What Role for the European Semester in the recovery plan?

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Abstract

Accessing funds of the EU’s Recovery and Resilience Facility (RRF) depends on detailed national Recovery and Resilience Plans (RRPs) being agreed upon, and projects meeting implementation milestones. The RRP will be embedded in the European Semester, the EU’s framework for economic policy coordination. This paper suggests that there are risks to the implementation of the RRP, and/or to an objective evaluation of their progress. While the Treaty specifies that the execution of economic policy coordination shall be done by the Member States within the Council, the involvement of the European Parliament would potentially increase transparency and accountability for national policy makers (as well as the Commission and Council), which could improve project delivery and thus benefit the recovery.

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<tr>
<th>Abbreviation</th>
<th>Full Form</th>
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<tr>
<td>AGS</td>
<td>Annual Growth Survey</td>
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<td>Annual Sustainable Growth Strategy</td>
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<td>AMR</td>
<td>Alert Mechanism Report</td>
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<td>BEPG</td>
<td>Broad Economic Policy Guidelines</td>
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<td>CSR</td>
<td>Country Specific Recommendations</td>
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<td>DG ECFIN</td>
<td>Directorate General for Economic and Financial Affairs</td>
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<td>ECOFIN</td>
<td>Economic and Financial Affairs Council</td>
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<td>EDP</td>
<td>Excessive Deficit Procedure</td>
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<td>EFC</td>
<td>Economic and Financial Committee</td>
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<td>EMU</td>
<td>Economic and Monetary Union</td>
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<td>EP</td>
<td>European Parliament</td>
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<td>EPC</td>
<td>Economic Policy Committee</td>
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<td>ESI Funds</td>
<td>European Structural and Investment Funds</td>
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<td>MFF</td>
<td>Multiannual Financial Framework</td>
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<td>MIP</td>
<td>Macroeconomic Imbalance Procedure</td>
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<td>MS</td>
<td>Member State</td>
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<td>ORD</td>
<td>Own Resources Decision</td>
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<td>RRP</td>
<td>Recovery and Resilience Plan</td>
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<td>SG</td>
<td>Secretariat General of the European Commission</td>
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<td>SGP</td>
<td>Stability and Growth Pact</td>
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<td>TFEU</td>
<td>Treaty on the Functioning of the European Union</td>
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INTRODUCTION AND EXECUTIVE SUMMARY

The EU acted decisively in putting forward a European fiscal response to the socio-economic fallout of the pandemic. The European Council agreed in July on the next Multiannual Financial Framework (MFF), including a EUR 750 bn “Next Generation EU” of which the Recovery and Resilience Facility (RRF) is the main component. Awaiting the EP’s consent to the next Multiannual Financial Framework (MFF), questions on governance and implementation of the RRF are becoming increasingly important.

In this paper we look at the implications arising from the focus of the Recovery and Resilience Plans (RRPs) in the context of the European Semester. Not least thanks to the Semester process, there is a well-established body of work and recommendations that summarises the economic strengths - and especially weaknesses - of individual Member States.

However, as we show, the current Semester processes have a number of inherent weaknesses. One, the Country Specific Recommendations (CSRs) have a tendency to be a catch-all of different priorities of different DGs of the Commission. Two, the genuine main reform needs are - per definition - of a long term nature, and cause and effect of reforms (or their absence) may be difficult to discern. Three, importantly, the recommendations have often not been taken as seriously by national policy makers as they would have deserved, and thus lacked national ownership.

The processes of designing the RRPs, agreeing on them, and monitoring their implementation can contribute to a significantly more meaningful role of the Semester. Experience with National Reform Programs (NRPs) has been mixed at best. With RRPs the Semester is for the first time linked to significant economic benefits, and will therefore be taken more seriously by Member States. If close and objective scrutiny on plans and projects can be introduced and ensured, this can make the difference between going merely through the motions, as opposed to constituting a basis for true reforms in the context of NGEU.

It is obvious that the full reform and recovery impact of the programs and the funds they will unlock can only be achieved against the background of high quality and precise national Plans that have a broad political backing in the respective Member State, including at the local level. The Plans will need to be set in a framework of governance and administration that ensures that ambitious milestones are achievable, and that the funds reach the projects they are intended for, without waste or loss. A recent IMF study estimates that, globally, on average one third of funds for public infrastructure investments is wasted through inefficiencies, and that half of that could be saved with improved governance arrangements (cf. Schwartz et al., 2020, op.cit).

The potential loss of funds due to badly administered and implemented projects should be a significant incentive for national policy makers to ensure that this does not happen. Experience tells us that there are at least two risks. One, that funds are indeed not called, due to lack of planning or implementation capacity, or lack of political interest in certain projects. Two, political pressure on the Commission, or Commission services, to agree that there has been positive implementation may be significant.

In both cases there are merits in adding an additional element of scrutiny and transparency to the Semester processes in the context of RRF. This paper suggests that the involvement of the European Parliament (EP) could enhance the political transparency of EU and national policy processes. Accountability of EU policy processes would be strengthened. We put forward four proposals and discuss their merits.

The Commissioner responsible, together with the President of ECOFIN, could be invited to give an overview to the responsible Committee of the EP on the compatibility of the RRPs with the objectives...
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set down in the Regulation. Furthermore, they could be invited to regularly come to the responsible EP Committee to give an overview of the implementation.

The EP could invite Ministers of countries where implementation appears to pose problems for a dialogue – similar to the structured dialogue when a suspension of ESI Funds is envisaged in an EDP.

