruption.eu/publications/public-integrity-and-trust-in-europe/

[63] See for example Sustainable Governance Indicators http://www.sgi-network.org/2016/ or Public sector achievement in 36 countries https://www.scp.nl/Publicaties/Alle_publicaties/Publicaties_2015/Public_sector_achievement_in_36_countries

[64] European Commission, European Semester thematic factsheet, Quality of Public Administration: https://ec.europa.eu/info/sites/info/files/file_import/european-semester_thematic-factsheet_quality-public-administration_en.pdf

[65] European Central Bank, " The short-term fiscal implications of structural reforms", 2015, ECB Economic Bulletin, issue 7: https://www.ecb.europa.eu/pub/pdf/other/eb201507_article02.en.pdf?728f2325a9269245f5f8b3d956c1ab20

current setting, there are no instruments which provide incentives for the implementation of structural reforms.

2.3.3. Lack of ownership and commitment of national governments

Implementation of structural reform can be also hindered by the lack political commitment to reforms at national level. This can be linked to the time horizon of governments (i.e. linked to the electoral cycle), which is often too short to be able capitalise politically on the long-term benefits of reforms.[66] In this context, the short-term economic or political costs of structural reforms can be considered too high.[67] **Delays in reform implementation can also be related to changing political priorities** and/or change of government, with both outgoing and new governments taking more time to execute or initiate recommended reforms, and also with changes in government sometimes leading to reform reversals.

Peer pressure seems to be lacking between Member States, despite increased thematic discussions on reform implementation at the EU level and despite the recent acknowledgement that insufficient attention is given to positive spillovers between Member States.[68] Political-economic trade-offs may have tilted the balance against initiating new reforms as the economic recovery continued to gather momentum.

Far-reaching reforms require time to prepare, to implement, and to involve stakeholders in line with national practices. Therefore, they often take place more incrementally and over a longer period of time. In this respect, better incentives could accelerate reform implementation, including by enabling suitable reform packaging and reform sequencing and by supporting flanking measures if necessary. This would allow for the creation of short-term political benefits to counterbalance the long-term character of economic benefits.

2.4. Main conclusions on the challenges

Results of evaluations have shown that even though the ESIF can finance some actions related to the reforms (investments accompanying reforms), **they do not cover all types of reforms**, nor do they promote the design and implementation of structural reforms in their entirety.

While the evaluation of provision of technical support prior to the adoption of the SRSP has confirmed the need for a permanent structure with a dedicated budget to support the preparation, design and implementation of reforms in EU Member States, the analysis of instruments for the implementation of reforms currently at Commission's disposal has shown **that the current framework is not sufficient to tackle the drivers of the slow and uneven reform implementation outlined above**. The challenge that remains in respect to the current SRSP is the need to ensure the commitment of Member States to use technical support to implement reforms. This applies not only to the euro-area Member States, but also to non-euro-area Member States on their way to joining the euro. To tackle these challenges, on 2 May 2018, the Commission confirmed its intention to propose a targeted instrument providing financial support for the implementation of reforms and a targeted instrument to support the implementation of reforms in non-euro-area Member States. This would enable **incentives to be provided to overcome**

[66] Terzi, A., "No coordination without representation", 2015, Bruegel Blog Post.
[67] European Central Bank, *op.cit.*
[68] Economic and Financial Committee (EFC) meeting discussion on the 2017 European semester post-mortem, 28-29/09/2017.

political hesitation towards undertaking reforms, which has multiple causes, some of which are closely related to economic and social, but also political, costs of these reforms.

Table 1: Addressing challenges related to the slow/uneven implementation of reforms

Challenge	The current SRSP Regulation 2017/825	Post-2020 MFF
Ensure Member States' commitment to use technical support to implement reforms	Not sufficiently addressed	Establishment of a reform delivery tool to provide incentives to Member States to implement reforms
Uneven administrative capacity to implement reforms	The establishment of the SRSP Regulation as a dedicated programme for technical support	Continuation of the SRSP Regulation
Short-term economic, social and political costs	Not sufficiently addressed	Establishment of a reform delivery tool (and financial support component of the convergence facility) to provide incentives to Member States to implement reforms
Lack of ownership and commitment of national governments	Not sufficiently addressed	Establishment of a reform delivery tool (and financial support component of the convergence facility) to provide incentives to Member States to implement reforms
Targeted support to non-euro-area Member States	Amendment of the SRSP Regulation 2017/825 establishing a dedicated work stream providing targeted technical support to non-euro-area Member States	Permanent convergence facility providing targeted financial and technical support to non-euro-area Member States

The future reform delivery tool will also need to address a number of challenges identified by the Member States during the workshops on the reform delivery tool (moral hazard, identification of the appropriate reforms, involvement of the European Semester process, etc.). These are detailed in section 4.2 (structure of the Programme) and 4.3 (moral hazard).

2.5. Objectives of the programmes of the next MFF

The objectives of the proposed instrument (the Reform Support Programme) are designed to tackle the underlying drivers of the main challenge, the slow and uneven implementation of structural reforms.

2.5.1. General objectives

A continued effort is needed to ensure that the EU and its Member States implement structural reforms. Such reforms are needed to remove structural weaknesses and to enable Member States to cope with future challenges facing their economies. The proposal for the post-2020 Reform Support Programme aims to address the factors that hinder the implementation of structural reforms in EU Member States, as identified in the problem definition, while taking into account the lessons learned from previous programmes. In light of this, the general objectives of the programme will be the following:

a) contribute to **addressing national reform challenges of a structural nature,** aiming at improving the **performance of the national economies** and at promoting **resilient economic and social structures** in the Member States, thereby contributing to cohesion, competitiveness, productivity, growth and employment; and

b) contribute to **strengthening the administrative capacity** of the Member States in relation to challenges faced by institutions, governance, public administration, and economic and social sectors.

2.5.2. Specific objectives

To achieve the general objective, **the new Programme will be composed of three separate but complementary instruments**. The Programme will aim to ensure the highest efficiency of EU action in supporting the implementation of structural reforms and help to address the drivers of the related challenges facing Member States through the following specific objectives:

As regards the **technical support instrument** (ex-SRSP):

- the Programme shall support the efforts of the national authorities in improving their administrative capacity to design, develop and implement reforms, including through exchange of good practices, appropriate processes and methodologies and a more effective and efficient human resources management.

The instrument will address the lack of administrative capacity by assisting national authorities in their endeavours to design and implement reforms on the ground, and by taking into account good practices and lessons learned from peers. The objective is to strengthen the administrative and institutional capacity for implementing structural reforms, which is one of the underlying drivers of the slow implementation of reforms.

As regards the **reform delivery tool**:

- the Programme shall provide Member States with financial incentives with a view to achieving the milestones and targets of the structural reforms as set out in the Member State reform commitments entered into with the Commission.

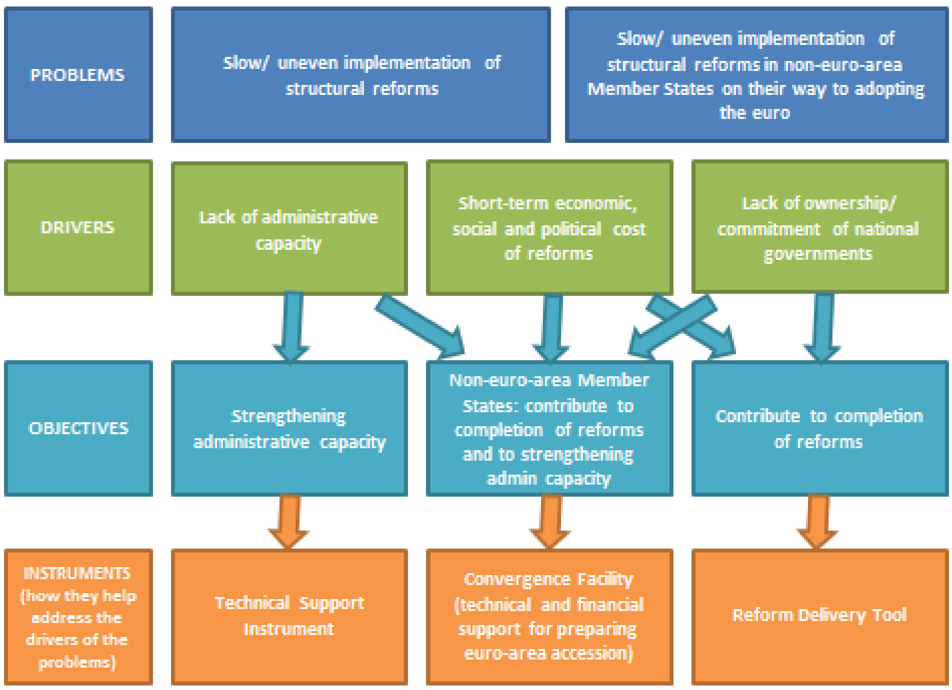
The completion of reform commitments will trigger the release of the financial incentives, which will help overcome political hesitation or reluctance to undertake the reform per se. Financial rewards could be considered by some Member States sufficient for undertaking the reform. In addition, the competition for funds, which the instrument would generate, and the fact that the instrument could help mitigate some of the short-term economic, social and/or political costs associated with the reforms may provide additional incentives and help to stimulate the drivers of reforms.

These specific objectives should be pursued in all Member States, including – in the context of the convergence facility – those whose currency is not the euro and which have taken demonstrable steps towards adopting the single currency within a given time-frame.

As regards the **convergence facility** for euro-area membership preparation, the specific objectives are:

- to provide financial incentives to eligible Member States to help them achieve the milestones and targets of reforms, which are relevant for preparation for euro-area participation, as set out in the Member States reform commitments entered into with the Commission, and
- to support the efforts of national authorities of eligible Member States in improving their administrative capacity to design, develop and implement reforms relevant for preparation for euro-area participation, including through exchange of good practices, appropriate processes and methodologies and more effective and efficient human resources management.

Figure 5: Intervention logic of the Reform Support Programme



- **Technical support instrument** addressing the lack of administrative capacity;
- **Reform delivery tool** addressing short-term costs political costs of reforms and lack of ownership by national governments;

- **Convergence facility** addressing all three drivers with a specific focus on the implementation of reforms in non-euro-area Member States on their way to joining the euro area.

3. PROGRAMME STRUCTURE AND PRIORITIES

The post-2020 Reform Support Programme will provide two different types of support – technical support and financial support in the form of incentives through three coherent and complementary instruments. The support is voluntary and not linked to costs of the reforms.

The **technical support instrument** will continue to provide Member States with on demand, hands-on technical support in a wide range of areas for the preparation, design and implementation of structural reforms. The **reform delivery tool** will provide an additional financial incentive (financial contributions) to Member States to implement key structural reforms, which strengthen the resilience of their domestic economies and that of the Union as a whole. Participation in the instrument is voluntary. The technical support instrument and the new reform delivery tool will be complementary. Member States will also be able to request technical support for the design and implementation of reforms that fall under the reform delivery tool. While participation in the Programme is voluntary, Member States experiencing excessive imbalances will be particularly encouraged to come forward with reform proposals under the reform delivery tool. The dedicated **convergence facility** combines technical and financial support to support the implementation of reforms that will help non-euro-area Member States, which wish to adopt the single currency, to acquire resilient economic and social structures to better prepare for their participation in the euro area.

The scope of reforms covered under the Reform Support Programme is applicable to all three instruments. It covers a wide range of policy areas (areas related to public financial and asset management, institutional and administrative reform, business environment, labour markets, education and training, sustainable development, public health, social welfare and the financial sector). However, the **definition of eligible reforms** differs by instrument. The definition of an eligible reform is narrower for the reform delivery tool than for the technical support instrument. The **reform delivery tool** can only be requested for the implementation of reforms identified in the context of the European Semester (including but not limited to those challenges raised in country-specific recommendations), while the **technical support instrument** can provide support for reforms undertaken:

a) at Member States' own initiatives;
b) in the context of economic adjustment programmes for Member States that receive financial assistance under existing programmes; or
c) for the implementation of reforms in the context of the economic governance process, in particular CSRs issued under the European Semester, but also for actions related to the implementation of Union law.

The conditions for the eligibility of reforms under the **convergence facility** are similar to those for the two other instruments, provided that the reform commitments and requests for technical support are relevant for the preparation for participation in the euro area.

The main reason for this difference in eligibility is the fact that the amounts per action under the reform delivery tool are far bigger than the amounts per action under the technical support instruments. This justifies an additional safeguard to ensure that the most pressing reform needs are addressed with the reform delivery tool. The strong link with the European Semester helps to ensure this. At the same time, a high degree of ownership on the part of the beneficiary Member State will be ensured. For this reason, the proposals for reform commitments will come from the Member States.

3.1. Legal basis, subsidiarity and proportionality

The legal basis for the proposal establishing the Reform Support Programme is the same as for the current SRSP, namely the third paragraph of Article 175 TFEU and Article 197(2) TFEU. The Programme is expected to strengthen the Union's economic, social and territorial cohesion and at the same time to improve Member States' institutional and administrative capacity in a wider range of policy areas.[69]

Subsidiarity

In accordance with the principles of subsidiarity,[70] the Union shall act only if and in so far as the objectives of the proposed action cannot be sufficiently achieved by the Member States, either at central level or at regional and local levels, but can rather be better achieved at Union level.

The principle of subsidiarity is fully respected. The implementation of reforms remains a national competence and the Member States are involved throughout the whole process in the reform delivery tool. Support under the Reform Support Programme is such that it is provided on a voluntary basis, which ensures that the Member State itself decides whether action at EU level is necessary, in light of the possibilities available at national, regional or local level.

As mentioned in section 1.1 of the report, the implementation of structural reforms is a matter of common interest for the EU and the euro area, as reforms help to strengthen not only the resilience of the economies concerned but also that of the EU and the euro area as a whole. This is particularly true for the Economic and Monetary Union.

The Reform Support Programme, including its three instruments, complies with the principle of subsidiarity in the following way:

a) for the **technical support instrument (the current SRSP)**, the Commission benefits from disposing of an EU-wide database of expertise, is in the best place to enable sharing of best practices between Member State; it can create synergies in addressing reform efforts in various

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[69] Art. 175 (3) : *"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."*
Article 197 (2) :
"2. 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."

[70] Article 5 of the Treaty of the European Union.

Member States and address cross-country challenges. The coordination of the support provided by the Commission ensures comprehensive provision of expertise, sharing of good practices and support at various stages of the reform process;

b) for the **reform delivery tool**, the Commission benefits from comprehensive country-specific knowledge about reform implementation in most EU Member States and has the expertise to determine, together with the Member States, the important reforms that need to be addressed. The agreement on reform packages between the Commission and the Member State (as endorsed in an appropriate implementing act) will enhance national ownership as the proposal will originate in the Member State concerned and will be a "home-grown", country-driven product. This instrument also implies continuous policy dialogue between the Commission and the Member States. The creation of this instrument ensures continuity over the whole of the next programming period, so that Member States can decide on the appropriate time for applying for the support instrument; and

c) the **convergence facility** aims to increase resilience of non-euro-area economies and to foster real convergence. This is crucial for the prosperity of the Union and, in particular, for the smooth transition to and functioning of the euro area. Action at Union level is thus necessary to achieve the objective.

Proportionality

The proposal complies with the proportionality principle in that it does not go beyond the minimum required in order to achieve the stated objective at European level and what is necessary for that purpose. The assistance to be provided under the three instruments integrated in the Reform Support Programme for the period 2021 to 2027 is to be based on a voluntary request stemming from the Member State itself. The voluntary character of the Programme and the consensual nature of the cooperation throughout the entire process constitute a guarantee of the respect of the proportionality principle.

