



**European Committee
of the Regions**

**Commission for Economic Policy
(ECON)**

Brussels, 27 January 2020

Stakeholders' consultation in view of the CoR opinion on
The Budgetary Instrument for Convergence and Competitiveness
(revised opinion on the Reform Support Programme)

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European Committee of the Regions, Rue Belliard 99-101, Brussels

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Background note and questions for discussion

Reasons for this opinion, and timeline

The [Euro Summit of 13 December 2019](#) endorsed the term sheet on the BICC agreed upon at the [Eurogroup meeting of 9 October 2019](#), building on the preliminary [agreement of 13 June 2019](#). The BICC will replace the Reform Delivery Tool (RDT) as part of the proposed [Reform Support Programme](#) (RSP)¹.

The other two legs of the RSP are the Technical Support Instrument and, for non-euro area member states, the Convergence and Reform Instrument (formerly Convergence Facility). On 24.07.2019, the EC published a separate [draft regulation on the governance of the BICC](#), focusing on the role of the Eurogroup in it.

Since the BICC differs substantially from the RDT, and other parts of the former RSP proposal could also be revised, the European Committee of the Regions has decided to adopt an opinion on the BICC, revising [its previous opinion on the RSP](#).

The draft revised CoR opinion is scheduled for adoption at the ECON Commission meeting of 2 March 2020 and at the Plenary Session of 25-26 March 2020.

The BICC

The BICC is a budgetary tool for the euro area (EA) that funds integrated packages of public investments and structural reforms voluntarily initiated by EA countries, upon guidance given by the Eurogroup alongside the European Semester. Beneficiary Member States will report on the implementation of the packages in the context of the European Semester. The BICC aims at strengthening the beneficiaries' growth potential, hence favouring convergence within, and competitiveness of, the EA, strengthening the resilience of the EA against economic shocks.

The key features of the BICC as agreed so far, and its main differences from the RDT, are as follows:

- **Eligible projects**. The BICC will support integrated packages of **public investments and structural reforms** (unlike the former Reform Delivery Tool, which supported only reforms). However, it is not yet clear what kind of projects will be eligible under the BICC.
- **Allocation of resources**. Although the legal base of the RSP/BICC will be art. 175 TFEU (referring to goal of economic, social and territorial cohesion), [Eurogroup President Centeno](#) made it clear that "this is not a cohesion fund".
 - In fact, (a) at least 80% of the **financial resources** will be allocated based on population and the inverse of per capita GDP, with a clause ensuring that (b) no country will receive less

¹ After the Eurogroup of November 2019, though, its President reported that "several members asked for a dedicated regulation on the BICC on the ground that it is a standalone instrument".

than 70% of its share – that is, net contributors will get back not less than 70% of their contribution.

- Only the remaining maximum of 20% of the overall envelope would be used in a flexible manner to face country-specific challenges.

- The initial version of the RSP used only population as an allocation key, which was widely criticized, including in the relevant CoR opinion. However, the redistributive impact of adding the inverse of GDP per capita to population is remarkably weakened by the clause that allows net creditors to get back not less than 70% of their contribution.

- **Disbursement, modulation, co-financing.** Support will be through grants and will be related to the real costs of the investments and, where applicable, of structural reforms (instead of the lump sum foreseen in the RSP).
 - The grant will be paid in instalments.
 - National co-financing of 25% is requested; however, severe economic events, as defined in the Commission's [Communication on flexibility in the SGP \(January 2015\)](#) could trigger reduction of co-financing to a half.
- **Governance.** It will work as follows:
 - The Euro Summit/Euro group issues strengthened recommendations for investments and reforms in the euro area at the beginning of each European Semester, and CSRs on investment and reforms for euro-area MS.
 - MS submit (voluntary) proposals of packages including reforms and investments, 'linked to the NRP' (i.e., not necessarily attached to it, but in the same context);
 - The EU takes a decision, which involves the Commission, the Council preparatory bodies and the Eurogroup as necessary;
 - Monitoring, reporting takes place in the context of the European Semester.
- **Size of the instrument, funding issues**
 - The BICC's global envelope will be part of the EU budget and will be defined in the context of the MFF negotiation.
 - The starting point is 'the euro area share of the financial envelope originally proposed by the Commission for the Reform Delivery Tool [the EC proposal was €22bn overall, of which €17bn for the euro area].
 - An 'enabling clause' would give MS the possibility of providing additional financing to the BICC in the future, based on a specific Intergovernmental Agreement (IGA). The IGA is currently being negotiated within the Eurogroup.
- **Non-euro area Member States.** A Convergence and Reform Instrument will be set up for non-euro area Member States.
- **Stabilization.** The possibility of reducing national co-financing in case of "severe economic conditions", as well as the possibility of an IGA to add funds to the BICC, may be seen as embryos of a stabilization function. However, the BICC, as it has been currently agreed, is not meant to serve stabilization purposes, and would not have enough funding to credibly do

so. While some Member States stressed the need of a stabilization function for the EA during the discussions leading to the BICC, others opposed it. The Von der Leyen Commission has committed to work on a European Unemployment Benefit Reinsurance Scheme.

