European Committee of the Regions

ECON-VI/031

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OPINION

The amended SRSP and new budgetary instruments for the euro area

THE EUROPEAN COMMITTEE OF THE REGIONS

- agrees with the Commission that one of the main objectives of the support programme should be to improve administrative capacity at national, regional and local levels of government in requesting Member States;
- stresses that … the SRSP should become permanent after 2020 only upon a positive assessment of its results in 2017-2020;
- stresses that there are many obstacles to the proper planning and implementation of … structural reforms in the Member States, including lack of ownership, political and institutional complexity of reforms, possible negative impacts on social groups and territories, lack of fiscal room ... Generally, ownership at national level for the implementation of CSR is still considered insufficient and this is in part due to lack of full involvement of local and regional authorities in the process as partners;
- suggests that budgetary support for structural reforms to promote economic, social and territorial cohesion and falling within the remit of cohesion policy should be supported by means of the future ESIF programmes while respecting the principles of subsidiarity, partnership and multilevel governance instead of setting up a separate funding programme;
- stresses that a stabilisation function preserving public investment levels in difficult times from large asymmetric shocks is of the utmost importance for the local and regional authorities; believes that the proposed European Investment Protection Scheme could be a first step towards such a stabilisation function; stresses that the Scheme may prove of limited use for Member States with scant fiscal room, which may find it difficult to borrow in times of crisis.

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Rapporteur-general

Olga ZRIHEN (BE/PES), Member of the Walloon Parliament

Reference documents

Communication on new budgetary instruments for a stable euro area within the Union framework
COM(2017) 822 final

Proposal for a Regulation of the European Parliament and of the Council amending Regulation (EU) 2017/825 to increase the financial envelope of the Structural Reform Support Programme and adapt its general objective
COM(2017) 825 final

For information:
Communication on further steps towards completing Europe's Economic and Monetary Union: A Roadmap
COM(2017) 821 final

Opinion of the European Committee of the Regions –
The amended SRSP and new budgetary instruments for the euro area

I. RECOMMENDATIONS FOR AMENDMENTS

Proposal for a Regulation of the European Parliament and of the Council amending Regulation (EU) 2017/825 to increase the financial envelope of the Structural Reform Support Programme and adapt its general objective COM(2017) 825 final

Amendment 1
Recital 1

Text proposed by the Commission	***CoR amendment***
The Structural Reform Support Programme ('the Programme') was established with the objective of strengthening the capacity of Member States to prepare and implement growth-sustaining administrative and structural reforms, including through assistance for the efficient and effective use of the Union funds. Support under the Programme is provided by the Commission, upon request by a Member State, ***and can cover a wide range of policy areas***. Developing resilient economies built on strong economic and social structures, which allow Member States to efficiently absorb shocks and swiftly recover from them, contribute**s** to economic ***and*** social cohesion. ***The implementation of institutional, administrative and growth-sustaining structural reforms is an appropriate tool for achieving such a development.***	The Structural Reform Support Programme ('the Programme') was established with the objective of strengthening the capacity of Member States to prepare and implement growth-sustaining administrative and structural reforms ***which are relevant for the implementation of the EU Treaty objectives and relate directly to EU competences***, including through assistance for the efficient and effective use of the Union funds. Support under the Programme is provided by the Commission, upon request by a Member State. Developing resilient economies built on strong economic and social structures, which allow Member States to efficiently absorb shocks and swiftly recover from them, ***should*** contribute to economic**,** social ***and territorial*** cohesion. ***Ownership of EU-relevant structural reforms on the ground, in particular through local and regional authorities and the social partners, is essential for the Programme to be successful.***

Amendment 2
Recital 3

Text proposed by the Commission	***CoR amendment***
Strengthening economic ***and*** social cohesion ***by reinforcing*** structural reforms is crucial for successful participation in the Economic and Monetary Union. That is particularly important for Member States whose currency is not the euro, in their preparation to join the euro area.	Strengthening economic**,** social ***and territorial*** cohesion ***through EU-relevant*** structural reforms is crucial for successful participation ***and enhanced convergence*** in the Economic and Monetary Union. That is particularly important for Member States whose currency is not the euro, in their preparation to join the euro area.