3.2. Underlying principles behind the objectives of the new MFF proposal

The Reform Support Programme post-2020 aims to address the slow, sub-optimal, implementation of national reforms by strengthening the administrative and institutional capacity across Member States and by providing an instrument, which could help short-term costs to be mitigated and political hesitation to be overcome. In addition to the challenges identified above, the proposal for the Reform Support Programme post-2020 is also based on some overarching principles, common to a modern and effective EU budget, to ensure that procedures are simple, that every euro is spent in the most efficient way and that results are quickly felt on the ground. These principles include simplification, European added value and complementarity. [71]

Simplification

The proposal for the Reform Support Programme post-2020 subscribes to the principle of simplification – the SRSP (i.e. technical support instrument) will continue in its present form with a rather low administrative burden. No new programme will be created, but two new

[71] European Commission, Reflection paper on the future of EU finances, 2017, p. 25: https://ec.europa.eu/commission/sites/beta-political/files/reflection-paper-eu-finances_en.pdf

instruments (financial support and convergence support) will be integrated with an existing programme, the SRSP (i.e. technical support) to form a new programme. This structure responds to the feedback received from Member States during the workshops on the pilot reform delivery tool, where Member States pointed to the need for simplification and low administrative burden.

European Added Value

The new Reform Support Programme will offer a unique combination of instruments to all EU Member States, thus maximising the impact at EU level. Its main added value consists of its voluntary character and promotion of ownership of reforms by the Member States.

The **reform delivery tool** is a direct response to the weak implementation of the structural reforms at national level and to a gap identified in the current system of EU economic governance. While the implementation of structural reforms in Member States remains a national competence, action at EU level will provide an impetus to help to overcome political hesitation to undertake reforms (which could be partly related to financial or political short-term costs). The new Programme also aims to provide concrete financial support for the implementation of reforms identified in the European Semester process, while respecting the principles of subsidiarity.

The new post-2020 **technical support instrument** (the current SRSP) continues to ensure European added value. Many of the structural challenges that Member States are facing cannot be addressed solely through investments or strict technical implementation of a programme, but may require a complex mix of policy actions and legislation, investments and improvements in the governance of institutions and systems. In-depth dialogue between the Commission and the competent national authorities (which could also benefit from peer review and external expertise), may help and encourage Member States in designing and implementing a complex set of reform requirements.

The technical support instrument (the current SRSP) has so far proven capable of delivering high added value to Member States, going beyond the simple delivery of technical support at national level. For example, the SRSP:

- Manages to provide rapid and a coherent solutions for Member-State challenges;
- Provides support in a coordinated manner with a Member-State focus, across different policy areas;
- Delivers action at the EU level, which allows cross-border or Union-wide challenges to be addressed, and promotes sharing of good practices.

The technical support instrument helps to address national reforms challenges of a structural nature, which may have positive spillover effects on other Member States and may be conducive to growth and employment. Member States often face similar challenges and need to address similar practical challenges related to the implementation of reforms. The technical support instrument will continue to strengthen the administrative capacities 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 reform delivery tool, open to all Member States, and a convergence Facility, targeted to Member States that have taken demonstrable steps towards adopting the single currency within a given time-frame, will **aim at strengthening resilience**, enabling positive cross-border effects and/or positive spillover effects for the euro area and Union as a whole. In particular, the convergence facility will bring additional added value by strengthening the resilience of non-euro-area economies on their way to joining the euro area and the resilience of the euro area as a whole.

3.3. Complementarity with other Union programmes

The Reform Support Programme provides for complementarity and synergies with other Union programmes and policies at regional, national, Union and international levels, notably by complementing the policy guidance provided under the European Semester and by helping to leverage the use of the ESIF.

As mentioned in previous sections (1.2.2 and 2.1.3) the goals and mission of the ESIF are very different from those of the new Reform Support Programme. The mission and goals of the ESIF are not aimed at incentivising structural reforms but 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. If managed well, the ESIF and the Reform Support Programme will be mutually reinforcing. 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 (see also Figure 2).

The Commission will ensure that the actions proposed for implementation under the Programme are complementary to and do not overlap with other Union programmes and funds (the ESIF in particular). **Coordination will continue to be ensured within the internal working arrangements, like the already-existing coordination mechanism involving representatives of the services most concerned**[72]. An internal technical support coordination mechanism has been put in place when the SRSS was established in order to ensure the complementarities within the technical support provided by the Commission to Member States under various Union programmes and funds. All relevant Commission services, providing technical support meet on a regular basis in horizontal (High Level Steering Committee and Technical Support Working Group) and country-specific formations. These Technical Support Country Teams are closely linked to the European Semester Country Teams. In the country teams, requests for technical support from Member States are discussed in a more strategic way (e.g. whether they address challenges highlighted in the European Semester process and whether other EU instruments support those challenges). When Member States submit requests for support, all relevant Commission services are consulted extensively on the links of the requests submitted with Commission priorities, the risk of actual overlaps and possible synergies or complementarities that the additional technical support can bring to other Commission programmes and instruments. The opinion of all relevant Commission services is taken into account in the selection of the requests for support. Decisions to provide support to a Member State would, *inter alia*, take into account the existing actions and measures financed by the Union funds and programmes.

[72] Commission Staff Working Document, ex-ante evaluation accompanying the proposal for a Regulation of the European Parliament and of the Council on the establishment of the Structural Reform Support Programme for the period 2017 to 2020 and amending Regulations (EU) No 1303/2013 and (EU) No 1305/2013, SWD(2015) 750 final.

Within the coordination mechanism, prior to the approval of individual projects, the SRSS checks with the ESIF Directorate-Generals (DGs) for overlaps and similar verification is also carried out with the Managing Authorities in individual Member States to avoid risks of overlaps. In case overlaps are identified within the coordination mechanism, the Commission has the possibility to indicate this to Member States, which may then wish to reformulate their request for technical support or proposal for reform commitments. **For the purpose of simplicity and efficiency, the same coordination mechanism could be used and further enhanced for the coordination of financial support to ensure complementarities between actions under the ESIF related to investments in Member States** and actions under the Reform Support Programme for incentivising the implementation of structural reforms in Member States. The coordination mechanism would pay particular attention to the "consistency" with the ESIF to ensure that there is no contradiction with possible ex-ante and macro-economic conditionalities of the ESIF.

There is a clear demarcation between technical support under the ESIF and technical support under the RSP. Technical assistance from the ESIF lines will exclusively focus on administrative capacity issues related to the management of the Funds (Article 31 of the CPR). As regards the option of financing not linked to cost for all or part of priority of operational programmes (Articles 45 and 89 of the CPR), the ESIF will focus on actions, deliverables and conditions related to concrete investments under shared management programmes in the Member State or region concerned. Dropping Thematic Objective 11 (administrative capacity building) from the CPR Regulation further reduces the potential overlap with the Reform Support Programme. Lastly, the provisions on coordination and complementarity in the Regulation establishing the Reform Support Programme mentioned in Article 33 will also apply to the ESIF.

3.4. Critical mass

In line with the European Commission proposals for a new Multiannual Financial Framework (MFF) for 2021-2027 adopted on 2 May 2018, the Reform Support Programme will have a budget of EUR 25 billion over this period.[73] The financial size of the Reform Support Programme should be commensurate with the objectives to be achieved and should be sufficient for offering suitable incentives. The incentive is, however, not intended to compensate for the specific economic and social short-term costs related to the reforms. Rather, it is a financial incentive (contribution) offered in the form of a lump-sum payment to help Member States embark on and fully complete the implementation of reforms. With this lump sum, the financial incentive can contribute to financing accompanying measures in relation to the implementation of specific reforms so as to mitigate short-term costs. The chosen allocation key (based on population) ensures that there is an appropriate link to the overall size of the country and the size of the contribution, providing a meaningful incentive for reform. At the same time, it should be acknowledged that the financial contribution may not be large enough to encourage all the reforms that are necessary in a specific Member State. It will be important to closely monitor the implementation of the Programme and to learn lessons from experience for potential fine-tuning of the instruments at a later stage, in particular with respect to the reform delivery tool.

[73] European Commission, Communication from the Commission to the European Parliament, the European Council, the Council, the European Economic and Social Committee and the Committee of the Regions "A modern for a Union that protects, empowers and defends, The Multiannual Financial Framework for 2021-2027", COM(2018) 321 final.

The size of the Reform Support Programme must be proportionate to the objectives it aims to achieve. Both technical and financial support would be available to all Member States to help them with the design and implementation of structural reforms. In addition, Member States that take serious steps towards joining the euro area in a given time-frame would also benefit from the convergence facility. On 14 February 2018, the Communication on a new modern MFF for the EU announced that the size of the reform delivery tool should be large enough to provide strong support and incentives for a broad range of reforms across Member States and help avoid a concentration of funding on only a few Member States.[74] The total size is thus split into country allocations.

The size of technical support instrument takes into account the current proposal for the amendment of the SRSP Regulation 2017/825 and the need to increase the current funding envelope of EUR 142.8 million. Technical support provided under the technical support instrument does not include pre-defined national envelopes. It is based on requests from Member States, taking into account the amount available for technical support and the capacities of Member States to absorb the support.

Given the envisaged nature of the programme (especially the financial support) and based on experience with the SRSP, it is reasonable to believe that there will be sufficient demand from Member States for the Programme. Should fewer Member States ask for support in the first round, more Member States would still have the possibility to manifest their interest in subsequent rounds.

In order to provide sufficient incentives for the Member States to implement reforms, the overall funding of the Programme must allocate a significantly larger amount of the funding to the reform delivery tool to provide sufficient incentives for the Member States to implement reforms (and make the action worth the effort). During the workshops on the pilot phase of the reform delivery tool, some Member States noted that the size of the proposed instrument should be even higher than EUR 25 billion. However, taking into account the budgetary constraints of the MFF post-2020, the overall size of EUR 25 billion has been considered sufficient to fulfil the objectives of the Programme: EUR 22 billion for the reform delivery tool, EUR 0.84 billion for the technical support instrument and EUR 2.16 billion for the convergence facility.

The regulation provides for flexibility to reallocate resources within the programme. In particular, where, by the end of 2023, an eligible Member State under the convergence facility has not taken demonstrable steps towards adopting the single currency within a given time-frame, the maximum amount available for that Member State under the financial support component of the convergence facility will be transferred to the reform delivery tool.

[74] Communication from the Commission to the European Parliament, the European Council and the Council on "A new, modern Multiannual Financial Framework for a European Union that delivers efficiently on its priorities post-2020", COM(2018) 98 final, p. 10.

4. DELIVERY MECHANISMS OF THE INTENDED FUNDING

4.1. Possible delivery mechanisms

4.1.1. Management mode

The Financial Regulation allows for different ways to implement the EU budget: direct management, indirect management or shared management. For the future Reform Support Programme, direct and shared management were considered as possible options. After weighing the pros and cons, direct management was chosen as the preferred option for the following reasons:

- The Reform Support Programme builds upon the experience of the SRSP, which has been managed under direct management, an attractive feature of which has proven to be its administrative simplicity.
- The Reform Support Programme aims at influencing the pace and direction of reforms in Member States. This requires very active interaction between the Commission and the Member State on different levels: policy dialogue, technical support and financial support. Such an intense cooperation does not sit well with the shared management mode, which puts the Commission at arm's length.
- The reform delivery tool provides lump-sum support not linked to cost to the budget of the Member State. Co-financing arrangements have no practical meaning in such a context. Direct management is a management mode that allows for more transparent, simpler and faster procedures.
- The direct management mode would ensure continuity and maintain the coherence of a single framework for the three instruments.

4.1.2. Forms of implementing support

Based on the principles of the proposed instruments and rules applicable to direct management, the Commission assessed the available forms of implementing support and identified the preferred delivery mechanism that would enable the most effective achievement of the defined objectives.

Technical support instrument

Technical support under the post-2020 Reform Support Programme will be provided under direct management by the Commission, which will use grants, procurement and internal expertise, or **indirect management**, entrusting tasks to international organisation or other bodies in accordance with the Financial Regulation. This offers the necessary flexibility and adaptability for providing tailor-made support to Member States. Shared management with the Member States is considered to be inappropriate for the purposes of the technical support under the Programme, since the direct coordination and provision of the support by the Commission services is key to its added value. Direct coordination and provision of the support by the Commission facilitates exchanges of experiences amongst Member States, enables the mobilisation of expertise from other Member States and international organisations and, in general, promotes spillovers to Member States other than the direct recipient of the support.

As regards, the possible introduction of co-financing requirements under the technical support instrument, this would introduce an unnecessary barrier to requesting support. Given that any support project already requires a significant effort in terms of staff and management time, it is unlikely that introducing a co-financing requirement would add anything in terms of ownership. In addition, given the construction of technical support instrument (which does not award any money to the beneficiary Member States), such co-financing would not be required from the beneficiary Member States, but would rather be required from the recipients of the actual grants (i.e. from the providers of technical support). This possibility is indeed already provided for in the SRSP (as cost can be eligible up to 100%) and will continue to be provided for under the new technical support instrument.

Reform Delivery Tool

For the reform delivery tool, the Commission considered the following delivery modes:

- ***Grants**, based on the costs incurred in carrying out reforms*
  Under the Financial Regulation, grants are normally awarded to natural and legal persons in relation to specific actions, following calls for proposals from the Commission, while the Programme is primarily targeted to supporting Member States in the implementation of structural reforms. This delivery mode would require the Commission to analyse the exact costs of reform implementation. However, as explained in section 4.1.1., the cost of the reform is not a meaningful variable for assessing its impact, which therefore excludes the possibility of basing the reform delivery tool on grants. The support is to be paid out in the form of financing not linked to cost, as referred to in Article 125(1)(a) of the revised Financial Regulation[75].
- ***Financial instruments (such as using equity investments, loans, guarantees)***[76]
  As indicated, the purpose of the reform delivery tool is to encourage reforms. For this reason, it is important that the financial incentive is sufficiently strong. The financial incentive is a function of the subsidy element, which is far bigger in a financial contribution than in alternatives such as loans or blended instruments. Financial instruments, including subsidised loans or blending instruments, would not therefore be appropriate as they would offer very little net benefit (and hence little incentive) to the beneficiary Member State for several reasons. First, such instruments are already available to Member State in the financial markets. Therefore, and in particular in a situation where Member States have good access to financial market, this would not constitute a proper incentive. Second, this incentive would be State dependent; it would provide an incentive to pursue structural reforms only in bad times when interest rate are high or very high, while one would like Member States to carry out reforms also in good times. Thirdly, this delivery mode is more suitable for mobilising private capital, which - in the case of structural reforms to be implemented by Member States - is not feasible and especially not desirable as it could lead to a potential influence of private capital on a selective implementation of structural reforms.
- ***Co-financing***

[75] OJ C […], […], p. […].
[76] A particular way of financial support: using equity investments, loans, guaranties and similar; usually used to help mobilise private money.

The reform delivery tool has two defining characteristics. The first characteristic is that the financial support is not linked to cost. This means that it is not possible to define a cost-sharing arrangement between the EU and the State. The second characteristic of the instrument is that the end-beneficiary of the support is the State. While it would be possible to agree a co-financing arrangement between the State and the EU on a financial support arrangement not linked to cost with a third party, this is simply not possible (in any economically meaningful way) when the State itself is the end beneficiary (one cannot provide co-financing to oneself). This is different from programmes under shared management where both public and private entities can be the end-beneficiaries of the support.

