// NO.24-040 | 06/2024

DISCUSSION PAPER

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The Recovery and Resilience Facility: Key Innovations and the Interplay With Cohesion Policy

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Abstract

With the aim of contributing to the ongoing discussions on the future of post-2027 Cohesion Policy (CP), this chapter delves into the functioning of the Recovery and Resilience Facility (RRF). It examines the interplay between the RRF and CP, illustrating their respective governance structures, the key strengths of the RRF, the main obstacles to its implementation, and the interaction between the two instruments. The chapter concludes that the RRF can provide at least two sources of inspiration for the future of CP and EU public investment policies: the performance-based payment mechanism and the link between reforms and investments.

Keywords

Performance-based budgeting; Recovery and Resilience Facility; Cohesion Policy; EU funding governance

Introduction[1]

Established in February 2021, the Recovery and Resilience Facility (RRF) is the centrepiece of the Next Generation EU recovery fund, temporarily set up in response to the Covid-19 pandemic. The general objective of the RRF is to promote the EU's economic, social and territorial cohesion by providing financial support to Member States in exchange of reforms and investments that address a significant subset of Country Specific Recommendations (CSRs). The key novelty of the RRF is the funding mechanism not based on reimbursement of costs, but on the satisfactory fulfilment of the milestones and targets (M&Ts) agreed in their recovery and resilience plans. As such, the RRF has been presented as a 'performance-based' instrument. Put it differently, with the RRF, the focus of budgeting shifts from managing (i.e. 'how much have we spent?') to the achievement of policy objectives (i.e. 'what have we accomplished with our money?') (OECD, 2008).

Predictably, the launch of the RRF has led to a lively debate on the compatibility of this new instrument with traditional EU Cohesion Policy (CP). A number of the European Court of Auditors Journal published in May 2022 remarkably titled *Cohesion and NextGenerationEU: Concord or clash?*. The two instruments are in fact comparable in terms of size of the financial envelope (EUR 530 billion for Cohesion and EUR 723.8 billion for the RRF) and breadth of the investment types supported. At the same time, as we will detail in this chapter, the economic rationale underpinning the two instruments differs significantly and so does the governance structure. Such debate gained further prominence in light of the ongoing debate on the future of CP. As explicitly acknowledged by the *High Level Group on the Future of Cohesion Policy*, the RRF poses a set of questions that are linked to the governance and disbursement of EU funding as well as the role of structural reforms. Considering the temporary nature of the RRF and the ongoing reflections on the post-2027 CP, the question about which innovations can be taken and can inspire the next EU budget programming period is particularly compelling.

Against the above, the purpose of this chapter is to deep dive into the functioning of the RRF – more than three years after its adoption – and investigate the interplay with CP. In particular, we aim to answer to the following questions:

1. What are the key features of the RRF governance, and how does it compare with CP?
2. What have been - so far - the key strengths of the RRF? What have been the key obstacles for the implementation of the RRF?
3. What is the interplay between the two instruments?

To answer the above-listed research questions, the chapter will rely on multiple tools to ensure that the findings are based on factual evidence and on the opinions and perceptions of a wide range of stakeholders. Evidence has been collected through:

1. Desk research and literature review of official documents and existing studies and reports analysing the interplay, differences, and similarities of the RRF and CP.
2. Semi-structured interviews with stakeholders from the European Commission and national authorities from four selected Member States (Germany, Italy, Lithuania, and Spain)[2].

The chapter is organized as follows. The next section will zoom in on the governance of the RRF and compare it with the governance of CP. The third section will instead illustrate the key success factors and the least

[1] This research has been financially supported by the German Ministry of Finance.

[2] The interviews have been conducted in the framework of the study supporting the Mid-term evaluation of the Recovery and Resilience Facility, Ref No. 2023 ECFIN 002/B4. The study has been published on the 21 February 2024. The independent study has been published together with the European Commission Staff Working Document as foreseen by the Regulation on the RRF, article 32.

effective in the implementation of the RRF. The fourth section will instead zoom in on the interplay between the RRF and CP. The last section concludes.

