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Ex-ante evaluation for establishing a Union Programme to support activities enhancing the involvement of consumers and other financial services end-users in Union policy making in the field of financial services for the period of 2017-2020

Accompanying the document

Proposal for a Regulation of the European Parliament and of the Council

on establishing a Union Programme to support specific activities enhancing the involvement of consumers and other financial services end-users in Union policy making in the field of financial services for the period of 2017-2020

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1. INTRODUCTION

At the end of 2011, the Commission launched a two years' pilot project to provide support for the development of a financial expertise centre to the benefit of European end-users and other non-industry organisations, with the objective to enhance the latter's capacity to participate in the Union policymaking in the area of financial services. This decision was taken in the context of the financial crisis and ahead of an important political agenda for the financial sector. Through this pilot project and the subsequent preparatory action, the Commission awarded via yearly calls for proposals operating grants to two Brussels-based non-profit entities, Finance Watch[1] and Better Finance[2] between 2012 and 2015. A preparatory action can be used up to three years. As of 2017, a legal base, adopted by European Parliament and Council would be necessary to continue funding such actions, for instance on multi-annual basis. In that context, the Commission launched an evaluation of the pilot project and subsequent preparatory action at the end of 2014[3]. The outputs of this evaluation have been made publicly available in a Commission Staff Working Document[4] on DG FISMA website at the end of 2015.

2. PROBLEM DEFINITION

Since 2007, the financial and economic crisis has significantly shaken the confidence of consumers, retail investors and SMEs in the regulations that are meant to protect them from failings in the financial system. Therefore, the European legislators considered that the concerns of end users and other non-industry stakeholders should be systematically and adequately taken into account in designing initiatives that aim to restore citizens' confidence in the soundness of the financial sector.

Several actions have been undertaken by the European Commission to ensure that the views of end-users and citizens are heard, notably with (i) the establishment in 2010 of the Financial Services Users Group (FSUG) which acts as a forum where non-industry stakeholders' representatives are regularly kept informed about the financial services policy issues under development and are invited to give their views and express their concerns and suggestions on the way forward and (ii) the systematic inclusion of consumers and civil society organisations' representatives in the various expert groups set up to assist the Commission in the financial services area.

Besides direct participation in stakeholders groups, civil society organisations were also able to avail themselves of the various consultation mechanisms used by the Commission in the context of the "better regulation" approach, by contributing formal submissions for instance on green papers or draft Commission initiatives, or by providing views in meetings with stakeholders or conferences.

The Commission had identified the scarcity of resources and specialised expertise among financial end-users and non-industry stakeholders and the organisations that represent them as an obstacle to taking a proactive role in the discussions on the EU policy making in the financial services area. The obstacle limits the range of stakeholders that can provide the European legislators with relevant input during the policy making process. Consumer bodies

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[1] *http://www.finance-watch.org/fr*

[2] *http://www.betterfinance.eu/*

[3] *Before Better Regulation Package new rules have been adopted*

[4] *http://ec.europa.eu/finance/finservices-retail/docs/users/151222-staff-working-document_en.pdf*

as well as civil society organisations did not have adequate resources to properly cover a wide range of often highly technical topics and develop the expertise to take a more proactive role in the Union financial services policy making. This was unsatisfactory because the Commission could not benefit from the widest possible range of input for its policymaking, and its public perception is hence negatively affected.

In order to remedy this obstacle, the Commission initiated a pilot project and a subsequent preparatory action aimed at providing grants to support the development of a financial expertise centre to the benefit of end-users and non-industry and enhance their capacity to participate in EU policy making in the field of financial services. Between 2012 and 2015, the Commission awarded operating grants to two non-profit organisations based in Brussels who conducted mainly research work, policy analysis, advocacy and communication activities.

The evaluation concluded that the objectives of the pilot project and the preparatory action have generally been met. The overall objective to develop a European financial centre of expertise has been met with two complementary centres of expertise having emerged. The activities implemented by both beneficiaries contributed to providing European policy-makers with other views than those expressed by the financial industry in that period and by succeeding in communicating those views to the wider public. Both Finance Watch and Better Finance have been in close contact with EU policy makers since 2012, as evidenced by their participation in various meetings, and even hearings organised in national or European Parliaments. Their expertise, made public in a number of publications and responses to consultations, enabled them to bring another voice in the public debate.

Lastly, both developed effective communication capacity through websites, press releases and conferences which enabled them to inform their members and even a wider public about the issues at stake in the financial sector. Finance Watch and Better Finance have been working on different policy areas and targeted different audiences, but together they have covered, through their activities, most of the EU financial political agenda since 2012. However, the evaluation underlined that both organisations were not financially sustainable without EU funding, despite efforts to diversify their resources during 2012-2014. At the same time, the evaluation stressed that no other applicant responded to the three yearly calls for proposal during that period which tends to prove that no other organisation is currently able to carry out similar activities.