The Presidents of the Commission, of the European Council and the Head of State or Government of the Member States concerned could be invited to the EP Plenary in cases where there is no agreement in the Economic and Financial Committee (EFC) that implementation is on track and the issue has been referred to the European Council. This could assist in bringing transparency to such issues, and thus hopefully contributing to a satisfactory resolution.

Lastly, the EP could hold a hearing for some cases where the Commission has stopped disbursements because implementation of a project is not on track.

These options draw inspiration from the concept of the economic dialogue which is included in the six- and two-pack legislation and revolves around information-sharing with the EP. While the Treaty attributes the competence of economic policy coordination to the Member States, acting in the Council on proposals by the Commission, Article 175 grants the co-legislators the power to, by co-decision, decide on certain actions. Actual information sharing agreements with the EP could thus be introduced in the RRF Regulation itself (if not done via a separate Interinstitutional Agreement). As is well known, the Treaty itself foresees other instances of the EP receiving information on national economic policies (cf. Art. 122). To recall: The Commission had adopted a proposal for a Council Regulation “establishing a European Union Recovery Instrument to support the recovery in the aftermath of the COVID-19 pandemic” based on Article 122, allowing the Union to borrow up to 750 bn Euro and fund other instruments such as the Art. 175-based RRF (which finances specific national projects, and not the national budgets).
1. MAIN FEATURES OF RECOVERY AND RESILIENCY FACILITY

The political agreement of Heads of State or Government covered both the Next Generation EU (NGEU), of which the RRF is a part, and the MFF proper. At the time of writing, the necessary consent of the EP to the MFF had not taken place. The procedures for amending the Own Resources Decision (ORD) are on a separate track, not least due to the ratification requirements by national parliaments.

Central to the issues discussed in this paper are the governance aspects of the RRF, such as the programmatic linkages of the spending decisions, the procedural elements, and the implementation regimes at European and national level.

First, the **programmatic linkages**, where it is stated in the Conclusions of the European Council that “…Member States shall prepare national recovery and resilience plans setting out the reform and investment agenda of the Member State concerned for the years 2021-23. The plans will be reviewed and adapted as necessary in 2022 to take account of the final allocation of funds for 2023.

The recovery and resilience plans shall be assessed by the Commission within two months of the submission. The criteria of consistency with the country-specific recommendations, as well as strengthening the growth potential, job creation and economic and social resilience of the Member State shall need the highest score of the assessment. Effective contribution to the green and digital transition shall also be a prerequisite for a positive assessment. The assessment of the recovery and resilience plans shall be approved by the Council, by qualified majority on a Commission proposal, through an implementing act which the Council shall endeavour to adopt within 4 weeks of the proposal.

The positive assessment of payment requests will be subject to the satisfactory fulfilment of the relevant milestones and targets.”

Investment will thus qualify for financing – up to end 2023 - if they contribute to one or more of the following criteria or aims:

- Implementing the Country Specific Recommendations
- Improving growth potential
- Generating a lasting impact
- Creating employment
- Contributing to social and economic resilience
- Contributing to green and digital transformation
- Contributing to social, economic and territorial cohesion.

The Commission has specified (cf. European Commission, 2020c) that reforms should be concentrated on so-called flagship areas, i.e.

- Power up: clean technologies and renewables
- Renovate: energy efficiency of buildings
- Recharge and Refuel: clean technologies for smart transport
- Connect: Broadband services

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- Modernise: Digitalisation of public administration and services
- Scale-up: industrial data cloud capacities; development of processors
- Reskill and Upskill: adaptation of education systems

This raises numerous issues that will require more details and specifications, such as the weighting or hierarchy of the above policy aims, or which CSRs should be taken as relevant. The Commission has made clear (European Commission, 2020a) that the “2020 CSRs are relevant, as well as CSRs from previous years, to the extent that they have not been addressed and that they contribute to the achievements of the general and specific objectives set out in the Regulation. The 2020 CSRs explicitly indicated in a recital that “the 2019 country-specific recommendations adopted by the Council on 9 July 2019 also covered reforms that are essential to address medium- to long-term structural challenges. Those recommendations remain pertinent and will continue to be monitored throughout next year’s European Semester annual cycle”. The 2020 CSRs focus prominently on crisis related issues (including on mitigating the socio-economic consequences) and address the twin transition. The Commission has furthermore indicated that the normal Semester procedures will need to be slightly adapted in order to allow for a meaningful focus on the RRRPs (cf. European Commission, 2020c).

The procedural elements largely follow from this: Member States will prepare RRRPs for the coming years as described above for an in-depth review by the Commission (apparently replacing the annual Country Reports in 2021). The new organigram of the Secretariat General of the Commission shows the mixture of geographic and thematic specialisation of the units being set up for this purpose. The expectation is that the vote in Council will take place in ECOFIN, prepared by the EFC, and possibly assisted by the Economic Policy Committee (EPC).

The Commission has indicated that the services (coordination: SG Task Force and ECFIN) stand ready to interact immediately with the Member States on the content of draft plans. As of 15 October 2020, draft plans can be submitted, whereas the official submission can commence with entry into force of the Regulation, possibly 1 January 2021. A deadline for submission of 30 April 2021 is foreseen.

The Commission will base its assessment of the plans on the extent to which the plans contribute towards fulfilling the aims described above. In accordance with the European Council conclusions, consistency with the CSRs, strengthening growth potential, job creation and economic and social resilience will score highest. The Commission will in its evaluation go well beyond the more macro-economic aspects, right up to evaluating cost estimates, governance and implementation aspects of the plans. The timelines appear to be very tight if genuine scrutiny is to be undertaken.