The BICC proposal includes some of the requests the CoR made in its opinion on the RSP:

- The instrument should support packages including also investments, not only structural reforms;
- Grants should be linked to the cost of the package, instead of being a lump sum;
- Grants will be paid in annual instalments, instead of a single payment after the package is implemented.

Detailed information can be found in a Council's [Explainer](#) (FAQs, last retrieved on 12.01.2020) and in the Briefing "[What do we know about the BICC today?](#)", published by the EP's EGOV unit on 29 November 2019.

Main questions for debate

1) The cohesion goal

Despite its legal base (art. 175 TFEU), and some progress made with respect to the RSP, the BICC does not seem yet to be fully and clearly pursuing the Treaty objective of cohesion.

The Eurogroup political agreement says that (a) at least 80% of the funds will be actually shared between all contributing countries according to "inverted GDP per capita and population" (whereas for the RSP it was only "population"), adding however that (b) no country will receive less than 70% of its share – including net contributors, which weakens considerably the redistributive impact of the instrument.

The financial room for the BICC to deal flexibly with particularly ambitious integrated packages of public investments and structural reforms, which some Member states – notably those most in need - may submit to deal with country-specific challenges, is limited to a maximum of 20% of the whole envelope. And [Eurogroup President Centeno](#) made it clear that "this is not a cohesion fund".

In its opinion on the RSP, the CoR suggested that funds be allocated in the same way as cohesion policy's, and did not consider any "rebate" in favour of net contributors.

► ***How could the BICC be revised to focus efforts on the Member States and regions most in need?***

2) The global envelope and the stabilization function

The BICC will be funded by the EU budget, and its global envelope will be part of the MFF negotiation. The amount of €25bn, of which €17bn for euro area countries, is purely indicative at this stage. There is an ongoing discussion on the possibility for member countries to contribute further resources to the BICC based on an Intergovernmental Agreement.

The issue of the lack of a fiscal capacity of the EMU for stabilization purposes in cases of asymmetric shocks, has been – and is being – widely discussed, with no political agreement in sight so far. The Juncker Commission had proposed a European Investment Stabilization Function, which the CoR supported also in view of supporting investments by local and regional authorities. However, this proposal was not put forward by the Euro Summit of December 2018.

From this perspective, the BICC could be seen in theory as the embryo of a fiscal capacity of the euro area. However, despite the possibility of cutting by half the standard co-financing rate of 25% in the event of severe economic circumstances, the BICC stabilisation potential would be very scant. In fact, if (a) the global envelope may remain of the order of magnitude proposed in the RSP, (b) the allocation criteria will ensure that most of the funds are returned to contributors and (c) the governance of the instrument will take place in the context of the European Semester (hardly appropriate to take short-term decisions in a flexible manner), then the BICC would remain mainly geared towards convergence and competitiveness.

► *As the proposal of a European Investment Stabilisation Function seems to make no progress, shouldn't the BICC proposal be amended to be able to intervene in case of asymmetric shocks hitting public investment in some euro zone countries?*

3) The governance of the BICC

The BICC will be managed by the European Commission in the context of the European Semester, with a relevant guidance role plaid by the Eurogroup. Eligible packages of investments and structural reforms will have to be in line with the priorities set in the context of the European Semester, building on dedicated country-specific recommendations issued by the Eurogroup. However, there is no indication on the kind of investments and reforms eligible to BICC support (as was already the case with the RSP).

Only EU-level actors have a role (EC, Council, ECA, EP) while no mechanism is foreseen for the national parliaments to have a say, nor to involve the sub-national levels of government and the relevant stakeholders.

The specific role of the Eurogroup, enshrined in the [draft regulation on the governance of the BICC](#), gives the relevant Member States a stronger role in the process than was foreseen in the RSP. In

its opinion on the BICC², the ECB stated that, to ensure the necessary consistency across processes and procedures, to the extent possible, the governance of the BICC should go hand in hand with the European Semester and all other existing mechanisms of economic policy coordination. The ECB stressed that there is a need of consistency of the CSGs with the CSR, to ensure that packages including investments and structural reforms submitted under the BICC are assessed against commonly-agreed country-specific policy needs.

In the end, the governance of the European Semester, and therefore of the BICC, remains basically centralised and top-down - an even more serious drawback since the ES now gives guidance to the ESIF. This setting does not ensure that policy packages are really place-based, actually reflecting regional disparities, differences in starting points and related policy needs. Moreover, it does not ensure coherence and coordination of the beneficiaries' investment policies, in particular EU-funded ones.

Therefore, the CoR opinion on the RSP still applies, when it states that the CoR "notes the increased importance of the European Semester and stresses that, to ensure ownership and effective implementation of reforms, local and regional authorities should be involved in the Semester from its initial phases as design and implementation partners, and that this should become a criterion to assess the credibility of reform implementation arrangements".

► *How could local and regional authorities be involved in the governance of the BICC process, and in particular in the European Semester, to ensure that the BICC adopts a place-based approach and enjoys ownership on the ground?*

² Opinion of the European Central Bank on a governance framework for the budgetary instrument for convergence and competitiveness for the euro area, 30 October 2019, at https://www.ecb.europa.eu/ecb/legal/pdf/en_con_2019_37.sign.pdf