Amendment 3

Recital 5

Text proposed by the Commission	*CoR amendment*
It is also necessary to indicate that actions and activities of the Programme may support reforms that may help Member States that wish to adopt the euro to prepare for participation in the euro area.	

Reason
Redundant given Recital 3.

Amendment 4

Recital 6

Text proposed by the Commission	*CoR amendment*
In order to meet the growing demand for support from Member States, and in view of the need to support the implementation of structural reforms in Member States whose currency is not the euro, the financial allocation for the Programme should be increased to a sufficient level that allows the Union to provide support that meets the needs of the requesting Member States.	In order to meet the growing demand for support from Member States, and in view of the need to support the implementation of ***EU-relevant*** structural reforms in Member States whose currency is not the euro, the financial allocation for the Programme should be increased ***by using the Flexibility Instrument under Article 11 of the current Multiannual Financial Framework*** to a sufficient level that allows the Union to provide support that meets the needs of the requesting Member States.

Amendment 5

Article 1

Text proposed by the Commission	*CoR amendment*
"Article 4 General objective The general objective of the Programme shall be to contribute to institutional, administrative and growth-sustaining structural reforms in the Member States by providing support to ***national*** authorities for measures aimed at reforming and strengthening institutions, governance, public administration, and economic and social sectors in response to economic and social challenges, with a view to enhancing cohesion, competitiveness, productivity, sustainable growth,	"Article 4 General objective The general objective of the Programme shall be to contribute to institutional, administrative and growth-sustaining structural reforms in the Member States ***that bring European added value in policy areas relating to competences shared between the Union and the Member States and that are not already targeted by a technical assistance programme*** by providing support to ***Member States' public*** authorities for measures aimed at reforming and strengthening institutions,

job creation, and investment, which will also prepare for participation in the euro area, in particular in the context of economic governance processes, including through assistance for the efficient, effective and transparent use of the Union funds.”;	governance, public administration, and economic and social sectors in response to economic and social challenges, with a view to enhancing cohesion, competitiveness, productivity, sustainable growth, job creation, and investment, which will also prepare for participation in the euro area, in particular in the context of economic governance processes, including through assistance for the efficient, effective and transparent use of the Union funds.”;

Amendment 6

New Article 1(1)a

Text proposed by the Commission	***CoR amendment***
	Article 5.2. The specific objectives set out in para. 1 shall refer to policy areas related to cohesion, competitiveness, productivity, innovation, smart, sustainable, and inclusive growth, jobs and investment, in particular to one or more of the following: a) public financial and asset management, budget process, debt management and revenue administration; b) ~~***institutional reform and***~~ efficient ~~***and service-oriented***~~ functioning of public administration, including, where appropriate, through the simplification of rules, effective rule of law, reform of the justice systems and reinforcement of the fight against fraud, corruption and money laundering; c) business environment (including for SMEs), re-industrialisation, private sector development, investment, public participation in enterprises, ~~***privatisation processes,***~~ trade and foreign direct investment, competition and public procurement, sustainable sectoral development and support for innovation and digitalisation; d) education and training; labour market policies, including social dialogue, for the creation of jobs; the fight against poverty; the promotion of social inclusion; social security and social welfare systems; public health and healthcare systems; as well as cohesion, asylum, migration and border

	policies; e) policies for implementing climate action, promoting energy efficiency and achieving energy diversification, as well as for the agricultural sector, fisheries and the sustainable development of rural areas; f) financial sector policies, including the promotion of financial literacy, financial stability, access to finance and lending to the real economy; the production, provision and quality monitoring of data and statistics; and policies aimed at combating tax evasion.