As per the conclusions of the European Council, the Commission’s assessment of the RRRPs shall be approved by the Council by means of an implementing act, on a proposal from the Commission. The EP will, it appears, be demanding a delegated act.

We have seen above that the relative ranking and importance of the different evaluation criteria are somewhat vague. Also, given the very broad brush of the combined 2020 and 2019 CSRs, an extremely broad range of projects and investments may formally meet the criteria, or a subset, for approval.

One will therefore need to trust that governments will see the NGEU as a historic chance to produce genuinely reform-oriented programs that will contribute to making the European economies more resilient and productive on a sustainable basis. Given what is at stake for Member States, national parliaments, and especially national stakeholders, could play a stronger role than usual in scrutinizing their governments.
As far as the **implementation aspects** are concerned, disbursements will take place against agreed milestones and targets. The Council conclusions suggest that the assessment of progress by the Commission will be forwarded to the EFC.

In light of the European Council conclusion and the draft RRF Regulation, we can distinguish three possible outcomes of the assessment of the Commission, followed by the discussion in the EFC:

- **If the conclusion of the Commission is that there has not been adequate progress** the disbursement will not take place. If this is the case, the procedure would seem to stop there until the situation has been rectified. Only if the Member State manages to improve project implementation would the Commission be able to proceed to the next step, i.e. discussion in the EFC. Otherwise, financing of the project from the EU Budget would need to come to a halt.

- **If the Commission concludes that there has been the required progress and there is agreement within the EFC** that this is the case, disbursements would be authorized.

- **If there is no agreement within the EFC** the discussion escalates to Heads in conformity with the Council Conclusions – "if the matter was referred to the European Council, no Commission decision concerning the satisfactory fulfilment of the milestones and targets and on the approval of payments will be taken until the next European Council has exhaustively discussed the matter. This process shall, as a rule, not take longer than three months after the Commission has asked the Economic and Financial Committee for its opinion.”
2. MAIN FEATURES OF THE EUROPEAN SEMESTER

2.1. Main features of the Semester process

Given that the RRP s are proposed to get a central role in the Semester and their links to the CSRs, a short recap of the main features of the Semester is in order.

Member States are tasked by the Treaty to coordinate their economic policies, treating them as a matter of common concern (Art 5 and Art 119 TFEU).

The coordination of economic policies is laid down in Articles 119 to 126 TFEU. As economic policies remain in the remit of Member States, coordination rests on an array of processes that largely are of a non-binding nature. Fiscal policies in principle are an exception: the Stability and Growth Pact (SGP) requires that Member States conduct their fiscal policies according to its detailed rules and lays down the consequences, including sanctions and fines, if not followed. To date, the full range of possible sanctions and fines has never been utilized. The Excessive Imbalances Procedure (EIP) that is part of the Macroeconomic Imbalances Procedure (MIP) does, at least in principle, also foresee sanctions. However, the EIP has never been triggered (on these issues see e.g. Zoppè 2020). One could even argue that, at least in principle, RRP s have some similarities with the corrective action plans enshrined in the MIP.

About a decade ago, the rather ad hoc array of policy processes and instruments was brought together in a framework more conducive to an overall approach for policy coordination, the European Semester. It brings together, in the first half of each year, the relevant economic and fiscal policy coordination of the European Union. The Commission launches the new Semester Cycle by publishing in late autumn the Annual Growth Survey (AGS, or Annual Sustainable Growth Strategy, AGSG, since the 2020 cycle) dealing with fiscal, employment and structural policies, as well as a proposal for the Recommendation on the economic policy of the Euro Area. In addition, the Commission produces the Alert Mechanism Report (AMR) in the context of the Macroeconomic Imbalance Procedure (MIP).

In the second half of the year the focus is on Member States’ national implementation and preparation: euro area Member States prepare, for submission by 15 October to the Commission and the Eurogroup, Draft Budgetary Plans for the following year.

The Commission publishes, early in the year, country reports for each individual Member State, with the country’s progress in addressing the previous year’s CSRs, the follow-up to previous years’ recommendations as well as the country’s progress towards the broader sustainability goals of the EU (until recently the EU2020 targets).

The European Council provides, annually, policy guidance in March, and subsequently Member States present in April of each year:

- National Reform Programs for their economic policies,
- Stability (or Convergence) Programs for their fiscal policies.

The Commission, on the basis of all this analyses, drafts Country Specific Recommendations (CSRs) for each individual Member State, within a time horizon of 12 to 18 months.

On this basis, after discussions in the EFC and other Committees (Employment; Social Protection; Economic Policy) the Council adopts the CSRs and opinions before the summer recess. The employment parts are approved by the Employment, Social Policy, Health and Consumer Affairs Council, the others by ECOFIN Council. If recommendations deviate from those provided by the Commission, an explanation needs to be given for the changes that were introduced.
The Council thus, after the appropriate decision making, ultimately addresses these recommendations in their final form to the Member States.

In addition, recent discussions in the Eurogroup have shown that there is a certain ambition for creating a role for the Eurogroup in this process. Conceivably, this could take the form of having preparatory discussions of the overall Euro Area aspects of RRPs in the Eurogroup (either among only the 19, or in the so-called inclusive format of all 27) before proceeding to ECOFIN. This would be based on the argument that there are significantly higher spill over effects of the reforms (or their lack) within the monetary union than within the EU as a whole. However, it is debatable whether this is the case (or to what extent), and could be politically divisive, taking into account the funding of the RRF.