However, the absence of co-financing does not mean that governments do not have 'a skin in the game'. The reason for creating the delivery tool is the observation that reforms are often slow to materialise, not least because of the political costs associated with reforms. The reform delivery tool provides an incentive to accelerate the reform process.

- ***Financial contribution***

  Financial contribution, a specific form of financing authorised under the Financial Regulation, is not linked to the costs but related to the nature and importance of the reform. This is the chosen delivery mode as it would bring the highest incentive for implementation of reforms, while also ensuring simple and light administrative procedures. The purpose of the reform delivery tool is to support reforms, which foster convergence and resilience of domestic economies. To do this, the Commission needs to provide a simple instrument that would provide strong incentives for the implementation of all reforms (even those not involving high financial costs). Hence, **a simple delivery system in the form of payments linked to results** (financing not linked to cost as set out in Article 121(1) of the revised Financial Regulation[77]) best serves the purpose and allows for reducing administrative costs and focussing human resources entirely on the monitoring of the agreed reform commitments.

The preferred delivery mechanism, i.e. the direct financial contribution, would be provided based on the achievement of the agreed milestones and targets. As mentioned above, payment in full is envisaged after the completion of the reform. The SRSS considered **disbursements in several tranches, each after the fulfilment of milestones**. The advantage of a payment in tranches would be to provide more political incentive to reforms, particularly for lengthy reforms, as a part of the reward could be available sooner. However, payment in tranches would increase the complexity of the procedure and the administrative burden for both the Member State concerned and the Commission. In addition, it would significantly increase the risk of moral hazard as Member States would be able to decide to stop the implementation of the reform after some interim milestones had been achieved, while the reform would not be fully implemented in the end. It should be acknowledged that there is always a possibility that reforms are reversed after they have been fully implemented. For this reason provisions are included to allow for recovery in cases of reform reversal. On balance, the risk of payment without results is likely to be lower with a more back-loaded payment scheme. Hence, after assessing the pros and cons of each of these two options, a payment in one single tranche after the completion of milestones and targets was chosen as the best option.

[77] OJ C […], […], p. […].

This proposal goes hand in hand with the principle of the simplification, as it is simple to administer and it has low transaction costs. This delivery method does not require (notably for the Member States) the establishment of specific systems for management of the EU funding: staff, planning, budgeting, and accounting; and, as far as reporting procedures are concerned, the work will not be related to the use of money (only to the substance of the reform). In order to keep the delivery system of this instrument as simple as possible and transaction cost as low as possible, payment would be made through lump sums in the form of financial transfers upon implementation of measures agreed in a "reform commitment package", without being directly linked to specific costs related to the implementation of the reform on the ground. Unlike other delivery methods based on the eligibility of costs, this financial support would be disbursed according to the results achieved. Thus, the results-based orientation of the EU funding is clearly reinforced.

Given that the financial contributions are to be transferred from the EU budget to the Member States (and not to other beneficiaries) upon a positive assessment of the completion of reforms (i.e. results), there will be no "implementation tasks" that may be delegated to the Member States, and the budget will be managed by a simple transfer. For this reason, direct management by the Commission appears to be the appropriate management mode. In addition, given that the financial support will be paid in one tranche once the reform commitments have been satisfactorily implemented and will take the form of budget support, the **implementation risks and notably the financial error rate are likely to be small**. The instrument would also be easy to administer, thus limiting operational risks. In addition, contradictory procedures (suspension and cancellation of financial contributions) are foreseen in case the reform commitments are not implemented satisfactorily, i.e. if no tangible progress has been made in respect of relevant milestones and targets and if there is evidence of reform reversal. In the event of evidence of reform reversal, the Commission will have the right to recover the amounts paid, although it should be acknowledged that this may still be quite a burdensome procedure in practice.

<u>Convergence facility</u>

The delivery mode under the convergence facility would be the same as for the two instruments (technical support and financial support) as indicated above.

4.2. Detailed structure of the instruments

The post-2020 Reform Support Programme will maximise the delivery mechanism chosen to support structural reforms, while minimising the administrative burden for the Commission and the beneficiary Member States. This will be ensured through the following general principles:

- **Participation in the Programme (all three pillars) is voluntary**: Member States are not obliged to request support. This will strengthen the ownership of the support as the reforms would be home-grown;
- **The procedures within the Programme will be simple**: the instruments contribute to reducing the overall administrative burden for the Member States and for the Commission – as the Reform Support Programme is managed in direct management, it will benefit from standardised central procedures, so that the burden on the Member States is low; and

- **There will be no ring-fenced national allocations (no entitlement)**; only an indicative maximum amount has been set up for the reform delivery tool to be provided to each Member State. This aims at providing incentives for Member States to propose reform agendas. Under the technical support instrument, there is no allocation of funding to Member States, but the provision of technical support measures will be made upon demand and subsequent selection of the best requests.

Particular clauses are envisaged in the basic act of the future Reform Support Programme for all three instruments to **ensure that double funding and overlaps with ESIF investments are avoided and that complementarities and consistency are enhanced**.

4.2.1. Technical support instrument (ex-SRSP)

Experience gained with the implementation of the SRSP shows that Member States have taken up technical support under the SRSP well beyond the initial expectations. Almost all Member States have requested support under the SRSP and requests are distributed across all policy areas covered by that Programme. This confirms that the support provided under SRSP is considered to be attractive, which speaks in favour of keeping the main features of the technical support instrument. As under the SRSP, the technical support instrument under the Reform Support Programme should continue to support the implementation of reforms undertaken at the initiative of the Member States, reforms in the context of economic governance processes or actions related to the implementation of Union law, or in relation to the implementation of economic adjustment programmes (the eligibility of reforms covered under this instrument is therefore much broader than the eligibility of reforms covered under the reform delivery tool). The instrument should now also provide technical support for the preparation and implementation of reforms to be undertaken under the other Programme instruments.

The technical support instrument starts with a voluntary request for support from a Member State; the support provided is tailor-made to address the country's specific needs. It requires no co-financing and strengthens the capacity of a Member State to prepare, design and implement reforms. In order to facilitate the implementation of technical support and to benefit from peers' experiences, the provision of technical support under this Programme is managed by the Commission and implemented, *inter alia*, in cooperation with other Member States, international organisations and, when necessary, the private sector.

In line with the rules and practice already existing under the SRSP, a light process for the submission of requests for technical support should be set out. A Member State wishing to receive support under the technical support instrument submits a request to the Commission, via a national Coordinating Authority. The Commission organises calls for submission of requests for support in order to ensure equal treatment of all requests. The Commission analyses requests received according to the criteria defined in the original SRSP Regulation[78] and general principles (transparency, equal treatment and the sound financial management), and enters into dialogue with the national authorities to assess the Member State's specific needs and the options to support the design and implementation of the reforms. Priority will be given to those requests which comply with the criteria defined in the regulation (urgency, breadth and depth of the

[78] Assessment criteria under technical support: (a) Urgency of the request; (b) Breadth and depth of the problems identified; (c) Support needs in respect of the policy areas concerned; (d) Socio-economic indicators; (e) General administrative capacity of the Member State.

problems identified, support needs in respect of the policy areas concerned, analysis of socioeconomic indicators and general administrative capacity of the Member State) and which respond to the best use of Union funding (under sound financial management). The support is provided directly through the Commission's in-house expertise and/or by other providers of technical support, such as experts from national administrations, international organisations, private firms and consultancies, and individual experts from the private sector. The selection of support measures is tailor-made to Member-State needs and is "sealed" by the conclusion of a Cooperation and Support Plan (CSP). The CSPs indicate the scope of the support measures, the objectives, the timeline and the estimated budget of the support to be provided from the Commission to the Member State. The technical support measures envisaged and the related estimated financial contribution should take into account the actions and activities financed by Union funds or Union programmes.

In order to cater for additional needs of Member States that may want to benefit from the technical support instrument beyond its available budget, Member States should have the possibility to contribute, on a voluntary basis, to the budget of the technical support instrument under the Programme by transferring part of the resources dedicated to technical assistance at the initiative of a Member State under the ESIF. The resources transferred to the technical support instrument budget of the Programme should be used for supporting actions exclusively in that Member State and for the goals of the Programme. The possibility of contributing with additional financial resources is also possible, by analogy, with respect to the budget of the technical support component of the convergence facility under the Programme.

4.2.2. Reform Delivery Tool

The reform delivery tool is based on the following key principles:

1. **The reform delivery tool is based on positive incentives**, rather than on punitive measures such as suspension of funding or other financial sanctions. The objective is to speed up the pace of reform implementation. The reform delivery tool contains a suspension mechanism (available at the end of the process), which is not punitive or preventive but is only triggered in case the assessment by the Commission (backed by external expertise as the case may be) shows that the reform commitments are not satisfactorily fulfilled by the Member State concerned;
2. **The instrument is voluntary in order to increase ownership**; Member States are not obliged to request financial support;
3. **The mechanism does not add an additional administrative layer** between Commission and Member States as the monitoring and reporting will **be aligned with the European Semester** framework;
4. **The incentive is linked to the importance of the reform**. The assessment criteria of the reform proposal as set out in the proposed Regulation will make sure that the Commission is in a position to support structural reforms that are relevant and important for the Member States and that the Member State has the willingness and capacity to follow-up on the their implementation; therefore, financing will not be awarded for any type of reforms that are put forward by the Member States. In particular, the Commission should assess: whether the reform commitments proposed by the Member States are expected to effectively address challenges identified in the context of the European Semester; whether they represent a

comprehensive reform package; whether they are expected to strengthen the performance and resilience of the national economy; and whether their implementation is expected to have a lasting impact in the Member State; in addition, the Commission should also assess whether the internal arrangements proposed by the Member States, including the proposed milestones and targets, and the related indicators, are expected to ensure effective implementation of the reform commitments during a maximum period of three years (see the section "5. Assessing reform proposals").

5. The **amount of financial allocation** made to a Member State will not be determined by the cost of reform or by a specific short-term cost related to the reform (several very important reforms do not even involve a high financial cost) as the instrument is not intended to compensate for the direct economic costs related to the reforms, but it is a one-off, targeted financial incentive to help Member States embark on the implementation of reforms. The amount received can be used by the authorities of the Member States to mitigate costs related to the reforms, including the financing of flanking measures. In more concrete terms, after the reform commitment is implemented (for instance, in the context of a reform to foster the transition to low-carbon economy), the funds will be transferred to the state budget and could, for example, be used to set up a new mobility scheme. Even though the reform is expected to produce results only in the long term, the financial incentive can already unlock a possible political blockage and overcome political hesitation in the reform process; and
6. **Any EU Member State can apply to receive support from the instrument**. The financial contribution will not be pre-allocated in a budget envelope for different Member States, but it will rather be determined on the basis of the reform proposals submitted by the Member State when they apply.

Those key principles will allow for better adaptation of the instrument to Member-State needs and will promote ownership of reforms by Member States. If used and communicated properly, the EU financial incentive might also be seen more positively by those governments ready to embark on difficult reforms. Because it introduces a certain level of competition, it could also incentivise Member States to act in response to the actions of peers.

Feedback received from the Member States during the workshops on the pilot phase of the reform delivery tool provided useful input for the design of the structure of the instrument. A large majority of Member States acknowledged the need to deal with structural reforms, but stressed at the same time that Member States should be given greater ownership over their implementation. Some Member States welcomed a new tool for incentivising structural reforms, whereas some others felt that, since structural reforms pay for themselves, additional financial incentives might not necessarily be needed. The voluntary nature of the instrument will thus enable Member States to decide whether additional financial incentive is needed.

Structure

1. Types of reforms: In order to optimise the added value and effectiveness of the financial incentives, it is necessary to identify the type of reforms that should be eligible for support. Reforms that are **eligible for support under the reform delivery tool are reforms addressing challenges that are identified in the context of the European Semester of economic policy coordination.** This comprises challenges raised in the country-specific recommendations (CSRs), where relevant in the macroeconomic imbalance procedure and challenges identified in the country reports to the extent that they are officially adopted by the Commission. The definition of eligible reforms covered under the reform delivery tool is narrower than the definition of eligible reforms under the technical support instrument, which also covers, *inter alia*, Member States' own reforms. Within the reforms identified in the European Semester, Member States will be able to choose the reforms they want to pursue with the financial support of the Commission. This ensures proportionality and fosters ownership at the level of the Member State, which is a key ingredient of any successful reform effort.

At the same time, the focus will be on reforms that have been identified within the European Semester process, and have therefore not yet been implemented or completed by the Member States. Those reforms will have important impacts on the economic situation of the Member State concerned and possibly on its European neighbours, and they will be considered priority for the Commission. The link to the European Semester also provides protection against moral hazard: the risk that Member States will put forward reforms that they would implement in any case. The experience so far is that many reforms identified in the Semester are not pursued or are pursued with a long delay. By providing a financial incentive (contributions), the aim is to encourage the Member States to implement the reforms that have not been carried out or are too slow in being completed. At the same time, it is crucial that the country's ownership of the reforms is ensured. For this reason, the initiative to propose reform commitments is left with the Member States. During the workshops on the pilot phase of the reform delivery tool, overall, Member States agreed that the reforms subject to the reform delivery tool should be identified in the context of the European Semester. A few Member States preferred to limit the scope of the reforms to the CSRs only, as these have already received endorsement by all Member States, while a large majority of Member States argued in favour of reforms that are wider than the CSRs (e.g. the country reports).

2. Maximum indicative financial contribution available per Member State: The size of the financial contribution cannot be based on the cost of a reform. After all what matters is the impact of the reform, which is not necessarily related to the financial costs of the reform. Some reforms can have a major impact on a Member State while they do not require any budgetary outlays. Therefore the programme will define indicative amounts by Member State, which will constitute the maximum financial contribution available for each Member State under the instrument and will define criteria to determine the reforms that should be implemented in order to receive this contribution.

At the same time, an allocation key setting the maximum amounts by Member State will ensure equal treatment for all Member States, while appropriately taking into account the differences in size of Member States.

Various allocation keys were considered with the aim of ensuring and efficient and equitable distribution. The allocation key should provide for an incentive that is meaningful, i.e. large enough to provide for a sufficient incentive, but also allowing for a fair distribution. The contribution key that is being proposed – the population key – meets these criteria. On one hand, it ensures that the incentives that are provided are meaningful, as more populous Member States can benefit from a higher maximum contribution. At the same time, it ensures that the maximum net benefit per capita is the same across all Member States.

When proposing the reform commitments, the dialogue between the Member States (including in the Economic Policy Committee, and in consultation where appropriate with relevant Treaty-based committees) and the Commission will further ensure that Member States' reform proposal will be assessed in an equal manner. The legislative proposal will contain an annex with the percentage and absolute figures for the maximum amounts available for each Member State.