II. POLICY RECOMMENDATIONS

THE EUROPEAN COMMITTEE OF THE REGIONS,

On the amendment to the Regulation for the SRSP 2018-2020

1. agrees with the principle underlying this support programme, which aims to provide – on a voluntary basis and upon request – technical assistance with regard to structural reforms in Member States. In the CoR's view however, the scope of these structural reforms eligible for EU support should be limited to policy areas that are relevant for the implementation of the EU Treaty objectives and relate directly to EU competences. The CoR rejects any proposal to finance unspecified structural reforms in the Member States which have not undergone a prior European added value assessment and which do not relate directly to Treaty-based EU competences. In this context, points to its resolution of 1 February 2018 rejecting the Commission proposal for a regulation amending the Common Provisions Regulation (EU) No 1303/2013 of 6 December 2017[1];

2. agrees with the Commission that one of the main objectives of the support programme should be to improve administrative capacity at national, regional and local levels of government in requesting Member States; underlines the importance of multi-level governance and a place-based approach in the identification and implementation of reforms;

3. calls for a single set of guidelines covering all EU-funded tools to improve administrative structures and allowing for effective coordination with existing technical assistance programmes at EU and beneficiary Member State level, as also requested by the European Court of Auditors (ECA);

4. regrets that the Commission has not provided quantitative and qualitative evidence that the Programme is up to the task. Stresses that as a technical support programme, the SRSP should become permanent after 2020 only upon a positive assessment of its results in 2017-2020;

1 COM(2017) 826 final.

5. stresses that, in view of the division of powers and responsibilities applying in each Member State and the country-specific recommendations (CSR) often addressed to local and regional authorities, the programme must be open to local and regional authorities;

6. is pleased that the Commission proposes to increase the budget of the amended SRSP programme by using the Flexibility Instrument under Article 11 of the current Multiannual Financial Framework;

On ownership and financing of EU-relevant structural reforms

7. stresses that there are many obstacles to the proper planning and implementation of EU-relevant structural reforms in the Member States, including lack of ownership, political and institutional complexity of reforms, possible negative impacts on social groups and territories, lack of fiscal room to bear the cost of reforms, insufficient administrative and institutional capacity, and lack of coordination across levels of government. Generally, ownership at national level for the implementation of CSR is still considered insufficient and this is in part due to lack of full involvement of local and regional authorities in the process as partners;

8. underlines that knowledge centres, providing free technical assistance to local and regional authorities on how to interpret EU rules and utilise EU Funds, play an important role in ensuring effective implementation of rules and absorption of Funds. Calls for Member States who do not have such knowledge centres to consider creating them so as to facilitate the effective use of the new budgetary instrument;

9. highlights that while certain CSR have a legal anchorage through the relevant Stability and Growth Pact (SGP) and Macro-Economic Imbalance (MIP) procedures, others are of political relevance rather than being legally binding; notes that neither the threat of sanctions under the SGP and MIP nor political exposure have ensured satisfactory implementation of the CSR and an increased ownership of reforms. Calls for a more bottom-up approach through the involvement of local and regional authorities to help create greater ownership;

10. notes that, while the importance of economic policy coordination in the EU is undeniable, it is yet to be ascertained whether the financial incentives and commitments envisaged for certain reforms in the Member States actually have a corresponding legal basis in the Treaty on the Functioning of the European Union; also questions the plan to bind and commit substantial financial resources to an instrument that provides assistance on a purely voluntary basis and is based on an opaque application selection and validation system that would create problems with regard to thematic prioritisation, budget planning and a fair territorial balance;

11. insists also that in light of the current division of powers, many EU-relevant structural reforms affect areas of shared competence of the national and sub-national levels of government. Therefore, to avoid infringements of the subsidiarity and proportionality principles, Member States must involve their regional and local governments as permanent partners in the design and implementation of structural reforms;

12. deplores, therefore, the Commission's proposal that reform commitment and financial incentives be agreed bilaterally between the Commission and national governments and implemented in the context of the European Semester, without allowing for the formal involvement of regional or local levels of government in line with the internal division of powers within each Member State. There is a real risk that the proposed approach would end up jeopardising this division of powers and violating the principles of subsidiarity and local or regional self-government as defined in the corresponding Council of Europe charters. By way of illustration, the reflection paper on "deepening the EMU", published by the Commission in May 2017, refers for instance to the proposals to agree on binding standards to measure the quality of public spending. Surveillance on these standards through existing scoreboards would be embedded in the European Semester. Making access to EU funds conditional upon achieving a given level of these standards, would amount to the EU imposing its approach and policy direction in policy areas in which it shares competences with the lower levels of government - which would breach the subsidiarity principle;