2.2. Experiences to date with the European Semester

The preparatory processes of the CSRs in the lead up to the formal Commission proposal differ from Member State to Member State and have so far never been exhaustively analysed. A common feature is that the Commission services engage fairly intensively with the authorities in drafting the country report and recommendations, the focus being rather on factual issues than on the scope of recommendations. Within the Commission services there is a significant amount of know-how on strengths and weaknesses of the individual economies, so that only in rare cases would it be possible to abolish or significantly weaken a recommendation, unless there is overwhelming factual proof against it.

Given the fact that a wide range of DGs is involved, the focus on genuine and few priority recommendations remains an unfulfilled ambition. Despite attempts, over the years, to limit the number of recommendations and sharpen the focus, the outcome of the process still resembles the decoration of a Christmas Tree. Recommendations thus do not have a sufficiently clear hierarchy among them, and in many cases too many policies are bundled together to create the impression of there being only few recommendations.

The need to treat apparently similar issues across Member States in a similar fashion adds to the sometimes formulaic impression that the recommendations can generate.

Structural challenges of an economy are, nearly by definition, of a long-lasting nature. This leads to a number of issues. Either the recommendations appear repetitive from year to year (rightly so, one would assume), or, in an attempt to appear fresh, the focus and recommendations would change somewhat, giving the impression of analytical instability.

A more serious issue is that cause and effect in policy are significantly time-lagged. Take the issue of weaknesses in public administrations: a typical recommendation would address the issue, and call for an increase in efficiency. It is not easy for the Commission services to judge whether the Member State has started following the recommendation, has done so on the basis of a thorough analysis and through a well thought plan, has efficiently attempted to implement it, and whether the desired results have started showing up. In a number of important areas, the link between reform implementation and reform effects is hard to nail down conclusively, and lags may last many years.

The official processes in connection with the European Semester are quite straightforward, even though timing usually is very tight, and thus time for analysis and reaction in the preparatory

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2 In the **summing up letter** by the President of the Eurogroup (June 2020): Some Ministers expressed a preference for the euro area dimension to be better outlined as part of the Recovery and Resilience Facility, while others highlighted the need to avoid dividing lines and complex governance arrangements in the context of this crisis instrument. At the same time, the European Semester, which will be at the heart of the instrument’s governance process, has a distinct euro area dimension, reflected in the euro area recommendation. I concluded that the euro area recommendation, within the European Semester, could be a natural avenue to reflect a legitimate euro area dimension to the Recovery and Resilience Facility, without adding layers of complexity to the governance process.
Committees of the Council and in the individual Member States is extremely limited. This reduces the quality of interaction between Member States, and often reduces the process to a series of little more than a sequence of bilateral discussions between the Commission services and the representatives of the individual Member State.

The Commission services produce the AGS which is then discussed in the EFC (and other Committees), where Member States react with what they perceive to be their national emphasis on the main messages for the AGS.

The Commission services go on to produce the individual country reports. In the past there were complaints by Member States that the reports were too “desk-based” and were not adequately grounded in discussions with the authorities and analytical missions to the Member States concerned. The Commission has - over the years - responded by making the preparatory phase more inclusive and discussion oriented, also assisted by the Commission official in Delegations responsible for “Semester issues”. Member States have been quite positive about the changes to the process.

The draft CSRs are subsequently presented in the Committees. The texts of the recommendations are actually negotiated there: if a Member State feels that a recommendation is factually not correct, it can request a change. If the Commission agrees, the text is changed. If the Commission does not agree with this request, the text can only be changed by a qualified majority of Committee Members. In this case, an explanation is presented in writing why this has been done (“comply or explain principle”).

When the recommendations are sent to the Committees (EFC and EPC), only the larger Member States have the capacity to actually analyse the recommendations addressed to a larger number of other Member States. In most capitals, however, merely the policy recommendations addressed to themselves are compared, mainly to national sensitivities.

This results in at most a handful of issues for a number of MSs that are then raised in Committee. Typically, the MS representatives search for similar cases that were treated with different text, and attempt to find other MS with similar problems, to generate a majority sympathetic to changes in the text of recommendations. Over the years, a fair number of such cases has shown that a majority of MS will share the views of the Commission, meaning that in such cases changes to the recommendation are not undertaken.

In Council formations at ministerial level, changes typically do not occur, and substantive discussions have been the exception. The texts of the recommendations are adopted as described above. Given the prominence of the 2019 CSRs, it may be useful to highlight some of the recommendations addressed to some Member States. This should not be seen as an exercise in taxonomy, but merely to highlight the broad range of issues put forward, see Boxes 1 to 4.
Box 1: Some recommendations to Germany
- While respecting the medium-term budgetary objective, use fiscal and structural policies to achieve a sustained upward trend in private and public investment, in particular at regional and municipal level. Focus investment-related economic policy on education; research and innovation; digitalisation and very-high capacity broadband; sustainable transport as well as energy networks and affordable housing, taking into account regional disparities. Shift taxes away from labour to sources less detrimental to inclusive and sustainable growth. Strengthen competition in business services and regulated professions.
- Reduce disincentives to work more hours, including the high tax wedge, in particular for low-wage and second earners. Take measures to safeguard the long-term sustainability of the pension system, while preserving adequacy. Strengthen the conditions that support higher wage growth, while respecting the role of the social partners. Improve educational outcomes and skills levels of disadvantaged groups.