3. Allocation process and annual calls: The allocation of funds to the Member States will be made in stages. **As the purpose of the RSP is to accelerate the process of reforms, the allocation of funds is relatively frontloaded.** Fifty percent of the total size of the envelope (EUR 11 billion) will be allocated in the first stage (which will last twenty months from the entry into force of the Regulation establishing the Programme), during which they could receive up to their maximum allocation by submitting proposals for reform commitments. This period of twenty months allows sufficient time and opportunity for each Member State to submit a reform proposal, should it wish to do so. After the end of this initial period (i.e. in a second stage, which lasts for the remaining period of the Programme), the Commission will allocate the remaining fifty percent of the overall envelope (EUR 11 billion), plus the amount that has not been used by the Member States in the first stage, through appropriate calls. Simple procedures should be organised to that effect during the second stage. In this second stage, under each call, all Member States should be invited to submit reform proposals concurrently, and they could be awarded their maximum financial contribution on the basis of their reform proposals. In the interest of transparency, the first call organised by the Commission should be for an amount corresponding to the remaining 50% of the overall financial envelope of the instrument (EUR 11 billion). Further calls should be organised by the Commission only where the overall financial envelope has not been fully used. The Commission should adopt and publish an indicative calendar of the further calls to be organised, and should indicate, at each call, the remaining amount of the overall envelope, which is available under the call. This arrangement addresses the concerns raised during the workshops on the pilot phase of the reform delivery tool where Member States underlined that the funds should not be allocated in a purely competitive way on a first-come first-served basis.

4. The Member State proposes reform commitments: A Member State wishing to receive support under the reform delivery tool will have to submit a proposal for reform commitments to the Commission detailing the set of measures for the implementation of structural reforms identified in the European Semester process. The proposal by the Member State will also include information regarding the nature and importance of the reforms, their expected social and economic impact and, where possible, spillover effects in other Member States, as well as accompanying measures, possible investment costs and information on the internal arrangements for the effective implementation of reform commitments.

With a view to ensuring the expediency of procedures, the proposal for reform commitments will be presented by the Member State together with its National Reform Programme (NRP) in the form of a separate annex, which may be submitted also at a different point in time. Many Member States expressed their preference for such possibilities during the workshops on the pilot phase of the reform delivery tool. This will allow Member States to submit reform proposals that fully take into account the latest CSRs. The Member State should identify the reforms among the challenges raised in the context of the European Semester and propose a detailed set of measures for their implementation, which contain appropriate milestones and targets and a timetable for implementation over a period no longer than three years. The proposal for reform commitments submitted by Member States will focus on reform challenges included in the European Semester.

The discussions between the Member State concerned and the European Commission will allow for the request to be clarified and a Member State will also be able to revise its request if needed (in case the reform commitments prove not to be sufficiently comprehensive for instance).

4. Counselling: In order to contribute to the preparation of high quality proposals for reform commitments, peer counselling may be organised by the Commission to allow the requesting Member States to benefit from the experience of other Member States.

5. Assessing reform proposals: The Regulation sets out detailed rules defining criteria and procedures for assessing proposals for reform commitments, the related financial contribution (ex-ante), and the degree of compliance with reform targets and milestones (ex-post) that would trigger the release of funding.

When assessing the proposals for reform commitments, the Commission will closely cooperate with the Member State concerned to ensure ownership by the Member States and the effectiveness of the reform. In particular, the Commission will assess the nature and the importance of the reform commitments proposed by the Member States by taking into account the substantive elements provided by the Member States in their reform proposals. It will also determine the amount to be allocated to them on the basis of credible and transparent criteria. The Commission will also establish a rating system for the assessment of proposals for reform commitments, which will allow for transparency and equal treatment among Member States. The proposed criteria and the related rating systems are illustrated below (with ratings ranging from A to C):

- whether the reform commitments are expected to **effectively address challenges identified in the context of the European Semester**:
    - in the country-specific recommendations and in other relevant European Semester documents officially adopted by the Commission; or
    - where applicable, in the Macroeconomic Imbalance Procedure;

  The following elements are established in the rating system for the assessment of that criterion:

  - The proposal for reform commitments is aimed at addressing challenges identified in country-specific recommendations; or
  - The proposal for reform commitments is aimed at addressing challenges identified in other relevant European Semester documents officially adopted by the Commission; or
  - The proposal for reform commitments is aimed at addressing challenges identified in the Macroeconomic Imbalance Procedure; and
  - The reforms envisaged in the proposal for reform commitments are expected to effectively address the challenges identified, in that, following the completion of the proposed reform(s), those challenges would be expected to be considered resolved in the context of the European Semester process.

  On the basis of the elements elaborated above, a rating would be made as to whether the proposal effectively addresses challenges identified in the context of the European Semester: to a high/medium/low extent and efficacy.

- whether the reform commitments represent a **comprehensive reform package**:

  The following elements are established in the rating system for the assessment of that criterion:

  - o the proposal for reform commitments is aimed at addressing a set of interrelated challenges for the Member State (coverage); and
  - o the proposal for reform commitments is aimed at addressing challenges that are crucial for the functioning of the economy of the Member State (relevance).

  On the basis of the elements elaborated above, a rating would be made as to whether the reform commitments represent a comprehensive reform package: coverage and relevance are high – reform commitments aim at addressing several challenges raised in the country specific recommendations or in the Macroeconomic Imbalance Procedure / coverage and relevance are medium – reform commitments aim at addressing several challenges raised in relevant European Semester documents officially adopted by the Commission / coverage and relevance of reforms are low – none of the above.

- whether the reform commitments are expected to **strengthen the performance and resilience of the economy of the Member States concerned:**

  The following elements are established in the rating system for the assessment of that criterion:

  - o the proposal for reform commitments is aimed at structurally improving the performance of the economy of the Member State; and
  - o the proposal for reform commitments is aimed at reducing the vulnerability of the economy of the Member State to shocks; or
  - o the proposal for reform commitments is aimed at increasing the capacity of the economic and/or social structures of the Member State to adjust to and withstand shocks.

  On the basis of the elements elaborated above, a rating would be made as to whether the reform commitments are expected to strengthen the resilience of the economy of the Member States concerned with: a high/medium/low expected impact on performance and resilience.

- whether the reform commitments are expected, through their implementation, to have a **lasting impact**, where relevant by strengthening the institutional and administrative capacity of the Member State concerned.

  The following elements are established in the rating system for the assessment of that criterion:

  - o the implementation of the proposed reforms is expected to bring about a structural change in the administration or in relevant institutions; or
  - o the implementation of the proposed reforms is expected to bring about a structural change in relevant policies; and
  - o the strengthening of administrative capacity can ensure a lasting impact.

On the basis of the elements elaborated above, a rating would be made as to whether the reform commitments are expected to have a lasting impact to a large/moderate/small extent.

- In addition, the Commission should also assess whether the **internal arrangements** proposed by the Member States, including the proposed milestones and targets, and the related indicators, are expected to ensure effective implementation of the reform commitments during a maximum period of three years.

  The following rating system is established to take into account in the assessment when assessing these criteria:
  - a structure is tasked within the Member State with: (i) the implementation of the reform commitments; (ii) the monitoring of progress on milestones and targets; and (iii) the reporting; and
  - the proposed milestones and targets are clear and realistic; and the proposed indicators are relevant, acceptable and robust; and
  - the overall internal arrangements, proposed by the Member States in terms of organisation (including provision to ensure sufficient staff allocation) of the implementation of the reform commitments, are credible.

  On the basis of the elements elaborated above, a rating would be made as to whether the overall internal arrangements for effective implementation are: adequate/minimum/insufficient.

The Commission will give ratings to the proposals for reform commitments submitted by the Member States under each of the assessment criterion. Annex II of the Regulation provides further guidance on the assessment process of the proposals for reform commitments as submitted by Member States and further details on the assessment criteria and the rating system. Annex II will be the basis for the Commission to proceed in a transparent and equitable manner with the assessment of the proposals for reform commitments as put forward by the Member States. Annex II of the Regulation is attached to this impact assessment as Annex 3.

This assessment and rating system will also be the basis for determining the financial contribution in conformity with the objectives and any other relevant requirements laid down in the Regulation establishing the Programme. This mechanism will ensure equal treatment among Member States.

- The financial contribution will be equal to the **total amount of the maximum financial contribution** where the proposal for reform commitments submitted by the Member State complies fully with the assessment criteria – the reform commitments will be considered to be "major";
- The financial contribution will be equal to **half of the maximum financial contribution** where the proposal for reform commitments complies satisfactorily with the assessment criteria – the reform commitments will be considered to be "significant".
- **No financial contribution** will be allocated where the proposal for reform commitments does not comply satisfactorily with the assessment criteria.

The amount of financial allocation to a Member State will not be determined by the cost of reform or by a specific short-term cost related to the reform. This is because several very important reforms do not involve a high financial cost and therefore the cost of the reform is not a meaningful variable for determining the amount of the financial support.

In its assessment of the proposal for reform commitments submitted by the Member State, the Commission may be assisted by relevant expert groups. The Economic Policy Committee, in consultation where appropriate with relevant Treaty-based Committees, may be consulted to provide their opinion on the proposals for reform commitments as submitted by Member States (but not on the assessment of fulfilment of reforms).

Such assessment process and criteria will allow addressing the concerns expressed by Member States during the workshops on the pilot phase of the reform delivery tool, so that Member States do not propose only simple, insignificant reforms, but reforms that can make a real difference.

However, it should be noted that the rating system as such does not aim at prioritising reforms. Instead, it ensures that only those reform proposals that are of sufficient quality are supported.

Example of reforms justifying a payment of 50% or 100% of the envelope

To illustrate reforms that would justify a payment of 50% or 100% of the maximum allocation, we take the example of a Member State where the unemployment rate is high and the social welfare system does not adequately cover the poorest segment of the population. This Member State has received a country-specific recommendation urging it to take measures to ensure a more effective coverage of the most vulnerable by the social welfare system.

1. A reform proposal that would benefit from 100% would be include the following measures:

- The Member State will conduct a comprehensive review of its social welfare system, with a view to: (i) reviewing all social benefits, (ii) assessing the extent to which it is effective in ensuring targeted protection against poverty, (iii) identifying coverage gaps and duplication, and (iv) proposing recommendations to streamline, rationalise and adapt it to ensure its effectiveness in adequately protecting against poverty, based on simulations of the distributional impact of the various recommendations.

- On the basis of this social welfare review, the Member State will adapt the social welfare system (including streamlining of benefits, change of eligibility conditions, etc.).

- The Member State will design and introduce a guaranteed minimum income, which will take into account the coverage gaps identified in the social welfare review. This will notably include the following steps:

o Designing the new scheme (including its level, eligibility, link to employment policies and other social benefits, etc.);

o Piloting its introduction in a few municipalities;

o Evaluating the pilot and taking the lessons learnt into account to roll out the scheme to the entire country;

o Setting up a monitoring and information system, which will cover beneficiaries of the GMI and also all other social benefits;

o Creating a new administrative unit in charge of the administration and monitoring of the GMI and all other social benefits; and

o Ensuring the appropriate training of all the staff of the administrative unit as well as all other social centres.

This proposal would be rated as follows:

- "A" for the criterion of whether the reform commitments are expected to effectively address challenges identified in the context of the European Semester: as the reform would "to a high extent" aim at addressing challenges identified in country-specific recommendations and the reforms envisaged are expected to effectively address the challenges identified "with high efficacy".

- "A" for the criterion of whether the reform commitments represent a comprehensive set of reforms or a comprehensive reform: as the reform commitments would have "high coverage" (several challenges related to each other) and "high relevance" (crucial challenges for the Member State).

- "A" for the criterion of whether the reform commitments are expected to strengthen the resilience of the economy of the Member State concerned: as the reform commitments would have a "high expected impact" on resilience (it would be expected to reduce the vulnerability of the economy of the Member State to shocks by establishing an adequate welfare system and would also increase the capacity of its social structures to adjust to and withstand shocks).

- "A" for the criterion of whether the reform commitments are expected, through their implementation, to have a lasting impact, where relevant by strengthening the institutional and administrative capacity of the Member State concerned: as the implementation of the proposed reforms is "to a high extent" expected to bring about a structural change in the administration of social benefits and in the social policies.

- "A" for the criterion of "whether the internal arrangements proposed by the Member States concerned are expected to ensure an effective implementation of the reform commitments, including the proposed milestones and targets, and the related indicators": as the internal arrangements would be assessed as "adequate" to ensure for effective implementation, including a structure tasked within the Member State with the implementation of the reform commitments, the monitoring of progress on milestones and targets and the reporting; clear and realistic proposed milestones and targets; relevant, acceptable and robust proposed indicators; and credible overall internal arrangements for the organisation of the implementation of the reform commitments.

This reform would thus be rated "AAAAA" and would be allocated 100% of the maximum allocation of that Member State.

2. A reform proposal that would benefit from 50% would include the following measures:

- The Member State will design and introduce a guaranteed minimum income. This will notably include the following steps:

o Designing the new scheme (including its level, eligibility, link to employment policies and other social benefits, etc.);

o Piloting its introduction in a few municipalities;

o Evaluating the pilot and taking the lessons learned into account to roll out the scheme to the entire country;

o Setting up a monitoring and information system, which will cover beneficiaries of the GMI;

o Creating a new administrative unit in charge of the administration and monitoring of the GMI.

This proposal would be rated as follows:

- “B” for the criterion of whether the reform commitments are expected to effectively address challenges identified in the context of the European Semester: as the reform would cover only the introduction of a GMI and not the rationalisation of other social benefits and would therefore "to a medium extent" aim at addressing challenges identified in country-specific recommendations and the reforms envisaged would be expected to effectively address the challenges identified with "medium efficacy".

- “B” for the criterion of whether the reform commitments represent a comprehensive set of reforms or a comprehensive reform: as the reform commitments would have "medium coverage" (several challenges) and "medium relevance" (as the proposal would address only some of the crucial challenges for the Member State in respect of the effectiveness of the social safety net).

- “B” for the criterion of whether the reform commitments are expected to strengthen the resilience of the economy of the Member State concerned: as the reform commitments would have a "medium expected impact" on resilience (it would be expected to reduce the vulnerability of the economy of the Member State to shocks by introducing a safety net for the poorest but would not improve the targeting and adequacy of other social benefits and therefore their capacity to adjust to and withstand shocks).

- “B” for the criterion of whether the reform commitments are expected, through their implementation, to have a lasting impact, where relevant by strengthening the institutional and administrative capacity of the Member State concerned: as the implementation of the proposed reforms is "to a moderate extent" expected to bring about a structural change in the administration of social benefits and in the social policies.

- “A” for the criterion of “whether the internal arrangements proposed by the Member States concerned are expected to ensure an effective implementation of the reform commitments, including the proposed milestones and targets, and the related indicators”: as the internal arrangements would be assessed as "adequate" to ensure for effective implementation, including a structure tasked within the Member State with the implementation of the reform commitments, the monitoring of progress on milestones and targets and the reporting; clear and realistic proposed milestones and targets; relevant, acceptable and robust proposed indicators; and credible overall internal arrangements for the organisation of the implementation of the reform commitments.

This reform would thus be rated "BBBBA" and would be allocated 50% of the maximum allocation of that Member State.

6. Commission decision: The Commission will adopt a decision within four months of the submission of the proposal by the Member State (which is considered a reasonable time-frame), by means of an implementing act, setting out reform commitments, to be implemented by the Member State, and the financial contribution.

The decision will establish that the financial contribution will be paid in one instalment[79] once the Member State has satisfactorily implemented all the milestones and targets identified in relation to the implementation of each reform commitment. The decision will also lay down the period for implementation of the reform commitment, which shall be within three years of the adoption of the decision and specify reporting arrangements within the European Semester.

For the purposes of transparency, the reform commitments, as adopted by the Commission in the relevant implementing act, should be transmitted to the European Parliament and the Council.

7. Amending reform commitments: Member States may make a request to amend the decision on their reform commitments if objective circumstances make the reform commitments, including relevant milestones and targets, no longer achievable. The Member State may then propose a modified or a new set of reform commitments. This was mentioned by some Member States during the workshops on the pilot phase of the reform delivery tool. Given the short period for the implementation of the reform commitment, the Member State may submit a request for amendment only once during this period. This will ensure a certain stability of the reform commitments.