3. MAIN POLICY OBJECTIVES

The main policy objectives of the legislative initiative are to ensure that (i) EU policy-makers are provided with views other than those expressed by the financial sector professionals when initiating new legislation, (ii) the wider public is informed about issues at stake and (iii) the participation of end-users and consumers of financial services is enhanced in EU policy-making in the area of financial services resulting in well-balanced legislation.

According to the evaluation results, since 2012, these policy objectives have been met through two centres of financial expertise partly set up thanks to public funding and in the context of a pilot project and the subsequent preparatory action. However, these two centres are still dependent on EU funding and would not be able to continue their respective mission and activities without these funds. Legislation work is still on-going in the financial sector at various levels (e.g. level 1 but also level 2 measures) and new legislative initiatives will come in the near future (e.g: CMU). Therefore, the need for enhancing the participation of end-users and consumers of financial services in EU policy-making via a centre of expertise is still valid.

4. OPTION MAPPING

4.1. Baseline scenario: discontinuing the EU co-financing (no action)

Under this scenario, Finance Watch would not receive any EU funding as of 2017. Between 2012 and 2014, the actual expenses of the organisation amounted to €1.9M in average, co-financed up to 60% by EU funding under operating grants. During that period, Finance Watch managed to get in addition to EU funding only one significant and stable Dutch donor, the Adessium Foundation. However, there is no certainty that this donor will continue funding Finance Watch after 2016. Besides, despite regular efforts, Finance Watch did not manage to attract other donors or significant sources of funding. Its members' contribution remained very limited during that period, around €50K yearly. According to the evaluation carried out in 2015, Finance Watch's members confirmed that they intend to continue their current contribution at the current level, but cannot increase it significantly. In that context, in the absence of EU funding, Finance Watch revenues would be limited to 40% of the actual income, around €0.7M, as of 2017. The activities of the organisation would be reduced and significant staff cuts would be necessary rapidly. Furthermore, the remaining donors might also be frightened by the sudden EU withdrawal and, as a consequence, might stop their funding quickly. In that case, the organisation would probably stop its activities completely already in the course of 2017. If such a scenario would happen, the policy objectives currently achieved thanks to the activities carried out by Finance Watch could not be achieved anymore as of 2017.

Regarding Better Finance, its budget amounted to 0.5M€ in average between 2012 and 2014, also co-financed up to 60% by EU funding. During that period, one specific member of the organisation brought a significant and regular contribution to cover the remaining 40% budget. However, this contribution was significantly reduced in 2015 and should stop as of 2016. Since then, Better Finance managed to compensate this contribution partly, by attracted other funds, in particular higher membership fees. However, the organisation cannot rely yet on the same level of income. In that context, in the absence of EU funding, Better Finance revenues would be quite low, around €0.2M yearly, which means that the current level of activities could not be maintained as of 2017. The secretariat of the organisation being already quite small (4-5 staff), staff cuts would probably lead to the end of its activity.

4.2. Status quo: continuing the grant programme along the same lines

The policy objectives set up in the pilot project and preparatory action carried out between 2012 and 2014 were overall achieved through the grants awarded to Finance Watch and Better Finance during that period. The evaluation carried out in 2015 concluded that both organisations were assessed as relevant, effective, and efficient towards the objectives of this pilot project and preparatory action. The feedback received from consumer or investor organisations, mainly represented by members, was overall positive. Based on the results of a broad survey, these organisations underlined that both Finance Watch and Better Finance managed to provide them with expertise of high quality since 2012 and also allowed complex financial matter to become accessible for non-technical stakeholders. Also, according to this evaluation, Finance Watch and Better Finance brought EU added value for two main reasons:

at EU level, there are a few organisations that represent the general interest of consumers, but there are no civil society organisations focusing on financial markets and its regulation; at national level, there are organisations dealing with consumer issues but they often lack technical expertise and resources and cannot cover such a broad scope of policy areas related to financial services.

However, the financial sustainability of both organisations has been evaluated as very fragile and it has been quite challenging for Finance Watch and Better Finance to raise other sources of funding.

In that context co-funding from the European Union would ensure the resources necessary to achieve the policy objectives (see 3.) in the coming years. It would provide financial stability for these organisations who have so far managed to start-up these relevant activities in a short period of time.

These EU grants could be action grants rather than operating grants, allowing for focusing on the most effective activities to achieve the policy objectives. In line with the on-going Multi-annual Financial Framework, this grant programme would run during four years, from 2017 to 2020. It should then be re-evaluated. Choosing this option would leave some time for these organisations to find other stable sources of funding, private or public.

4.3. Reducing the level of EU co-funding

Based on the current financial situation, Finance Watch's sustainability remains very fragile. The organisation managed to get sufficient income to support 40% of its costs between 2012 and 2014. However, only one significant donor remained stable over that period and the organisation has no certainty about the continuation of this funding after 2016. In that context, reducing the level of co-funding from 60% to a lower ceiling as of 2017 is risky. In such context, it is very likely that Finance Watch would have to reduce its budget, mainly limiting staff costs and therefore level of activities carried out.