Box 2: Some recommendations to Italy
- Step up efforts to tackle undeclared work. Ensure that active labour market and social policies are effectively integrated and reach out in particular to young people and vulnerable groups. Support women’s participation in the labour market through a comprehensive strategy, including through access to quality childcare and long-term care. Improve educational outcomes, also through adequate and targeted investment, and foster upskilling, including by strengthening digital skills.
- Focus investment-related economic policy on research and innovation, and the quality of infrastructure, taking into account regional disparities. Improve the effectiveness of public administration, including by investing in the skills of public employees, by accelerating digitalisation, and by increasing the efficiency and quality of local public services. Address restrictions to competition, particularly in the retail sector and in business services, also through a new annual competition law.
- Reduce the length of civil trials at all instances by enforcing and streamlining procedural rules, including those under consideration by the legislator and with a special focus on insolvency regimes. Improve the effectiveness of the fight against corruption by reforming procedural rules to reduce the length of criminal trials.
- Foster bank balance sheet restructuring, in particular for small and medium-sized banks, by improving efficiency and asset quality, continuing the reduction of non-performing loans, and diversifying funding. Improve non-bank financing for smaller and innovative firms.

Box 3: Some recommendations to Belgium
- Ensure that the nominal growth rate of net primary government expenditure does not exceed 1.6% in 2020, corresponding to an annual structural adjustment of 0.6% of GDP. Use windfall gains to accelerate the reduction of the general government debt ratio. Continue reforms to ensure the fiscal sustainability of the long-term care and pension systems, including by limiting early exit possibilities from the labour market. Improve the composition and efficiency of public spending, in particular through spending reviews, and the coordination of fiscal policies by all levels of government to create room for public investment.
- Remove disincentives to work and strengthen the effectiveness of active labour market policies, in particular for the low-skilled, older workers and people with a migrant background. Improve the performance and inclusiveness of the education and training systems and address skills mismatches.
- Focus investment-related economic policy on sustainable transport, including upgrading rail infrastructure, the low carbon and energy transition and research and innovation, in particular in digitalisation, taking into account regional disparities. Tackle the growing mobility challenges, by reinforcing incentives and removing barriers to increase the supply and demand of collective and low emission transport.
- Reduce the regulatory and administrative burden to incentivise entrepreneurship and remove barriers to competition in services, particularly telecommunication, retail and professional services.
What is the influence of the Semester process on actual policies and politics?

This is difficult to judge, despite a number of studies undertaken. Anecdotal evidence could lead to the conclusion that there has not been a noticeable number of cases where policies were significantly influenced by the Semester process. At best, the recommendations bring together a catalogue of reform issues that can serve as a basis for domestic discussions, providing support for those groups that are domestically advocating such reforms. At worst, politics in Member States by and large ignore the CSRs, which may not be too different compared to how advice by the IMF or OECD is sometimes treated, but is at a different legal and political level.3

There are a number of reasons for such disdain.

Firstly, as mentioned above, the process foresees no sanctions, and hardly any rewards.

The central question is, therefore, if and how one can raise the political price of ignoring advice and recommendations coming from the European economic policy coordination process. Exercising soft power through politics and media needs to be intensified, given the absence of coercive instruments. Experience has shown that even where such coercive instruments exist, the politics connected to their decision making ensure that they are not triggered.

The main avenue could be an exercise in generating transparency and thus publicity at the European level, and thus - importantly - also at the national level. Requesting national policy makers to explain themselves, to respond to critical questioning in public would be – if conducted thoughtfully - an exercise in advocating responsible policy making in a European context. This is an advocacy that at the national level more often than not does not exist.

Secondly, many of the issues addressed in the context of the Semester are firmly national competences, such as the quality and efficiency of public administrations, implying related national sensitivities. The extent to which such reforms contribute directly to improving the quality of economic policies is sometimes not obvious, and corresponding advice has at times led to accusations of meddling in purely national affairs.

To sum up our judgement of how the CSR related aspects of the Semester work in practice:

Box 4: Some recommendations to Hungary

- Ensure compliance with the Council Recommendation of 14 June 2019 with a view to correcting the significant deviation from the adjustment path towards the medium-term budgetary objective.
- Continue the labour market integration of the most vulnerable groups, in particular through upskilling, and improve the adequacy of social assistance and unemployment benefits. Improve education outcomes and increase the participation of disadvantaged groups, in particular Roma in quality mainstream education. Improve health outcomes by supporting preventive health measures and strengthening primary healthcare.
- Focus investment-related economic policy on research and innovation, low-carbon energy, transport infrastructure, and waste management and energy and resource efficiency, taking into account regional disparities. Improve competition in public procurement.
- Reinforce the anti-corruption framework, including by improving prosecutorial efforts and access to public information, and strengthen judicial independence. Improve the quality and transparency of the decision-making process through effective social dialogue and engagement with other stakeholders and through regular, appropriate impact assessments. Continue simplifying the tax system, while strengthening it against the risk of aggressive tax planning. Improve competition and regulatory predictability in the services sector.

- Timing is very tight between the Commission decision and that of the Council. Consequently the quality of analysis and scrutiny by Member States suffers. The coordination and the decision making processes within the Commission would profit from being streamlined. Time for the substantive analysis within the Commission services suffers at the expense of a complex and time consuming process of “political” coordination.