8. Reporting: In the interest of simplification, the reporting by Member States on the progress of the implementation of reform commitments should be made in the framework of the European Semester, as largely supported by a majority of Member States during the workshops on the pilot reform delivery tool.[80] Member States will be invited to use the National Reform Programmes for this purpose. The Commission would provide an annual assessment of the progress made by the Member States.

9. Payment: For reasons of efficiency in the financial management of the instrument, the Union financial support for reform commitments shall take the form of a financial contribution not linked to cost (see point 5 here above). During the workshops on the pilot phase of the reform

[79] In accordance with the feedback received from Member States during the workshops on the pilot phase of the reform delivery tool, the Commission has considered also payments through several instalments, but in order to maximize the incentive to complete the reform and to reduce the risk of moral hazard, payment in one single tranche after the completion of milestones and targets was chosen as the best option.

[80] Some Member States warned, however, that the link with the European Semester process should not be too tight in terms of deadlines in order not to make the process more complex and burdensome.

delivery tool, some Member States particularly emphasised the fact that the creation of a new instrument should not increase administrative burden to Member States.

The payment would be made once the agreed milestones and targets have been achieved and the reform has been completed. Member States will submit to the Commission a request for payment of the financial contribution and the Commission will assess whether the relevant milestones and targets, such as the adoption of law, piloting of the reform, operational targets, etc. are satisfactorily implemented.

The Commission may be assisted by relevant expert groups for this purpose. For the purpose of sound financial management, the instrument will contain **specific rules on budget commitments, payments, and suspension and recovery of funds.** Payments should be based on a positive assessment by the Commission of the implementation of the reform commitments by the Member State. Suspension and cancellation of the financial contribution should occur in case the reform commitments have not been satisfactorily implemented by the Member State or in the event of a reform reversal.

10. Rules on payments, suspension, cancellation and recovery: At the end of the process (i.e. after the completion of the reform commitments), if the Commission considers that a reform commitment has been satisfactorily implemented, the financial contribution will be paid. If not, no payment will be made. There are rules for dealing with situations of disagreement, whereby Member States can contest Commissions decision to suspend, cancel or recover all or part of the financial contribution. In such cases, a number of contradictory procedures provide the Member State with the possibility to present its observations. However, the design of the instrument is such that the risk for the Commission would not be high. To minimise this risk, the Commission will ensure that it applies the assessment criteria in a transparent and equitable manner.

- **The reform delivery tool provides for financial support upon implementation of the agreed reform commitments**, thus creating positive incentives for reform. This approach is quite different from the sanction-based approach followed, for example, under the Stability and Growth Pact. Under the SGP, Member States can be fined if they do not comply with the provisions of the pact. This constitutes a negative incentive. The effectiveness of this approach has proven to be limited, not least because imposing a fine on a Member State is considered to be very difficult to effect in political terms. In practice, it has never happened. Withholding (suspending) a payment under the reform delivery tool means that Member State has no right to the payment unless the Commission has positively concluded (backed by eventual external expertise) its assessment that the completion of the reform commitments is satisfactory. There is no sanction element, but rather an assessment that a "contract" has not been fulfilled and thus no payment can be made. A sanction system means that it would be up to the Commission to build a case against the Member State in the first place and to issue penalties for non-compliance, similarly to the infringement procedures under Article 258 TFEU. The "burden of proof" is therefore reversed. It is true that, through a contradictory procedure, the Member State concerned is offered the possibility to present its observations, but the logic of the decision process is still that the case must be "made" by the Member State to show full compliance in the first place and not the reverse (i.e. the Commission demonstrating lack of compliance).

The case of "recovery" of funds is different, since in such case it is up to the Commission to build the case for possible "reversal" of the reform commitments, for which the Member State would have already received a payment. In that case, however, rather than an element of penalty or sanction, there is the need to ensure that the principle of sound financial management is respected for the use of the Union budget, as it is customary under any Union programme and as is mandated by the Financial Regulation.
At the same time one should not underestimate the implementation of the contradictory procedures. They can also be burdensome. Nevertheless, the Regulation would have to include such provisions; otherwise there would be a serious legislative gap.

- **A few rules have been set in the Regulation in case of unsatisfactory implementation of reforms**:
  - Where, as a result of the verification, the Commission has established that the milestones and targets set out in its decision on the reform commitments are not satisfactorily implemented (e.g. if some or only certain aspects of the reform commitments are completed), the Commission will suspend the payment of all or part of the financial contribution, after having given the Member State concerned the possibility to present its observations. The Commission will end the suspension where the Member State has taken the necessary measures to ensure a satisfactory implementation of the milestones and targets (within six month).
  - Where, after eighteen months from the date of the adoption of the reform commitments, no tangible progress has been made in respect of any relevant milestones and targets, the amount of the financial contribution will be cancelled by the Commission.
  - Where within five years of the payment, the conditions that allowed such payment have changed significantly in the Member State concerned (the achievement of the reform commitments were reversed or the elements that led to the achievement of the reform commitments were significantly modified by other measures), the Commission has the right to recover the amounts paid.
  - The Commission will take a decision on the suspension, cancellation or recovery after having given the Member State concerned the possibility to present its observations within a reasonable time (one month for suspension, two months for cancellation, and two months for recovery).

There is no need to cater for specific a remedy against the Commission decision in respect of any of the above cases, since such a remedy (review of legality) is provided for under the TFEU (cf. Article 263) and is substantiated by the possibility to bring the case before the Court of Justice of the EU. This is applicable to all acts of the Union institutions (Council, Commission, EU Parliament , ECB and even agencies and bodies of the Union) intended to produce legal effects on third parties. This means that all Commission decisions taken under the Regulation (which are intended to produce legal effects) are challengeable in Court (including the decision on suspension and recovery of funds).

4.2.3. Convergence Facility

A separate third instrument, the convergence facility, is intended to provide both financial and technical support 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, with a view to helping them prepare for participation in the euro area.

All Member States have committed to adopting the euro (except Denmark and the UK, which negotiated an opt-out clause). So, the former Member States are legally committed to adopting the euro. The demonstrable steps towards adopting the single currency within a given time-frame will consist of a formal letter from the government of the Member State concerned to the Commission stating its intention to join the euro area within a reasonable and defined timeframe and presenting a credible time-bound roadmap, after consultation with the Commission, for implementing concrete measures to prepare for successful participation in the euro area, including steps to ensure full alignment of its national legislation with the requirements under Union law (including the Banking Union)..

The instrument aims to: a) **provide additional, increased financial stimulus** for those Member States which embark and complete the relevant structural reforms for joining the euro area, and b) **additional and targeted technical support** for the design and implementation of such reforms, as non-euro-area Member States on their way to joining the euro area have additional reform needs arising from their future participation in the euro area.

The scope of this support instrument is the same as for the two other instruments, provided that the reform commitments and requests for technical support are relevant for preparation for participation in the euro area.

The convergence facility will include a specific clause on "no double funding", i.e. reforms that are financed under the reform delivery tool will not be financed under the financial support component of the convergence facility.

In the interest of consistency and simplification, the financial and technical support components carried out under the convergence facility should follow the same rules and implementation process as the other instruments under the Programme. Only few additional rules should be added regarding the eligibility of reforms and actions, the calculation of the maximum indicative allocation, and the proposals for reform commitments and the requests for technical support, as well as on the related assessment process.

There will be a separate indicative budget for both financial support and technical support component. There will also be, however, some flexibility permitting some reallocation of the earmarked budget for the convergence facility to the reform delivery tool in case there is a low demand for such support from prospective euro-area Member States.

A) Financial support component of the "convergence facility":

Regarding the financial support component of the convergence facility, structural reforms eligible for financing under the convergence facility shall encompass reforms aimed at addressing challenges identified in the context of the European Semester of economic policy coordination, including but not limited to those challenges raised in the country-specific recommendations.

A maximum indicative financial contribution out of the dedicated overall envelope will be available for each Member State. In a similar manner to the reform delivery tool, those amounts should be calculated on the basis of pre-defined allocation criteria. Various allocation keys were considered with the aim of ensuring efficient and equitable distribution. The allocation key should provide for an incentive that is meaningful, i.e. large enough to provide for a sufficient incentive, but also allowing for a fair distribution. The legislative proposal will contain an annex with the percentage and absolute figures for maximum amounts available for each Member State. The amounts will be available at each stage of the allocation process and will be received over and above the financial contribution from the reform delivery tool. The amounts will be granted in return for additional reforms undertaken by the Member State concerned.

Proposal for reform commitments will be submitted in the same way as for the reform delivery tool. The reform commitment will set out reforms that are considered important for Member States' participation in the euro area. Proposals for such reform commitments, however, shall not concern reforms already proposed or financed under the reform delivery tool.

The proposal for reform commitment will be assessed in the same way as for the reform delivery tool, therefore using the same rating system as explained above; in addition, the Commission will also assess the relevance of the proposed reform commitment for preparation for participation in the euro area. For this purpose, the Commission will also establish a rating system for the assessment of the relevance of the proposals for reform commitments for participation in the euro area. The proposed criteria and the related rating systems in that regard are illustrated below (with ratings ranging from A to C):

- ***Scope***:

  The Commission shall take into account the following elements for the assessment under this criterion:

  - the proposal for reform commitments is in line with the Member State's roadmap
  - for preparation for participation in the euro area; and
  - the proposal for reform commitments is expected to contribute to the successful implementation of the Member State's roadmap for preparation for participation in the euro area .

On the basis of the elements elaborated above, a rating would be made as to whether the relevance of the proposal and its substantial expected contribution for participation in the euro area is high/medium/low.

A Commission decision on the reform commitments and amount of the financial contribution within the financial support component of the convergence facility will be adopted in the same way as for the reform delivery tool. That decision shall also refer to the formal letter from the government of the Member State concerned to the Commission stating its clear commitment to join the euro area within a reasonable and defined timeframe and presenting a credible time-bound roadmap, after consultation with the Commission, for implementing concrete measures to prepare for successful participation in the euro area, including steps to ensure full alignment of its national legislation with the requirements under Union law (including the Banking Union). No financial contribution will be allocated to the reform proposal irrespective of other scores if the proposal is expected to have a medium or low impact on the resilience of the economy (as explained above).

B) Technical support component of the "convergence facility":

Request for technical support within the convergence facility will be submitted in the same way as for the technical support instrument. Such requests shall indicate whether they are relevant for the preparation for euro-area membership and provide an appropriate justification. The Commission will analyse these requests separately from other requests for technical support and consider in its assessment the relevance of the requests for the preparation for euro-area membership. The cooperation and support plans agreed under the technical support instrument will identify measures linked to the preparation for euro-area membership separately. The work programmes of the technical support instrument will also include the allocation of technical support in relation to these reforms.

4.3. Moral hazard

When providing financial incentives to EU Member States to implement reforms, there is a risk of providing financial incentives for reforms that the Member States would have implemented in any case, which would not be efficient from an economic point of view. There could also be other crowding-out effects and deadweight losses. A further source of moral hazard is ineffective or partial implementation of reforms. As regards the issue of moral hazard, a number of issues need to be considered:

First, it should be acknowledged that the purpose of the Reform Support Programme is not to force Member States to undertake reforms that they absolutely do not want to implement. As mentioned in several sections of the report above, ownership of the reforms by the Member States is crucial for their sustainability. The Reform Support Programme aims to help Member States to implement reforms.

Second, the link to the Semester offers an important protection against cherry picking. Only reform challenges that are identified in the country-specific recommendations (and, where relevant, the Macroeconomic Imbalance Procedure) or have been identified in the relevant country report and have been endorsed by the Commission are eligible for support. Regrettably, the experience so far does not suggest that recommendations under the Semester lead automatically to policy action at the level of the Member State. Therefore, the risk of moral hazard seems limited.

Third, the reform commitments proposed by the Member States will be **discussed with the Commission and with the Member States in the Economic Policy Committee (in consultation, where appropriate, with relevant Treaty-based Committees), to ensure that they are fit for purpose and provide value for money**.

Fourth, the regulation also foresees the possibility for the Member State to **provide additional information to the Commission and to revise its proposal if needed**

Fifth, the financial support will be **paid only once the agreed milestones and targets have been achieved** – this system will provide incentives to speed up the implementation of reforms. Sixth, the allocation process will be organised in such a way that, if Member States do not propose reform commitments, other Member States could benefit instead from the available funding, which should provide an additional incentive for Member States to speed up reform implementation.

For the convergence facility, even if non-euro-area Member States do not join the euro area as soon as foreseen, they and others will benefit from the reforms that they will have carried out for the preparation of euro-area membership (because of strengthened resilience and its positive spillover effects to the euro area).

4.4. Governance arrangements

The Reform Support Programme provides for complementarity, consistency and synergies with other Union programmes and policies at regional, national, Union and international levels, as also requested by Member States in the reform delivery tool workshops. The Commission will ensure the necessary coordination at the Union level to ensure consistency and avoid duplication at the programming and implementation stages, between actions supported by this Programme and the measures carried out under other Union programmes (the ESIF in particular). **Coordination will continue to be ensured within the internal working arrangements, using the already-operating coordination mechanism involving representatives of the services most concerned**.[81] Decisions to provide support to a Member State would, *inter alia*, take into account the existing actions and measures financed by the Union funds and programmes.

For the purpose of simplicity and efficiency, the same coordination mechanism in use for technical support could be used also for the coordination of financial support. As explained in section 2.1.3., the ESIFs are intended for financing investment components of reforms, whereas the Reform Support Programme will support regulatory changes and changes in framework conditions by providing financial contributions not linked to costs.

The fact that the reforms subject to financial contributions from the Programme will be identified in the context of the existing European-Semester process will be instrumental for ensuring additionality and avoiding that the Reform Support Programme supports reforms that would have happened in any case. In addition, the monitoring of the implementation of these reforms within the European Semester will provide additional safeguards to this effect.

4.5. Possible impacts of the preferred delivery mechanism

The impacts of the Programme will mainly depend on the reforms that Member States will propose and implement in the context of the reform delivery tool, or on the type of support which they will ask for and make use of in the framework of the technical support instrument. It is therefore not possible to quantify these impacts, as the range of possible reforms is very wide.

Expected positive impacts are described in the sections below. Potential negative impacts can occur in the following cases:

[81] Commission Staff Working Document, ex-ante evaluation accompanying the proposal for a Regulation of the European Parliament and of the Council on the establishment of the Structural Reform Support Programme for the period 2017 to 2020 and amending Regulations (EU) No 1303/2013 and (EU) No 1305/2013, SWD(2015) 750 final.

- Trade-offs (for example, economic reform resulting in positive economic impacts but negative social or environmental impacts);
- Redistributive effects (e.g. reforms bringing benefits to a section of the population, while disadvantaging another section); and/or
- Time effects (e.g. reforms bringing benefits after 10 years, but having negative impacts in the meantime).

While a reform could generate a negative social impact, several features of the new financial support are likely to mitigate such impacts to a large extent:

First, when submitting its reform proposal, the Member State should indicate the expected economic and social impacts of the reform in the Member State concerned and, where possible, the spillover effects to other Member States. This information, like any other elements provided by the Member State in its reform proposal, would be taken into account by the Commission when assessing the proposal for reform commitments. Should the expected social impact of the proposed reform be very high, the Commission would discuss possible mitigating measures with the Member States, which would be included in the agreed reform commitments.

Second, the financial support that would be received once the reform has been satisfactorily implemented could help offset some of the social impact of the reforms by paying for mitigating or flanking measures.