13. deplores furthermore that criteria for assessing the achievement of reform commitments and the triggering of payment tranches are set and administered by the Commission alone, without the Member State authorities; notes that the proposal lacks transparency on the assessment criteria and that such criteria cannot be deduced from the CSR, which are generally defined without targets, milestones and provisions for systematic monitoring; believes, ultimately, that EU financial incentives should not be perceived as an attempt to bypass democratic processes at European or national level, or as financial blackmail;

14. regrets that the Commission does not provide any basis and indication on how the proposed financial incentives should be quantified, while acknowledging that the quantification of the short-term costs of reforms is likely to vary considerably, according to whether it includes only administrative costs (design, implementation and capacity building) or social costs as well;

15. stresses that reform commitments should build on a realistic assessment of the institutional and administrative capacity challenges of the public bodies concerned, and should include appropriate strategies to improve administrative structures. The uneven playing field which exists between EU Member States and regions regarding administrative structures, also shown by the CoR analysis of the CSR from a territorial perspective, has to be considered;

16. notes that other EU policies help promote structural reforms. This is the case for the ESI Funds, by means of ex-ante conditionalities, insofar as they relate to the implementation of EU law, to the improvement of administrative structures and, through thematic concentration, to the implementation of the reforms falling within the remit of the Europe 2020 Strategy; stresses therefore that it is of the utmost necessity to provide a policy framework succeeding the Europe 2020 Strategy in order to allow for continued thematic concentration in the next programming period. Underlines that this new framework needs to be based on a new territorial vision bringing the 1999 Spatial Development Perspective up to date[2];

2 CdR 4285/2015

17. also insists that any further link between EU-relevant structural reforms and cohesion policy makes it even more important that the European Semester be democratised at European level and complemented by a Code of Conduct setting standards for the involvement of local and regional authorities in order to increase the efficiency and ownership of the process[3]; stresses that the principles of subsidiarity, proportionality, partnership and multilevel governance should be the common foundation of cohesion policy and other EU policies supporting structural reforms;

18. reiterates its request that the new EMU budgetary tools be funded without crowding out private investments as well as other public funding schemes such as the EU's cohesion policy funding;

19. considers that the proposal for financial incentives for structural reforms, as presented in the communication, is insufficient as a basis upon which to develop the necessary legislative proposals; deplores that the Commission has undertaken no impact assessment nor any stakeholder consultation before publishing it;

20. regrets that the proposal for a pilot phase in 2018-2020 for the reform delivery tool, and related changes to the SRSP regulation and the CPR, is inconsistent with the announced publication of the new MFF proposal in May 2018;

21. therefore suggests that the **following principles** be taken into account when developing a financial support tool to support structural reforms:

    - budgetary support for structural reforms to promote economic, social and territorial cohesion and falling within the remit of cohesion policy should be supported by means of the future ESIF programmes while respecting the principles of subsidiarity, partnership and multilevel governance instead of setting up a separate funding programme;
    - the share for cohesion policy in the next MFF must remain at the same level as today to ensure the effectiveness of the policy, and a "top slicing" of ESIF resources to fund structural reforms has to be avoided;
    - EU funding for structural reforms falling outside the remit of cohesion policy should be supported by providing loans instead of grants;
    - the way of defining and deciding on structural reforms needs to be revised by including local and regional authorities in the European Semester. This would enable a "territorial dimension" to be added to the European Semester and also facilitate the territorial diversity in Europe, being taken into account and would ensure the full participation of local and regional authorities in the National Reform Programmes and would help respect the division of powers in the EU;
    - any proposal for EU funding for structural reforms needs to include an ex ante impact assessment and a stakeholder consultation and should include provisions for a mid-term evaluation.