- The CSRs are often formulated in rather general terms (“focus investment-related economic policy on sustainable transport...”). Moving away from catch-all headings would add focus and improve CSRs towards being a better basis for actual sectoral policies.

- The tensions stemming from a thematic focus on just a few recommendations and thus leaving out important reform areas are difficult to resolve. If one goes for a broader approach, one should not attempt to disguise it by lumping together a number of different recommendations.

- National policy makers tend to pay little attention to the Semester process, apart from the SGP-related issues. This cannot be remedied by bureaucratic changes to the processes. Our reading of the situation is that the political price of not following recommendations should be increased, which can best be done by increasing transparency in Brussels and thus media attention also back home.

- Based on these insights from the Semester process there are a couple of areas where one could do better in the context of the RRPs, namely:
  
  o Ensure that sufficient time is given to all participants to access and analyse the available information.
  o Ensure that the quality of the information provided corresponds to the decision that needs to be taken.
  o Make sure that the plans are actually addressing the underlying fragilities, and contribute to the recovery.
  o Make sure that the projects are indeed clearly derived from the plans as agreed by Commission and Council.
  o Make sure that clear milestones facilitate implementation and monitoring.
  o Reflect on special monitoring processes to ensure granular and objective data is available to, in the first instance, the Commission.
What Role for the European Semester in the recovery plan?

3. OPTIONS FOR LINKING THE RECOVERY AND RESILIENCE FACILITY AND THE EUROPEAN SEMESTER

This time is different. There are tangible benefits to MS of producing plans that are ambitious, targeted and actionable. As described above, the Commission services will be interacting with the Member States’ administrations in order to support this. It will be critical that the Commission can ensure that the focus on additionality and reforms remains strong. If not, the RRF becomes a vehicle for pure budget support, and limited at that, without changing social, ecological, technological or growth outcomes. There is a clear danger, inherent in domestic political processes, that policy innovation does not get the voice that it deserves.

In its latest Communication, the Commission (European Commission, 2020c) proposes that no CSRs would be addressed to the MSs, due to the recently adopted RRPs. The Commission does not indicate what would be the case in the following years. A possibility would be to adopt CSRs each year, including in 2021, so as to make explicit the main objectives of the RRPs of each Member State, thereby also ensuring coherence with the EU objectives set out in the RRF Regulation. In addition, it could be a way to take stock of achievements and, if necessary, provide additional steering to the MS concerned.

Drafting the RRPs in an interactive manner should ensure that the necessary milestones are contained in the programs. They should be as concrete and time bound as possible. This, if effectively managed, has the advantage of providing a clear calendar for political and administrative decisions and implementation. This certainty should be ensured beyond electoral cycles. It would therefore be advantageous if national plans were finalized after a broad public and political consultation process. This not only helps generating the domestic political support for an ambitious RRP that focuses on the right reforms, but - importantly - also lays the groundwork for good implementation.

Precision and concrete action that are missing in the RRP will be difficult to decide upon at later stages in the process.

Practical experience shows that some MSs are clearly better at managing such interactive processes linking the national level decision-making with Brussels than others are. The more the politicians trust their public administration, the higher the quality of their administration, and the more established channels of communication between their administration and the Commission services are, the better the outcome will be.

Implementation of the projects obviously is key. As we know, projects up to end 2023 can be eligible for financing, and payments can be effected until end 2026. For a number of projects, this time horizon may be too short if delays, that are often unavoidable, occur.

The trade-off between rapid and significant reforms and projects on the one hand and missing out on important projects that may have a long gestation period is unavoidable. One possibility would be to provide finance to the planning and preparation of long term cross-border projects. In order to incentivize projects going forward, one could introduce a mandatory repayment clause if - by an agreed date - the project had not started yet.

There will also need to be a process that introduces a certain amount of flexibility with regard to how agreed milestones have been reached. On the other hand the Commission needs to show firmness if deviations are due to endogenous factors. Past experience would suggest that the Commission can be expected to be fairly firm at the services level, but that political pressure may result in Commission's decisions not always reflecting actual progress of projects on the ground.
According to the latest suggestions by the Commission (European Commission, 2020c) analytical documents (replacing the 2021 Country Report) assessing the substance of the RRP will accompany the proposals for a Council implementing act. One may assume that this will not jeopardize the objective analyses of the Commission services. The Country reports prepared by the services have been an important element of the analytical part of the Semester.

Looking ahead we see, as mentioned, a window of three years for submitting projects, and of six years for receiving financing for ongoing projects. Thus, whilst the quality of RRPs and the first stream of projects in 2021 is of major importance, the design and management of the Semester in subsequent years may be just as decisive. Whilst the Commission has announced that the Semester processes need to be adapted somewhat in 2021 in view of the RRP aspects, more fundamental changes could be necessary over time.

One, CSRs from next year onward need to be more focused than in the past and should attempt to be as operationally relevant as possible. Barring exceptional issues and circumstances, they should be devoted entirely to the recovery and resilience facility. In the future, they should not only describe the desired policy outcomes, but also policies or instruments that are necessary in order to get there.

Two, monitoring of project implementation needs to play a significant role; the services of the Commission dealing with NGEU issues may not be best placed to do this in the hands-on and sometimes granular manner that this would require. This should go beyond the ex-post control that Courts of Auditors traditionally exercise. One could envisage an enhanced and time bound role of national Courts of Auditors in auditing ongoing project implementation.