These elements stress the importance of ensuring that the impacts of reforms, including potential negative impacts, are adequately anticipated and that, where necessary, accompanying measures or risk-mitigating actions are put in place.

Another risk of the proposed programme is the lack of positive impacts, due either to the inefficiency and/or poor design of a reform, or to the lack of follow-up by national authorities following the provision of technical support.

Likely economic impacts
The initiative will provide support to Member States in the preparation, design and implementation of growth-enhancing reforms and will stimulate the implementation of reforms that will be beneficial to their economy, strengthen their resilience to shocks and bring positive spillovers to other Member States. It is therefore expected to generate positive impacts on economic growth across the EU. Under certain assumptions, quantitative model-based assessment of the potential impact of structural reforms[82] show, for example, that euro-area Gross Domestic Product (GDP) could be up to 6-7% higher after ten years 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.[83] Implementation of reforms will however lead to costs and negative impacts in the short term, which the reform delivery tool seeks to mitigate.

[82] Varga, J. and in't Veld, J., 2014. "The potential growth impact of structural reforms in the EU. A benchmarking exercise" European Economy Economic Papers No 541: http://ec.europa.eu/economy_finance/publications/economic_paper/2014/ecp541_en.htm

[83] An ECB Working Papers confirm the results of the above mentioned assessment by concluding that the reform of the labour tax is quite effective in stimulating employment and macroeconomic activity in the euro-area Member States (source: https://www.ecb.europa.eu/pub/pdf/scpwps/ecb.wp2127.en.pdf?8a0680267517cba4f2ba532c9900cba2).

It is also important to note that there are positive spill overs of structural reforms across Member States. Positive economic impacts also include an improvement in national fiscal positions and debt-to-GDP ratios.
Likely social impacts
The initiative is expected to have a positive effect on **employment** by stimulating job creation across the EU. Employment can be generated, on the one hand, by economic growth and investments and, on the other hand, by reforms of the labour market, in particular those that increase the level of labour force participation and the qualifications of the labour force, and adapt skills to market needs. Under certain assumptions, according to QUEST modelling,[84] the implementation of CSRs identified in 2011-2014 had the potential to raise employment by 1.1%, 1.3% and 1.5% in Portugal, Spain and Italy, respectively, in the 2020 horizon.[85] The programme can also bring positive effects on income distribution, active labour market policies, social inclusion, and social protection, by supporting the realisation of the European Pillar of Social Rights. It can also support reforms to fight tax evasion and corruption, which severely affect citizens and businesses, and undermine good governance and economic development.
Likely environmental impacts
The Programme can provide technical support to design and implement reforms in Member States in the areas of sustainable development, such as climate change mitigation, the circular economy, and water management. In addition, among other objectives, the reform delivery tool could include reforms in related areas to bring about environmental benefits. As mentioned above, structural reforms in other areas may in some cases lead to adverse environmental impacts. These are partially mitigated by existing EU and national environmental legislation. However, it will also be important to identify such negative effects, if they are significant.
Likely impacts on fundamental rights
The initiative is expected to support reforms that do not jeopardise and possibly have positive impacts on fundamental rights, notably gender equality, equal treatment and opportunities, non-discrimination and rights of persons with disabilities. The Reform Support Programme will ensure that reforms supported through the programme respect fundamental rights. The proposal can have a positive effect on the preservation and development of Union fundamental rights, assuming that the Member States request and receive support in related areas. For example, support in areas such as migration, labour markets and social insurance, healthcare, education, public administration and the judicial system can support Union fundamental rights such as dignity, freedom, equality, solidarity, citizens' rights and justice. By supporting the

[84] However, these estimated effects are based on some assumptions related to the implementation speed and on how quickly measures change economic conditions. In reality, implementation may be delayed or brought forward, and measures may take a longer or a shorter period before they have an impact on the real economic conditions than assumed in the study.

[85] European Commission "The Economic Impact of Selected Structural Reform Measures in Italy, France, Spain and Portugal", 2016, European Economy, Institutional Paper 023. The estimates concern only those CSRs the implementation of which can be quantified and modelled.

implementation of reforms in the social domain (such as reforms aimed at enhancing the quality and inclusiveness of education systems, ensuring adequate social protection systems, or fostering social dialogue), the Programme could also have a positive impact on the realisation of the European Pillar of Social Rights.
Likely impacts on simplification and/or administrative burden
The incentive could be disbursed in the form of financing not linked to cost as set out in Article 125(1)(a) of the new Financial Regulation, thus minimising administrative and transaction costs, both for the Commission and for the Member States. It would not be subject to national co-financing requirements. Administrative burden related to the technical support instruments will remain very low - the submission of requests is relatively simple and the required information is limited to a minimum; once the selection is made, the SRSS and the coordinating authorities sign a "Cooperation and Support Plan", which is the only administrative work to be done prior to the project implementation. In order to minimise administrative burden of the reform delivery tool and provide for simplification, monitoring of implementation and milestones will be carried out within the European Semester process. The new Programme will be complementary to existing support provided by the ESIF and other EU programmes.

5. HOW THE PERFORMANCE WILL BE MONITORED AND EVALUATED?

5.1. Monitoring

The Commission will monitor the implementation of the Programme and measure the achievement of the general and specific objectives through appropriate indicators, as defined below.

The set of indicators to be monitored (and the underlying data to be collected) will be identified for each instrument, at the level of individual Member States and within each area of intervention (i.e. by policy sector).

For the proposals for reform commitments made under the reform delivery tool and the financial support component of the convergence facility, Member States should provide the underlying data and propose the related indicators; they should also indicate how the necessary data (in relation to the relevant indicators) will be collected.

Consistency and accuracy checks on data provided by the Member States will be carried out by the Commission services also in the context of the European Semester process. For that purpose, Member States will include, in their annual reporting on progress with respect to the reform commitments, appropriate evidence on the progress made towards achieving milestones and targets, and should provide access to the underlying data to the Commission, including administrative data where relevant. For the reform delivery tool, as well as for the financial support component of the convergence facility, it will be important to regularly update the monitoring and evaluation process to ensure that the new instruments meet their expectations.

For the technical support instrument and the technical support component of the convergence facility, the Commission will collect data for the key indicators periodically, also with input from Member States, as needed.

The underlying data (in relation to the relevant indicators) will be stored by the Commission in an internal IT tool that has been set up in the SRSS for monitoring purpose (JIRA). The data will be broken down by Member State and will be aggregated at instrument level (financial support, technical support and convergence support) for further analysis and reporting as needed.

The indicators are to be identified and monitored at two different levels (output and result indicators), split by instrument, as follows (the split below corresponds to the Annex 3 on Indicators of the Regulation establishing the Programme and attached as Annex 3 to this Impact Assessment):

5.1.1. Technical Support Instrument (ex-SRSP)

Output indicators:

a) number of cooperation and support plans concluded;
b) number of technical support activities carried out;
c) deliverables provided by the technical support activities such as action plans, roadmaps, guidelines, handbooks and recommendations.

Result indicators:

d) outcomes of the technical support activities provided, such as adoption of a strategy, adoption of a new law/act or modification of an existing one, adoption of (new) procedures and actions to enhance the implementation of reforms.

5.1.2. Reform Delivery Tool

Output indicators:

e) number of reform commitments concluded;
f) overall financial contribution allocated to the reform commitments.

Result indicators:

g) number of reform commitments completed.

5.1.3. Convergence Facility

- for the financial support component, the same indicators as referred to in letters e) to g);
- for the technical support component, the same indicators as referred to in letters a) to d).

5.2. Impact indicators of the Programme

Impact indicators of the Programme serve the purpose of measuring the degree of achievement of the objectives set under each instrument (through the appropriate individual act adopted by Member State, e.g. a reform commitments package or a cooperation and support plan) and according to the form of support provided (financial or technical support). Against this background, the impact indicators of the Programme are defined as follows:

Reform delivery tool: the objectives set in the reform commitments, which have been achieved due, *inter alia*, to the financial support received.

Technical support instrument: the objectives set in the cooperation and support plans that have been achieved due, *inter alia*, to the technical support received.

Table 2 provides an illustration of the way and frequency in which data and indicators will be collected under the Programme instruments.

Table 2: Monitoring data/indicators collection

MONITORING DATA COLLECTION				
Instrument	**Type of data**	**Frequency**	**Responsible for data collection**	**Source**
Reform delivery tool (standard or under convergence facility)	Output indicator: Number of reform commitments concluded	Annual	European Commission	Reported by Member States and stored in an internal IT tool for monitoring – JIRA - broken down by Member State and by area of intervention/policy area
Reform delivery tool (standard or under convergence facility)	Output indicator: Financial Contribution allocated	Annual	European Commission	Reported by Member States and stored in an internal IT tool for monitoring – JIRA - broken down by Member State and by area of intervention/policy area
Reform delivery tool (standard or under convergence facility)	Result indicator: Number of reforms completed	At the end of each intervention	Member State	Member State reporting
Reform delivery tool (standard or under convergence facility)	Data on the milestones and targets set in the reform commitment	Annual	Member State	Member State reporting
Technical support instrument (standard or under convergence facility)	Output indicator: Number of activities carried out	Annual	European Commission	Collected by European Commission and stored in an internal IT tool for monitoring – JIRA - broken down by Member State and by area of intervention/policy area
Technical support instrument (standard or under convergence facility)	Output indicator: Number of deliverables produced	Annual	European Commission	Collected by European Commission and stored in an internal IT tool for monitoring – JIRA - broken down by Member State and by area of intervention/policy area
Technical support instrument	Result indicator: Outcomes of the	Annual	European Commission and	Collected by European Commission and stored

(standard or under convergence facility)	technical support activities provided		Member State	in an internal IT tool for monitoring – JIRA - broken down by Member State and by area of intervention/policy area
Technical support instrument (standard or under convergence facility)	Data on the specific result and impact indicators set in the cooperation support plan	Annual	European Commission and Member State	Member State reporting

5.3. Evaluation

A mid-term evaluation and an ex-post evaluation for each instrument – technical support, financial support and convergence support- will be carried out. 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.

Evaluations will be carried out in a timely manner to feed into the decision-making process and the preparation of the next programme.

The mid-term evaluation of the Programme will be carried out by 30 June 2025. The mid-term evaluation will assess the effectiveness, efficiency, relevance, coherence and EU added value of the three instruments and aggregate the results into a cross-cutting evaluation of the overall Programme.

The ex-post evaluation will be carried out at the end of the implementation of the Programme and by 30 June 2029.The ex-post evaluation will consider in particular the success of the instruments constituting the Programme by considering the following two aspects:

1 – effective implementation of the reforms, to examine whether the Programme is incentivising the implementation of reforms and is therefore delivering the expected results; and

2 – effectiveness of the reforms in delivering the expected results and impacts related to the specific policy sector object of the reform.

For the first aspect, the following example of intervention logic will be elaborated for both the financial and technical support in agreement with the Member State in order to evaluate the success of the Programme.

Table 3: Examples of intervention logic for the three instruments

Examples of intervention logic for the three instruments					
Instrument	**Objective of the reform**	**Inputs**	**Outputs**	**Results**	**Impacts**
Reform delivery tool (standard or under convergence facility)	Strengthening the energy efficiency and renewables framework	Financial contributi on (total amount allocated)	Conclusion of the reform commitment between the European Commission and the Member State	Reform commitments completed	Increased energy efficiency and renewables framework ratios
Technical support instrument	Setting up a guaranteed	CSPs concluded	Activities and deliverables	Adoption of new	Number of people benefitting from

(standard or under convergence facility)	minimum income scheme	between the European Commission and the Member State	provided by the technical support	legislation for setting up the minimum income scheme	the scheme
Reform delivery tool (standard or under convergence facility)	Setting up a sustainable pension and social security system	Financial contribution (total amount allocated)	Conclusion of the reform commitment between the European Commission and the Member State	Reform commitments completed	Reduced pension expenditures
Technical support instrument (standard or under convergence facility)	Improving tax collection	CSPs concluded between the Commission and the Member State	Activities and deliverables provided by the technical support	Adoption of new legislation framework for revenue administrations	Increased tax compliance

For the second aspect, in the order to measure the success of the reforms in delivering the expected results after their implementation, some targets in relation to the appropriate result indicators by policy sector - will be set by the Member State.

At this stage, an illustrative example is presented in Table 4.

Table 4: Example of success factors in relation to a reform

Example of success factors in relation to a reform				
Objective of the reform	Output indicator	Result Indicator	Baseline	Target
Setting up an ICT tool in the Public Administration in order to increase productivity, achieve efficiency gains	Implementation of the ICT tool for delivering online services	• Increase in the number of daily treated requests • Decrease in the number of working hours	• Current number of daily treated requests in relation to the total • Current number of working hours of PA employees	• Target to be set on a case-by-case in relation to the baseline and considering the specific context of the Member State. Example increase of 20% in the number of treated requests • Decrease of 20% in hours spent at work (increase in productivity and efficiency gain)

Finally, the evaluations will also assess complementarity among the three instruments as part of its "coherence analysis" and a form of counterfactual analysis may be carried out (if feasible) to underpin the evidence of the EU added value of the Programme.

Annex 1: Procedural information

6. LEAD DG(S), DECIDE PLANNING/CWP REFERENCES

Structural Reform Support Service (SRSS)

7. ORGANISATION AND TIMING

An Inter-service Group/Working group, composed of representatives from relevant Commission Directorates-Generals (SG, BUDG, ECFIN, EMPL, GROW, LS, REGIO) was set up originally to assist in the drafting of the main building blocks of the new Reform Support Programme. The services were consulted on the main elements of the impact assessment and contributed to the draft impact assessment report.

As the need for the new initiative was announced only in December 2017, the fact-finding period for strengthening the analysis in the Impact Assessment remained limited.

The Inter-service Group was active in February and March 2018. This group was preceded by a working group discussing the possible proposal in detail at senior management level.

8. CONSULTATION OF THE RSB

An informal upstream meeting was held on 27 February 2018 with RSB representatives and the participation of the SG, DG BUDG and the JRC. During this discussion, Board members and representatives of the horizontal Services provided early feedback and advice on the basis of the inception impact assessment (scoping paper). Board members' feedback did not prejudge in any way the subsequent formal deliberations of the RSB.

The formal hearing with the RSB was held on 3 May. On 22 May, the Impact Assessment received a positive opinion with reservations[86] with the following comments:

Main RSB considerations	**IA report modifications**
(1) The report does not explain the rationale and the adequacy of the practical allocation of the financial support between Member States, between reform proposals and over the programming period.	The text in section 4.2.2. "2. Maximum indicative financial contribution available per Member State" has been strengthened to explain the rationale and the adequacy of the allocation key for the Reform Delivery Tool. Section 4.2.2. "5. Assessing reform proposals" has been further developed by including an illustrative example of reform commitments and their assessment justifying a payment of 50% or 100%. The rationale behind frontloading of the disbursements has been explained in section 4.2.2. "3. Allocation process and annual calls".