With respect to Better Finance, the situation is more critical. As mentioned in the first option, the organisation could rely on only one main contributor between 2012 and 2014 besides the EU grants. Since this donor decided to reduce significantly its contribution in 2015 and to stop it afterwards, Better Finance is already currently struggling to compensate this loss of income. In that context, reducing the level of EU co-funding is likely to jeopardize Better Finance's financial sustainability rapidly.

This option would mean that the policy objectives are likely to be only partly achieved, and probably by Finance Watch only.

4.4. Comparison of options

The matrix below is used to compare the relative merit of three competing options based on the evaluation outputs. The option "stop funding" used as baseline with no more Budget intervention from the Union is compared to the two other options based on the following main criteria:

- The level of risk of not implementing the policy objectives
- The impact on costs for the EU

Table1: Summary of policy options

Assessment of options	Achievement of policy objectives	Implication for EU budget	Overall assessment
Option 1 Discontinuing funding	---	+++	0
Option 2 Continuing along the same lines	+++	--	++
Option 3 Decreasing EU funding	-	-	--

Option 1: The Union budget would incur no direct costs but the policy objectives would not be achieved. A stop to the funding of these organisations would run counter to the positive ex-post evaluation that has been carried out in 2015 and would imply the end of these two organisations. Besides, the absence of other applicants during the four successive calls for proposals proves that no other actor would replace them in that case.

Option 2: Although the Union budget would carry the same level of direct costs as today, it is the only option which ensures that the same policy objectives set at the end of 2011 can be properly achieved in the coming years.

Option 3: while reducing the impact on the Union budget, this option would mean that the policy objectives completed so far could not be achieved to the same extent in the coming years. This option could rapidly jeopardize the financial sustainability of the two entities since members or donors might withdraw their support in such context.

4.5. Method of implementation of the selected option

As a general rule, financial support from the Union budget could be provided either:

- By contributing to the overall budget of the body (via operating grants)
- By co-financing specific targeted activities of the body (via grants for action)

Between 2012 and 2015, the two organisations have been co-funded through EU operating grants. Since 2016, it was decided to use rather action grants that enable to better understand the activities that will be co-funded by the Union budget. Indeed, to benefit from action grants, potential beneficiaries have to provide detailed information about the planned activities (type of action, estimated costs, timeframe). It would also better take into account for control purposes the fact that since 2015 Finance Watch is a beneficiary of other smaller EU action grants as a partner organisation in specific research projects. Overall, using action grants ensures a better control over EU budget spending.

In that context, it is considered that a direct contribution from the EU budget by the way of action grants, is at this stage the best solution for the future legal base.

4.6. Volume of appropriation

Table 2: Volume of appropriations

Million EUR	2017	2018	2019	2020	TOTAL
Finance Watch and Better Finance estimated budgets	2.50	2.50	2.50	2.50	10.00
Total EU co-funding (60%)	**1.50**	**1.50**	**1.50**	**1.50**	**6.00**

The volume of appropriations is estimated based on following assumptions:

- The volume of appropriations would cover four years, from 2017 to 2020, in line with the on-going multi-annual framework;
- The estimated budgeted costs for the period 2017-2020 would correspond to the average actual costs incurred by each organisation between 2012 and 2014;
- The co-funding rate (60%) would remain unchanged.

4.7. Impacts

The impacts that have been assessed so far by the evaluation should be maintained. Thus, the expected impacts of the potential policy initiative should be:

- Providing relevant expertise to EU policy makers through responses to consultation, policy papers and in-depth research reports;
- Strengthening the voice of end-users in the reform of financial regulation by conducting advocacy and presenting public interest arguments to lawmakers and citizens;
- Act as an "umbrella" for national organisations (if they exist) and represent their interests vis-a-vis the European authorities;
- Bridge the gap of absence of national organisations in various Member States representing the interests of investors, shareholders, savers, consumers with life insurances, bank savers, pension fund participants and other financial service users;
- Developing a strong communication "device" with end users consisting of a multitude of communication modalities, most of which should be readily accessible through a website translated in several languages;
- Ensure a solid representation in various EU financial policy advisory bodies, for instance in the ESAs stakeholder groups (ESMA Securities and Markets Stakeholder Group, EBA Banking Stakeholder Group and EIOPA Insurance and Reinsurance and Occupational Pensions Stakeholder Group).

Under option 2 all the impacts that have materialised during the first three years of operation according to the evaluation results are likely to continue. If different modalities would be chosen, the same policy objective could be achieved only under certain conditions. For instance, in case of a decrease in EU funding, the organisations should be able to raise sufficient external sources of funding to compensate potential decrease of public funding.

4.8. Conclusion

In view of the above, it is important that the Union contributes to the funding of Finance Watch and Better Finance, who have been properly evaluated and proved to be relevant, effective and efficient in achieving the policy objectives set up at the end of 2011. These two organisations have managed to build a strong technical expertise and communication capabilities in a short period of time thanks to previous EU funding. It has proved to be more difficult for them to find other stable sources of funding while remaining fully independent from the financial industry. Continuing funding them along the same lines in the coming years would ensure that the positive impacts assessed so far will be maintained. The situation should be re-evaluated by 2020.