Three, the services of DG REFORM of the Commission should be integrated to the maximum extent into the work streams that lead from RRPs to project preparation, submission, evaluation and implementation. The role of the Technical Support Instrument will be crucial in the coming years.
4. GOVERNANCE AND ACCOUNTABILITY ISSUES

The Conclusions of the European Council are fairly straightforward on the processes that should be followed, and it is difficult to see any major changes occurring in the legislative process.

As is well known, the European Parliament has a limited and no executive role in the context of the European Semester, i.e. a scrutiny role, and addresses a report on policy priorities to the Commission. In order to examine if there could be a broader role, and what that could be in the context of the RRP, it is useful to analyse the points where the processes may not function as one would hope for.

The following summarises where such problems may conceivably occur, without suggesting that there is necessarily a high likelihood of this happening.

As far as individual Member States are concerned, there may be issues concerning the quality and specificity of plans, possibly reflecting domestic political problems in deciding on concrete and ambitious projects. Most probably, the actual implementation of individual projects faces even higher risks than that of elaborating reform oriented plans, due to either political changes, or administrative implementation problems.

At the level of the Commission one could envisage risks that it accepts RRP that are not ambitious enough, or where milestones are not concrete enough. Adaptations to the RRP in subsequent years could be driven more by accommodating missed milestones, rather than genuine changes due to exogenous factors. Lastly, there could be a risk that plan implementation is rubberstamped, contrary to evidence.

At the Council level (i.e. in the EFC) there are two kinds of possible risks:

One, that the Committee decides to accept, based on a proposal by the Commission, a positive report on implementation that is not warranted. This obviously would presuppose that the Commission has already rubberstamped a plan or project that should have been held up because of faulty implementation. In such cases, disbursements would go ahead as requested by the Member States. It is difficult but not impossible to envisage processes that counter such – theoretical – risk.

Two, conversely, there could be a risk that a program that is genuinely on track is held up in the EFC for purely political reasons. This would mean that the Commission has, correctly, produced a positive report which is contested in the EFC for political reasons. This may be on the basis of the project data provided by the Commission, or on the basis of other sources.

Full provision of data and analysis and thus transparency would appear to be the best way of preventing such an unfortunate occurrence. Such data and analysis will by and large originate from two sources: Member States will transmit data on project implementation, ideally supplemented by national Court of Auditor data as described above. The Commission will provide, on this basis, its analysis, which needs to be available to all institutions playing a role in the governance processes.

The theoretical issues described above cannot, however, be solved by inserting the EP in the formal decision-making processes between the Commission and the MS, or the Council. This is not foreseen in the Treaty.

Thinking of the potential risks involved in the Semester-related processes would suggest that increase in transparency and accountability of national politics would have the potential to increase the quality of plans, and also their implementation. As experience of the past decades has shown, the sanctions regimes contained in the economic policy coordination framework of the EU has a limited impact, and thus little credibility. To introduce an example from a related field, fiscal policy: in the past, there was a certain amount of publicity when an EDP was opened, or moved to the next step of the procedure. This
is obviously no longer the case during the pandemic. The main penalty of fiscal policies being off-track was the reaction of financial markets, with their impact on refinancing costs of the sovereign.

A more effective way of helping to improve the quality of policies may lie in focusing more on the political price of being non-compliant. A public debate in Brussels with the responsible policy makers of the Member State concerned, reflected in the media and focusing on the reasons for being off-track with a plan or project, and also on means of how to rectify this, would increase the price for politicians for not ensuring that project implementation is well governed and executed.

Therefore, there are a number of options on how to hold such dialogues or hearings. It seems natural that the EP would be the convener and locus of such interactions, as no other institution has the kind of political legitimacy and legitimation required.

All options described below are based on the assumption that
- this can be politically agreed between the institutions,
- the process would be based on full transparency of data and analysis,
- it should be well accommodated in the timelines of the processes, without creating any kind of delays in reaching agreements on plans, projects and disbursements, and
- would be a political dialogue, albeit at times it would need to be based on concrete project data and other hard information.

**Option 1** would be a regular information dialogue, and not devoted to problem solving.

It would see the EP inviting the Commissioner responsible, together with the President of ECOFIN, to give an overview of the RRPs to a Committee of the EP. This could focus on how the individual objectives and targets of RRF are reflected in the plans, and what differences between Member States have been observed. Problems in implementation could of course be brought up, but would not be central to this information dialogue. The Commissioner and President of ECOFIN could be invited to regularly come to the EP Committee to give an overview of the changes that have been made to the plans in subsequent years, as well as on the implementation. Such meetings could take place at least semi-annually.

**Option 2** would be an implementation dialogue.

The EP could invite Ministers of Member States where implementation appears to pose problems for a dialogue – similar to the structured dialogue that take place when a suspension of ESI Funds is envisaged in an EDP. This could focus on why certain milestones have not been achieved, the reasons and the foreseen remedies. This “implementation dialogue” would not be for cases when disbursements have been stopped, but for more general issues that lead to significant delays, shifts in milestones, or observed implementation bottlenecks that appear not to be addressed. It would of course be useful if the EP had at its disposal for such an exercise a regular report on strengths and weaknesses of Member States in terms of planning and execution of projects. The EP would get notice of implementation problems via regular reports that the Commission could provide on changes to milestones and timelines.