[86] http://ec.europa.eu/transparency/regdoc/?fuseaction=ia

(2) The scope of the initiative is not precise enough when referring to 'any relevant European Semester documents officially adopted by the Commission' when it comes to identify reforms needs.	The scope of the financial support instrument in terms of reforms covered has been clarified in section 4.2.2. "1. Types of reforms". Potential trade-offs in terms of negative social and environmental impacts have been further clarified in section 4.5. The relationship with the European pillar of Social Rights has been clarified in section 4.5.
(3) The discussion of alternative delivery mechanisms for the financial support instruments remains incomplete.	Section 4.1.2. has been redrafted to further evaluate benefits of potential co-financing requirements and partial front-loading of payments.
(4) The report is not sufficiently critical and transparent about potential risks with applying new instruments, such as moral hazard or insufficient volume for incentive or suspension, cancellation or recovery of financial support.	Section 4.3. has been modified to acknowledge that there is always a possibility that reforms are reversed after they have been fully implemented, while also stressing that provisions are included for recovery in cases of reform reversal. The rationale behind the size of the Programme has been clarified in section 3.3. Section 4.2.2 "10. Rules on payments, suspension, cancellation and recovery" has been expanded to explain better the risks related to recovering or withholding of payments and to provide explanations on legal remedies for Member States contesting the Commission's decisions on the disbursement of payments.

9. EVIDENCE, SOURCES AND QUALITY

Evidence and data were collected from the broadest possible sources (lessons learned from previous related programmes, past evaluations, literature review, etc.).

DG ECFIN has a work-stream on estimating the impact of structural reforms, using a DSGE model (QUEST) and other econometric methods. The latest publications are:

- Deroose S., and Griesse D., 2014, "Implementing Economic Reforms – Are EU Member States responding to European Semester Recommendations?" ECFIN Economic Brief, issue 37: http://ec.europa.eu/economy_finance/publications/economic_briefs/2014/pdf/eb37_en.pdf

- European Commission, "The economic impact of selected structural reform measures in Italy, France, Spain and Portugal", 2016, ECFIN Institutional Paper 23.

- European Commission, "Market reforms at work in Italy, Spain, Portugal and Greece", 2014 ECFIN European Economy 5.

- European Commission, "The growth impact of structural reforms", Quarterly report on the euro area, 2013, Vol. 12, Issue 4: http://ec.europa.eu/economy_finance/publications/qr_euro_area/2013/pdf/qrea4_section_2_en.pdf

- Varga, J. and J. in 't Veld, J., 2014. "The potential growth impact of structural reforms in the EU. A benchmarking exercise" European Economy Economic Papers No 541.

- Working Group on support to Structural Reforms, "Link between the EU budget and the European Semester.", non-paper, Issues and Options for the next MFF.

The ECFIN database on structural reforms - CeSaR - provided useful data for the assessment of the implementation of structural reforms.

The following papers also served as background information:

- Banerji, A., Barkbu, J., John, J., Kinda, T., Saksonovs, S., Schoelermann, H. and Wu, T.: "Building a better Union: incentivizing structural reforms in the euro area", 2015, IMF Working Paper, WP/15/201.
- Claeys, P., 2015, "On Measuring Structural Reform", 2015, Romanian Journal of Fiscal Policy 6 (1), 17.
- European Central Bank, "Progress with structural reforms across the euro area and their possible impacts", 2015, Economic Bulletin, Issue 2/2015.
- European Central Bank, "Increasing resilience and long-term growth: the importance of sound institutions and economic structures for euro area countries and EMU", 2016, Economic Bulletin, Issue 5/2016.
- European Central Bank, "Progress with structural reforms across the euro area and their possible impacts", 2015, Economic Bulletin, Issue 2/2015.
- European Central Bank, "The short-term fiscal implications of structural reforms", 2015, ECB Economic Bulletin, issue 7: https://www.ecb.europa.eu/pub/pdf/other/eb201507_article02.en.pdf?728f2325a9269245f5f8b3d956c1ab20
- Gros, D., & C. Alcidi. C,. 2013. ‘"Is debt deflation a risk? The trade-off between fiscal and competitiveness adjustments", 2013’ EuroParl.Europa.eu, 9 September. As of 17 May 2017: http://www.europarl.europa.eu/thinktank/en/document.html?reference=IPOL-ECON_NT(2013)497725
- Hammerschmid, G., Palaric, E., Thijs, N.," Comparative overview of public administration characteristics and performance in EU28", 2017, p. 57: http://ec.europa.eu/social/main.jsp?catId=738&langId=en&pubId=8072
- Sondermann, D., "Towards more resilient economies: the role of well-functioning economic structures", 2017, CEPS working document, No 2017/03: https://www.ceps.eu/system/files/WD%202017_03%20DSondermann%20ResilientEconomies.pdf

In 2014-2020, cohesion policy established a close link between the investment co-financed and the broader economic governance agenda and structural reforms:

- During the 2014-2020 period, annual summary reports and strategic reports in 2017 and 2019, as well as a series of thematic studies to support the Commission's proposals for the next MFF.

- European Court of Auditors, Special Report, ex-ante conditionalities and performance reserve in cohesion: innovative but not yet effective instruments, 2017.

- European Commission, "Ex Post Evaluation of the ERDF and the Cohesion Fund: Key outcomes of Cohesion Policy in 2007-2013" SWD(2016) 318 final.

- European Commission, "The Value Added of ex-ante conditionalities in the European Structural and Investment Funds", 2017, SWD(2017) 127.

- Studies to assess uptake and impact of new elements in 2014-2020 programmes and to prepare policy options (http://ec.europa.eu/regional_policy/en/policy/how/improving-investment/studies_integration).

- The 7th Report on Economic, Social and Territorial Cohesion (http://ec.europa.eu/regional_policy/en/information/publications/reports/2017/7th-report-on-economic-social-and-territorial-cohesion).

- ESF ex-post evaluation 2007-13.

- Study on: The implementation of the performance frameworks in 2014-2020 ESI Funds.

Lessons learned on the quality of the public administration have been drawn from:

- European Commission, European Semester thematic factsheet, Quality of Public Administration: https://ec.europa.eu/info/sites/info/files/file_import/european-semester_thematic-factsheet_quality-public-administration_en.pdf; and

- Sustainable Governance Indicators http://www.sgi-network.org/2016/ or Public sector achievement in 36 countries https://www.scp.nl/Publicaties/Alle_publicaties/Publicaties_2015/Public_sector_achievement_in_36_countries.

Furthermore, the following studies under finalisation served as useful background information:

- Support of European Structural and Investment Funds (ESI Funds) to the implementation of the Country Specific Recommendations and to structural reforms in Member States;

- Effective and efficient delivery of European Structural and Investment Funds investments – Exploring alternative delivery mechanisms; and

- Feasibility study for a potential use of budget support in the delivery of the European Structural and Investment Funds.

In addition, extensive lessons can be learned from:

- Lessons learned from the Commission's budget support outside the EU:
    - Evaluations of Commission's external budget support : https://ec.europa.eu/europeaid/node/80199;

  - European Commission, Budget Support Guidelines no 7, 2017;
  - European Commission, "Analysis of the findings, conclusions and recommendations of seven country evaluations of budget support", Synthesis of budget support evaluations, 2014; and
  - German Institute for Development Evaluation (Deval), "What we know about the effectiveness of budget support", Evaluation synthesis, 2017.
- Lessons learned from the technical assistance provided to non-EU countries and to Greece by TFGR (prior to the establishment of the SRSP):
  - European Commission, "Making Technical Cooperation More Effective", G, guidelines no 3, 2009;
  - Alvarez & Marsal Taxand, Adam Smith International, "VC/2014/0002 "Preliminary Evaluation of the Technical Assistance provided to Greece in 2011-2013 in the areas of Tax Administration and Central Administration Reform", 2014; and
  - European Court of Auditors, "More attention to results needed to improve the delivery of technical assistance to Greece", 2015: http://www.eca.europa.eu/Lists/ECADocuments/SR15_19/SR_TFGR_EN.pdf.
- The establishment of the SRSP as supported by its **ex ante evaluation** (SWD(2015)750 final).

Other sources of evidence include: audit reports; European semester monitoring reports and chapeau communications; the Annual Growth Survey; Reflection Papers published as part of the White Paper process, opinions of the EESC and/or COR; European Parliament reports; Council conclusions; Country-specific recommendations, etc.

The Commission's Joint Research Centre (JRC) was consulted on Section 5, performance, monitoring and evaluation.

Annex 2: Stakeholder consultation

10. RESULTS OF THE OPEN PUBLIC CONSULTATION

An open public consultation was published from the 10/01/2018 to 09/03/2018 on the following webpage: https://ec.europa.eu/info/consultations_en

For the purpose of the open public consultation, the SRSP was included in the "cohesion cluster", which covered questions in the following areas: regional policy, employment and social affairs, social inclusion, vocational education and training, research and innovation, business and industry, energy, justice and fundamental rights, migration and asylum, transport, rural development, digital economy and society, climate action, maritime affairs and fisheries, structural reforms, and youth.

In the questionnaire, the current SRSP was not explicitly mentioned as one of the funding programmes under the "cohesion cluster", therefore, the questions had only limited relevance for the design of the Reform Support Programme. The results of the public consultation could thus only be used to a limited extent (only input on questions specifically mentioning the implementation of reforms was used).

Overall, there were 4,395 respondents, who replied to the questionnaire:

- 55% of the respondents replied in their professional capacity and/or in the behalf of the organisations they represent; and

- 45% of respondents replied as individual in their personal capacity.

The respondents representing organisations were distributed as follows:

Churches and religious communities	3%
International or national public authority	8%
Non-governmental organisation, platform or network	17%
Other	17%
Private enterprise	5%
Professional consultancy, law firm, self-employed consultant	5%
Regional or local authority (public or mixed)	34%
Research and academia	5%
Trade, business or professional association	6%

76% of respondents indicated they referred in their replies to the topic of economic and sustainable development.[87]

The relevant conclusions of the stakeholder consultations can be summarised as follows:

[87] Apart from the specific question on the sound economic governance and implementation of reforms, other questions were not directly relevant to the SRSP. Considering that SRSP is a small size programme, compared to the others which are in the same cluster, and considering that flexible management modes are one of the main characteristics of the support provided so far to the requesting Member States, some responses might be of a limited relevance for the SRSP, but useful for the evaluation of the ESIF.

- A total of 63% respondents consider that the policy challenges identified by the Commission in relation to the sound economic governance and implementation of reforms by Union programmes/funds to be important or very important;
- 42% of the respondents stated that the programmes/funds were successful in promoting sound economic governance and implementation of reforms to some extent only, while 19% stated that those programmes/funds were successful to a fairly large extent. 15% replied that they were not at all successful;
- A total of 77% of respondents recognise the EU added value[88] of the current Union's programmes/funds (added value to a large extent or a fairly large extent); only 2% state that there was no EU added value at all;
- When referring to the added value compared to what Member States could achieve at national, regional and/or local levels, respondents have underlined the lack of resources as the main obstacle to the implementation of reforms in different areas such as the health care, education, etc. EU funds.[89] Support for the implementation of reform can thus be an area where the Union's intervention might prove efficient; and
- A number of respondents would like to link the achievement of long-term structural changes with national reform programmes, the CSRs and other national initiatives.

11. FEEDBACK FROM THE MEMBER STATES ON THE CURRENT SRSP

The amendment to the SRSP Regulation announced on 6 December 2017 is being discussed with the co-legislators. The SRSP was discussed in the Council on five occasions, on 13 and 28 February, 21 March 2018, 17 and 23 April. The discussions in the Council have shown that Member States are very positive about the SRSP programme and supportive of the idea to increase SRSP's budget.[90] The Council endorsed its general approach to the proposal for the SRSP amendment in the COREPER meeting of 2 May. The European Parliament is also supportive of the SRSP. Three committees are responsible for this file: REGI (lead committee), ECON and BUDG. The Plenary vote in the European Parliament is provisionally planned for July, with trilogues possibly starting after the summer break (if it is not possible in July).

A number of missions conducted by the SRSS staff in the Member States also demonstrate that technical support for the design, preparation and implementation of reforms is desirable, relevant and effective.[91]

[88] This question refers to the EU added value of the various programmes under the cluster cohesion. Therefore, it cannot be directly referred to the current SRSP programme or to sound economic governance and implementation of reforms.
[89] The majority of replies were referring to the ESIF. Since the SRSP was not mentioned in the list of programmes, it is impossible to establish an unambiguous link between the replies and the SRSP. However, given that the implementation of reforms was mentioned in a number of replies, this is an indication that implementation of reforms is important issue to be tackled in the future.
[90] See flash reports from the two Council meetings upon requests.
[91] See SRSS mission reports upon request.

12. FEEDBACK FROM THE WORKSHOPS IN MEMBER STATES ON THE REFORM DELIVERY TOOL

As part of the package of legislative and non-legislative measures for deepening EU's Economic and Monetary Union, the Commission proposed, *inter alia*, to create a new reform delivery tool for the period after 2020 to support the implementation of national reforms identified within the European Semester process of economic policy coordination. The Commission also proposed to test the idea of the reform delivery tool in a pilot phase already during the current programming period (through the amendment of the Common Provisions Regulation[92]).

In order to present to the Member States the pilot as well as the future idea of the reform delivery tool, the Commission decided to organise technical workshops in each Member State. The purpose of the workshops was two-fold: to collect Member State's views and interest in the pilot of the reform delivery tool, and to gather ideas on the design of the future reform delivery tool and possible type of reforms that could benefit from this instrument.

The feedback received from the Member States on the reform delivery tool feeds into the Impact Assessment as stakeholders' consultation.

The workshops took place in 27 Member States: Poland (9/3); Croatia (12/3); Czech Republic (12/3); Hungary (13/3); Slovakia (13/3); Ireland (14/3); Romania (15/3); Latvia (15/3); Denmark (19/3); Italy (19/3 and 12/4); Austria (20/3); Latvia (20/3); Lithuania (20/3); Luxembourg (20/3); Slovenia (20/3); Finland (21/3); Sweden (22/3); Bulgaria (23/03); France (23/3); Cyprus (26/3); the Netherlands (27/3); Belgium (27/03); Estonia (27/3); Germany (11/4); Malta (11/4); and Spain (17/4).

The section below provides a summary of Member States' feedback on the future reform delivery tool:

A large majority of Member States acknowledged the need to deal with structural reforms, but stressed at the same time that Member States should be given more ownership over the implementation of those reforms.

Some Member States would welcome a new tool for incentivising structural reforms, whereas others believe that as structural reforms pay for themselves, thus, additional financial incentives are not needed. In addition, some Member States are sceptical of creating yet another EU tool, as new instruments might lead to additional administrative burden. One Member State was of the opinion that modernisation of the ESIF alone would be sufficient to incentivise reforms. At the opposite end, one Member State stated that the size of the proposed tool (EUR 25 billion) is not sufficient.

For a large majority of Member States, the European Semester seems to be the right vehicle to deal with the future reform delivery tool. On the other hand, others pointed out to that the link with the European Semester process should not be too tight in terms of deadlines in order to

[92] European Commission, Proposal for a Regulation of the European Parliament and of the Council amending Regulation (EU) No 1303/2013 of the European Parliament and of the Council of 17 December 2013 laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No 1083/2006 as regards support to structural reforms in Member States, 2017, COM/2017/0826 final.

avoid making the process more complex and burdensome. Audit and monitoring should be proportionate to outcomes.

Reforms should be submitted through the NRPs, but this should not be the only possibility for submitting reform commitments. One Member State suggested reforming the European Semester to make the CSRs multi-annual.

Member States mostly believe that the possibility of moral hazard should be mitigated and that the tool should not finance simple, insignificant reforms, but rather reforms that can make a real difference. At the same time, one Member State pointed to the risk of delaying reforms, which are currently under way, to the post-2020 period. In addition, it was argued that there is a risk of diverting funds to Member States that have not carried out sufficient number of reforms in the past, at the expense of Member State that have implemented significant structural reforms.