3 CdR 5386/2016

Budgetary instruments for Member States willing to join the euro and for the Banking Union

22. notes that resilient economic structures and a high degree of sustainable convergence are preconditions for Member States to adopt the euro; welcomes the proposal to create a convergence facility to support Member States engaging in this endeavour; urges the Commission to clarify the respective roles of the convergence facility, the SRSP, the ESI Funds and the Cohesion Fund;

23. reiterates its support for the completion of the Banking Union; notes that the Member States have not yet agreed on a fiscal backstop should the Single Resolution Fund prove insufficient; welcomes the Commission proposal to set up a credit line or guarantees within the future European Monetary Fund;

A stabilisation function to protect investment from large asymmetric shocks

24. reiterates that differences in the business cycles of euro area Member States, stemming from structural factors, could be smoothed out by creating an EU instrument to address asymmetric shocks; agrees with the Commission about the criteria which the stabilisation function needs to fulfil;

25. reiterates its view that to be effective, any potential support should not overlap with but rather complement existing instruments such as the European Structural and Investment Funds (ESIF) and the European Fund for Strategic Investment (EFSI);

26. agrees with the Commission that the fiscal capacity should be large enough to be effective; reiterates however its opposition to making euro area fiscal capacity a euro area heading in the EU budget while the own resources ceiling remains fixed at the current level of 1.23% of EU GNI, to avoid a crowding out effect on funding for the ESIF and other EU policies;

27. stresses that a stabilisation function preserving public investment levels in difficult times from large asymmetric shocks is of the utmost importance for the local and regional authorities; believes that the proposed European Investment Protection Scheme could be a first step towards such a stabilisation function;

28. insists on the importance of the "stabilisation function" of cohesion policy which, combined with elements of flexibilisation such as the increase of EU co-financing rates and the modulation of pre-financing, played an important role during the financial crisis in safeguarding public investment in regions suffering asymmetric economic shocks;

29. notes that the proposed European Investment Protection Scheme would start with loans, a relatively small grant component and an insurance mechanism based on voluntary Member State contributions; stresses that the Scheme may prove of limited use for Member States with scant fiscal room, which may find it difficult to borrow in times of crisis;

30. calls on the Commission to elaborate on grant-based or insurance-based stabilisation schemes, such as a rainy day fund;

31. looks forward to the announced national investment platforms in which local and regional authorities will play a role, building on their experiences with the ESI Funds and the EFSI.

Brussels, 22 March 2018

The President
of the European Committee of the Regions

Karl-Heinz Lambertz

The Secretary-General
of the European Committee of the Regions

Jiří Buriánek

III. PROCEDURE

Title	**The amended SRSP and new budgetary instruments for the euro area**
References	– Proposal for a Regulation of the European Parliament and of the Council amending Regulation (EU) 2017/825 to increase the financial envelope of the Structural Reform Support Programme and adapt its general objective, COM(2017) 825 final – European Commission communication of 6.12.2017 on new EMU budgetary instruments, COM(2017) 822 final – European Commission communication of 6.12.2017 on a roadmap for deepening Europe's Economic and Monetary Union (EMU)
Legal basis	Article 307 of the Treaty on the Functioning of the European Union
Procedural basis	Rule 41(a) of the CoR Rules of Procedure
Date of Council/EP referral/Date of Commission letter	
Date of Bureau/President's decision	31 January 2018
Commission responsible	Commission for Economic Policy (ECON)
Rapporteur- general	Olga Zrihen (BE/PES), Member of the Walloon Parliament
Analysis	
Discussed in commission	/
Date adopted by commission	/
Result of the vote in commission	/
Date adopted in plenary	Planned for 22-23 March 2018
Previous Committee opinions	– CoR opinion on the Structural Reform Support Programme for the period 2017 to 2020 – CoR Resolution of 1.2.2018 on the European Commission's proposal of targeted changes to the Common Provisions Regulation governing the European Structural and Investment Funds – CoR opinion of 30.11.2017 on the Reflection Paper on Deepening the Economic and Monetary Union by 2025 – CoR opinion of 11.5.2017 on improving the governance of the European Semester: a Code of Conduct for the involvement of the local and regional authorities
Date of subsidiarity monitoring consultation	/

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