**Option 3** would pick up on the case foreshadowed in the conclusions of the European Council where (not all) Member States in the EFC agree with the conclusions of the Commission that a project is on track and thus qualifies for disbursements. This option would foresee that the Presidents of the Commission, of the European Council and the Head of State or Government of the MS concerned could be invited to the EP Plenary in the cases where there has been no agreement by Member States (i.e. in the EFC) that implementation is on track, despite a positive report of the Commission. As described
above, this may be due to political pressure having caused the Commission to give a too positive assessment. Alternatively, the – correct – positive assessment of the Commission could be held up in the EFC for purely political reasons.

In both cases transparency should help in clarifying the situation:

- **One**, if there are justified concerns of (some) Member States. This would mean that the Commission has given the green light despite project progress apparently not justifying this, and Member States are thus missing the expected milestones. Such problems would presumably be caused by domestic political or administrative blockages, and usually not by factors outside the control of national/regional/local administrations. Shining the light on such issues should hopefully contribute to the resolution of the problem, thereby giving political assistance for necessary reforms. The mere existence of such a dialogue could help in minimizing such risks. The participants in such a dialogue should therefore be the responsible minister(s) of the Member State in which the “failed/slowed” project is located.

- **Two**, if concerns of (some) Member States are not justified. This would mean that these Member States have no factual reason for holding up the process, but do so for (domestic) political reasons. According to the conclusions of the European Council, this may be a lengthy process, and not necessarily fully transparent. Within the timeframe of up to three months foreseen in the conclusions, a dialogue in and with the EP could easily be accommodated, and would assist in bringing out the facts of the problem. Again, exposing such an issue to public scrutiny may inhibit Member States to undertake such an exercise of blocking disbursements. The participants in such a dialogue would thus need to be the responsible Ministers of the blocking country or countries. Conceivably, the Minister of the country where the problematic project is located could also be invited in order to clarify, though this role could possibly be taken up by the Commission.

**Option 4** would be a dialogue on stopped disbursements.

There may well be cases where the Commission comes to the conclusion that implementation has not been as foreseen, and where therefore disbursements are stopped. As a rule, the EFC is expected to share this view by majority, if indeed such cases are brought forward to the EFC, which is not a given. The EP could invite a representative of the Commission and the responsible Minister of the MS to present the remedies planned in order to bring implementation back on track. There should be a minimum time span of the delay foreseen for triggering such a procedure, otherwise a large number of unavoidable small delays would result in a stream of repetitive meetings with no political value.

The above options are obviously not mutually exclusive. None of them plays a legally binding role in coming to an agreed outcome, nor can or should they. They all can contribute to a better design and/or governance and/or implementation of plans and projects in the context of the RRF. The highest policy priorities should be on helping to ensure a transparent and efficient implementation at the national level; and in making sure that there is an adequately transparent and fair procedure in the context of the evaluations of whether plans and projects are on track or not.

In these instances, the EP can play an important role that could also serve as an example in other areas of European economic policy decision making. In the context of the SGP, which is in need of a serious overhaul after the present crisis, similar arrangements of national politicians appearing before an EP Committee to explain problems of fiscal policy, and plans to bring this back on track, could be explored.
For the four options described above\(^4\) to have a genuine added value, it would be necessary for the EP to have timely access to all the same information as the Council; Members of the Committees would have to dedicate sufficient time to this kind of scrutiny activity; and the scrutiny would be based on the European objectives of the RRF and not on any national lines.

\(^4\) On related issues see European Court of Auditors 2020a.
5. CONCLUSIONS

- The RRF and its link to the European Semester can be a game changer for the economies of the Member States and their link to the common European objectives.
- Good politics, good policy and good governance are the basis for sustainable growth, employment and inclusive societies.
- Today the existing economic policy coordination processes of the European Union are not effective/sufficient to incentivise national measures.
- Our experience with the CSRs over the last decade has been that good advice at the European level is often ignored by national policy makers, mainly as there are - by and large - neither incentives nor sanctions involved in the coordination processes. Introducing some lessons learned into the RRF – such as a project by project link to CSRs of ESI-financed projects, stronger accountability, and a higher degree of transparency – would help mitigate this weakness.
- The RRPs, with their specific and targeted projects and the related dialogue with the Commission, can help bring about important reforms.
- But there are planning and implementation risks at the national level, as well as risks in the assessment stages of the Commission and the EFC.
- These risks cannot be mitigated by introducing yet more bureaucratic elements, but by increasing the political price of:
  - Bad planning and implementation at the national level,
  - The Commission waving through projects that should not receive the green light,
  - Member States (in the EFC) holding up projects that in reality are well on track.
- Transparency, or the threat of transparency, is a good way of ramping up the political price, and the EP is the best placed institution to provide it at the European level.
- We suggest four different types of dialogues or hearings that would bring together the policy makers from Commission and Member State(s) concerned. This would bring into the open what the actual development of a certain project or plan are, what issues appear to be causing problems, and how to hopefully resolve them.
- Such dialogues would need to be agreed in the Regulation or an interinstitutional agreement, and could even form a template for similar dialogues under the European Semester, such as in the areas of fiscal policy.
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Accessing funds of the EU's Recovery and Resilience Facility (RRF) depends on detailed national Recovery and Resilience Plans (RRPs) being agreed upon, and projects meeting implementation milestones. The RRPs will be embedded in the European Semester, the EU's framework for economic policy coordination. This paper suggests that there are risks to the implementation of the RRPs, and/or to an objective evaluation of their progress. While the Treaty specifies that the execution of economic policy coordination shall be done by the Member States within the Council, the involvement of the European Parliament would potentially increase transparency and accountability for national policy makers (as well as the Commission and Council), which could improve project delivery and thus benefit the recovery.

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