Some Member States pointed out that frequent political changes hinder the implementation of reforms. In addition, they noted that, if some governments are overambitious, reforms can very often no longer be implemented when the next government takes office. One Member State felt that if a reform backtracks from a reform commitment due to a change in government, the new government should not be held responsible for possible repayments to the Commission.

Member States have divergent views on whether the future reform delivery tool should take into account reforms, which have a wider scope than the CSRs, or CSRs only. The majority of Member States is in favour of reforms that go beyond the CSRs and are at least identified in the Country Reports, or even reforms that go beyond the European Semester (e.g., corruption under Cooperation and Verification Mechanism, recommendations in the energy field, etc.). Some Member States think that reforms that are proposed in the NRPs should also be eligible, in order to further strengthen ownership of the Member States. Other Member States strongly believe that the future reform delivery tool should be limited to CSRs and its recitals to ensure that reforms that will be financed receive the endorsement of all Member States.[93]

Regarding the structure of the Programme, at this stage, Member States have more questions than answers. For some, payments for the completion of the reform should be made through several instalments/tranches, even suggest an exploration of possibilities for pre-financing. A timeframe of three years for the implementation of reforms was considered by some to be too short. One Member State believes that money should be available also for reforms, which have already taken place, but continue to have significant economic consequences.

Member States suggested taking into account some criteria for the allocation key, such as: the quality of reforms and the relevance of the reforms for a Member State, available fiscal space to implement reforms, amounts available from the cohesion funding, European added value, and incentives for small administrations and those with greater reform needs. In general, Member States believe that there needs to be a clear definition of structural reforms, as well as of the milestones and that there should be a possibility to adjust reform commitments during the implementation phase.

[93] CSRs are endorsed by the Council, while the country reports are only staff working documents.

Some Member States felt that the allocation key would need to ensure equal level playing field for all Member States and that all Member States should be eligible. Some also suggested involvement of Member States in the approval of the reform commitments, possibly through the Economic Policy Committee. The process of identifying reforms and evaluating progress in the implementation should be transparent.

Complementarity with the ESIF appears to be crucial for most Member States – but there should not be a clear link between ESIF ex-ante conditionality and the future reform delivery tool. Above all, the reform delivery tool should not come at the expenses of ESIF envelopes. Financial envelopes should not be distributed on a competitive basis and funds should be available also at the regional level.

Many Member States welcomed clearly defined complementarities between the reform delivery tool and SRSP. Many Member States were supportive of the SRSP and expressed appreciation for its added value.

Annex 3: Annexes to the Regulation establishing the Reform Support Programme

ANNEX II

Assessment guidelines

1. Scope

The purpose of these assessment guidelines is to serve together with this Regulation as a basis for the Commission to assess - in a transparent and equitable manner - the proposals for reform commitments put forward by Member States and to determine the financial contribution in conformity with the objectives and any other relevant requirements laid down in this Regulation, when the implementation of the Reform delivery tool and of the financial support component of the convergence facility. These guidelines notably represent the basis for the application of the assessment criteria and the determination of the financial contribution as referred to, respectively, in Article 11(7) and Article 12(2), and Article 28.

The guidelines are thus neither applicable to the technical support instrument nor to the technical support component of the convergence facility. Therefore, they do not apply to the assessment of requests for technical support referred to in Articles 19 and 31.

The assessment guidelines are designed to:

(a) give further guidance on the assessment process of the proposals for reform commitments submitted by Member States;

(b) provide further details on the assessment criteria and provide for a rating system, to be established with a view to ensuring an equitable and transparent process; and

(c) define the link between the assessment to be made by the Commission under the assessment criteria and the determination of the financial contribution to be set out in the Commission decision in relation to the reform commitments selected.

The guidelines are a tool to facilitate assessment by the Commission of the proposals for reform commitments as submitted by Member States, and to ensure that the Reform delivery tool and the financial support component of the convergence facility provide financial incentives for the implementation of reforms that are relevant and display high added value, while ensuring equal treatment among the Member States.

2. Process

In accordance with Article 11, a Member State wishing to receive support under the reform delivery tool shall submit a proposal for reform commitments to the Commission. The proposal shall be duly reasoned and substantiated, and shall contain all the elements referred to in Article 11(3). For the purpose of the preparation of high-quality proposals for reform commitments, peer counselling may be organised by the Commission in order to allow the Member State concerned to benefit from the experience of other Member States, prior to the submission of the proposal.

The assessment process shall be carried out by the Commission in close cooperation with the Member State concerned. The Commission may make observations or seek additional information. The Member State concerned shall provide the requested additional information and may revise the proposal, if needed, prior to its official submission. The Commission shall take into account the justification and the elements provided by the Member State concerned, and any other relevant information.

In accordance with Article 12(1), the Commission shall carry out the assessment and adopt a decision by means of an implementing act within four months of the official submission of the proposal for reform commitments by the Member State concerned.

For the purpose of the assessment of the proposals for reform commitments submitted by Member States, the Commission may be assisted by experts.

Independently of the assessment to be carried out by the Commission, the Economic Policy Committee, set up by Council decision 2000/604/EC, in consultation, where appropriate, with relevant Treaty-based Committees, may also provide its opinion on the proposals for reform commitments submitted by Member States.

The Commission decision shall set out the reform commitments to be implemented by the Member State, including the milestones and targets. It shall lay down the period for implementation of the reform commitments, which shall not be longer than three years from the adoption of that decision. It shall also establish the detailed arrangements and timetable for reporting by the Member State concerned within the European Semester process, and the relevant indicators relating to the fulfilment of the milestones and targets and the modality for providing access by the Commission to the underlying relevant data. Finally, in accordance with Article 12(2), the Commission decision shall determine the financial contribution to be allocated to the reform commitments being selected.

3. Assessment criteria

In accordance with Article 11(7), the Commission shall assess the nature and importance of the proposal for reform commitments, and, for that purpose, it shall take into account the following criteria:

(a) whether the reform commitments:

i. are expected to effectively address challenges identified in the context of the European Semester, namely:

– in the country-specific recommendations and in other relevant European Semester documents officially adopted by the Commission; or

– where applicable, in the Macroeconomic Imbalance Procedure;

ii. represent a comprehensive reform package;

iii. are expected to strengthen the performance and resilience of the economy of the Member State concerned;

iv. are expected, through their implementation, to have a lasting impact, where relevant by strengthening the institutional and administrative capacity of the Member State concerned;

and

(b) whether the internal arrangements proposed by the Member States concerned are expected to ensure an effective implementation of the reform commitments during a maximum period of three years, including the proposed milestones and targets, and the related indicators.

As a result of the assessment process, the Commission shall give ratings to the proposals for reform commitments submitted by the Member States, under each of the assessment criteria referred to in Article 11(7), in order to assess the nature and importance of the proposals under the reform delivery tool and with a view to establishing the financial allocation in accordance with Article 12(2).

For the sake of simplification and efficiency, under each criterion, the rating system shall range from A to C, as set out in the following:

3.1 Reform commitments are expected to effectively address challenges identified in the context of the European Semester

The Commission shall take into account the following elements for the assessment under this criterion:

Scope

- the proposal for reform commitments is aimed at addressing challenges identified in country-specific recommendations; or - the proposal for reform commitments is aimed at addressing challenges identified in other relevant European Semester documents officially adopted by the Commission; or - the proposal for reform commitments is aimed at addressing challenges identified in the Macroeconomic Imbalance Procedure; and - the reforms envisaged in the proposal for reform commitments are expected to effectively address the challenges identified, in that, following the completion of the proposed reform(s), those challenges would be expected to be considered resolved in the context of the European Semester process.

Rating

A – To a high extent and with high efficacy B – To a medium extent and with medium efficacy C – To a low extent and with low efficacy

3.2 Reform commitments represent a comprehensive reform package

The Commission shall take into account the following elements for the assessment under this criterion:

Scope

- the proposal for reform commitments is aimed at addressing a set of interrelated challenges for the Member State (coverage); and - the proposal for reform commitments is aimed at addressing challenges that are crucial for the functioning of the economy of the Member State (relevance).

Rating

A - Coverage and relevance are high: reform commitments aim at addressing several challenges raised in the country specific recommendations or in the Macroeconomic Imbalance Procedure; B - Coverage and relevance are medium: reform commitments aim at addressing several challenges raised in relevant European Semester documents officially adopted by the Commission; C - Coverage and relevance of reforms are low: none of the above.

3.3 Reform commitments are expected to strengthen the performance and resilience of the economy of the Member State concerned

The Commission shall take into account the following elements for the assessment under this criterion:

Scope

- the proposal for reform commitments is aimed at structurally improving the performance of the economy of the Member State; and - the proposal for reform commitments is aimed at increasing the capacity of the economic and/or social structures of the Member State to adjust to and withstand shocks.

Rating

A – High expected impact on performance and resilience B – Medium expected impact on performance and resilience C – Low expected impact on performance and resilience

3.4 Implementation of reforms is expected to have a lasting impact, where relevant by strengthening the institutional and administrative capacity

The Commission shall take into account the following elements for the assessment under this criterion:

Scope

- the implementation of the proposed reforms is expected to bring about a structural change in the administration or in relevant institutions; or - the implementation of the proposed reforms is expected to bring about a structural change in relevant policies; and - the strengthening of administrative capacity can ensure a lasting impact.

Rating

A – To a large extent B – To a moderate extent C – To a small extent

3.5 Internal arrangements proposed by the Member States concerned are expected to ensure effective implementation of the reform commitments over a maximum period of three years, including the proposed milestones and targets, and the related indicators

The Commission shall take into account the following elements for the assessment under this criterion:

Scope

- a structure is tasked within the Member State with: (i) the implementation of the reform commitments; (ii) the monitoring of progress on milestones and targets; and (iii) the reporting; and - the proposed milestones and targets are clear and realistic; and the proposed indicators are relevant, acceptable and robust; and - the overall internal arrangements, proposed by the Member States in terms of organisation (including provision to ensure sufficient staff allocation) of the implementation of the reform commitments, are credible.

Rating

A – Adequate internal arrangements for effective implementation B – Minimum internal arrangements for effective implementation C – Insufficient internal arrangements for effective implementation

4. Determination of the financial contribution under the reform delivery tool

In accordance with Article 12(2), the Commission shall determine the financial contribution taking into account the nature and importance of the reforms proposed by the Member State concerned, as assessed on the basis of the criteria set out in Article 11(7). For that purpose, it shall apply the following criteria:

(a) where the proposal for reform commitments submitted by the Member State concerned complies fully with the criteria set out in Article 11(7), the reform commitments shall be considered to be "major", and the total amount of the maximum financial contribution referred to in Article 9 shall be allocated to the Member State concerned;

(b) where the proposal for reform commitments by the Member State concerned complies satisfactorily with the criteria set out in Article 11(7), the reform commitments shall be considered to be "significant", and half of the maximum financial contribution referred to in Article 9 shall be allocated to the Member State concerned.

(c) where the proposal for reform commitments by the Member State concerned does not comply satisfactorily with the criteria set out in Article 11(7), no financial contribution shall be allocated to the Member State concerned.

As a result of the assessment process, and taking into account the ratings, the Commission shall allocate the financial contribution to the Member States in the following manner:

<u>Major reform commitments (the proposal complies fully with the assessment criteria)</u>

If the final rating includes scores with:

- all A's, or

- a majority of A's over B's and no C's,

the maximum financial contribution will be allocated to the reform proposal.

<u>Significant reform commitments (proposal complies satisfactorily with the assessment criteria)</u>

If the final rating includes scores with:

- a majority of B's over A's and no C's, or

- all B's,

half of the maximum financial contribution will be allocated to the reform proposal.

<u>Insufficient reform commitments (proposal does not comply satisfactorily with the assessment criteria)</u>

If the final rating includes scores with:

- at least one C,

no financial contribution will be allocated to the reform proposal.

5. Additional criterion under the convergence facility

In accordance with Article 27(3), in the context of the convergence facility, in addition to the criteria set out in Article 11(7), among which the assessment of the expected impact on resilience has a significant importance for the preparation for euro-area membership, the Commission shall also assess the relevance of the proposed reform commitments for preparation by the Member State concerned for participation in the euro area.

<u>5.1 Relevance of reform commitments for participation in the euro area</u>

The Commission shall take into account the following elements for the assessment under this criterion:

Scope

- the proposal for reform commitments is in line with the Member State's roadmap for preparation for participation in the euro area;
and

- the proposal for reform commitments is expected to contribute to the successful implementation of the Member State's roadmap for preparation for participation in the euro area.

Rating

A – High relevance and substantial expected contribution B – Medium relevance and moderate expected contribution C – Low relevance and limited expected contribution

5.2 Determination of the financial contribution under the convergence facility

Under the financial support component of the convergence facility, in compliance with Articles 26 and 28, the financial contribution shall be determined in accordance with the same criteria as specified in Article 12(2), and shall represent a separate and additional contribution, which shall be allocated in return for additional reforms that are important for the preparation for participation in the euro area and are undertaken by the Member State concerned.

As a result of the assessment process, and taking into account the ratings, the Commission shall allocate the financial contribution to the Member States in the following manner:

High relevance for participation in the euro area

If the final rating includes scores under all criteria with:

- All A's, or

- a majority of A's over B's and no C's,

and

the scores under the criterion on performance and resilience under point 3.3 and the criterion on relevance for participation in the euro area under point 5.1 are both A's,

the maximum financial contribution will be allocated to the reform proposal.

Medium relevance for participation in the euro area

If the final rating includes scores under all criteria with:

- a majority of B's over A's and no C's,

and

the score for the criterion on performance and resilience under point 3.3 is an A and the score for the criterion on relevance for participation in the euro area under point 5.1 is a B,

half of the maximum financial contribution will be allocated to the reform proposal.

Low relevance for participation in the euro area

Irrespective of other scores, if the criteria on performance and resilience under point 3.3 is awarded a B or a C,

no financial contribution will be allocated to the reform proposal.

ANNEX III

Indicators

The achievement of the objectives referred to in Articles 4 and 5 shall be measured on the basis of the following indicators, broken down by Member State and by area of intervention.

Indicators shall be used in accordance with data and information available, including quantitative and/or qualitative data.

Reform delivery tool

- **Output indicators:**
  - (a) number of reform commitments concluded;
  - (b) overall financial contribution allocated to the reform commitments;
- **Result indicators:**
  - (c) number of reform commitments completed;

Technical support instrument

- **Output indicators:**
  - (d) number of cooperation and support plans concluded;
  - (e) number of technical support activities carried out;
  - (f) deliverables provided by the technical support activities such as action plans, roadmaps, guidelines, handbooks, and recommendations;
- **Result indicators:**
  - (g) outcomes of the technical support activities provided, such as adoption of a strategy, adoption of a new law /act or modification of an existing one, adoption of (new) procedures and actions to enhance the implementation of reforms;

Convergence facility

- for the financial support component, the same indicators as referred to in points a) to c);
- for the technical support component the same indicators as referred to in points d) to g).

Impact indicators of the Programme

- The objectives set in the reform commitments, which have been achieved due, inter alia, to the financial support received under the instruments of the Programme;
- The objectives set in the cooperation and support plans, which have been achieved due, inter alia, to the technical support received under the instruments of the Programme.

The ex-post evaluation referred to Article 36 shall be undertaken by the Commission also with the purpose of establishing the links between the (financial and technical) support from the Programme and the implementation of structural reforms in the Member State concerned with a view to enhancing competitiveness, productivity, growth, jobs and cohesion.