The governance of the RRF and CP: a comparison

To compare the RRF with CP we distinguish between the following dimensions:

- Policy objectives and role of reforms
- Governance processes and stakeholders' involvement
- Payments and monitoring and evaluation framework

Policy objectives and the role of reforms

The key documents of the RRF are the recovery and resilience plans (RRPs)[3]. The plans should consist of a comprehensive and coherent package of reforms and investments that fall under the scope of application of the Facility defined in Art. 3 of the Regulation, (i.e. the six pillars[4]) and contribute to achieve its general and specific objectives (defined in Art. 4). To be eligible for the RRPs, investments and reforms should be in line with a significant sub-set of CSRs addressed to the Member States in the context of the European Semester, they should comply with the Do No Significant Harm (DNSH) and the additionality principles (Art. 5 of the Regulation), and they should contribute to the climate and digital targets by allocating at least 37% and 20% of the financial envelope to achieve respectively the green (including biodiversity) and digital transition objectives.

Overall, the RRF objectives largely overlap with those of CP. If we look into the 5 thematic objectives identified in the 2021-2027 Common Provision Regulation (CPR) – which represents CP's key regulatory framework – these include also green and digital transition, smart and inclusive growth, and the implementation of the European Pillar of Social Rights. The main difference consists in the explicit reference to the sustainable and integrated development of all types of territories and local initiatives, which figures prominently in the CPR and is less explicit in the RRF. Such difference is all but minor and *de facto* reflects the different rationales underpinning the two instruments. The logic underpinning CP is primarily aimed at redistributing resources to less developed regions with the aim to contribute to upward economic and social convergence (Begg 2010). By contrast, the RRF allocates resources to national governments with the objective of improving the resilience, crisis preparedness, adjustment capacity and growth potential of the Member States.

In terms of horizontal principles, Art. 9 of the CPR for 2021-2027 explicitly mentions the respect for fundamental rights and compliance with the Charter of Fundamental Rights of the European Union[5]; equality between men and women and the integration of a gender perspective; prevention of any discrimination; alignment with the objective of promoting sustainable development, taking into account the UN Sustainable Development Goals, the Paris Agreement and the DNSH principle.

Moving to the role of reforms, CP also has an explicit link to the EU economic governance (since the 2014-2020 Multiannual Financial Framework) and in particular to the CSRs. The 2013 CPR introduced the so called 'ex-ante conditionalities' whereby – *inter alia* – Member States had to take into account the relevant CSRs in the preparation of Partnership Agreements and Operational Programmes (OPs) (Article 17(3) of the RRF

[3] As stated in Art. 18 of the RRF regulation, a Member State wishing to receive a financial contribution shall submit to the Commission a recovery and resilience plan.

[4] (a) green transition; (b) digital transformation; (c) smart, sustainable and inclusive growth, including economic cohesion, jobs, productivity, competitiveness, research, development and innovation, and a well-functioning internal market with strong SMEs; (d) social and territorial cohesion; (e) health, and economic, social and institutional resilience, with the aim of, inter alia, increasing crisis preparedness and crisis response capacity; and (f) policies for the next generation, children and the youth, such as education and skills.

[5] The only reference to the Charter of Fundamental Rights of the European Union within the RRF Regulation, in recital 33, is related solely to the right to conclude or enforce collective agreements or to take collective action.

Regulation, Article 12(1) of the CPR). Yet, a number of studies (Ciffolilli et al., 2018; Vita, 2018) have highlighted that even though the CSRs have been taken up in the strategic choices set out in OPs of the then named European Structural and Investment Funds, in practice, the absence of clear incentives or sanctions has limited the influence of the CSRs. This notwithstanding, the link with the CSRs has been included also in the CPR for the new 2021-2027 MFF, where investment priorities are defined during the programming process and re-assessed (as per Article 18 of the current CPR) taking account of the CSRs.

Despite the link to the CSRs, there is a significant difference between CP's enabling conditions[6] and the reforms supported by the RRF. Indeed, the potential scope of RRF-supported reforms is wider. By contrast, the enabling conditions under CP are common to all Member States and their scope is limited to a number of specific areas. They are typically complied with through the adoption of strategies or administrative documents. In addition, the focus of the enabling conditions is to reach out to the territorial level with the aim to strengthen the effective implementation of public investments. By contrast, the RRF supports reforms that are not necessarily linked to the implementation of investments.

On a different level, since the 2014-2020 programming period CP also includes a macroeconomic conditionality, allowing the Commission to suspend funds when Member States fail to reduce their excessive deficits. However, in practice, this provision – which could represent a linkage with the European Semester – has never been applied[7].

Governance: processes and stakeholders' involvement

The RRPs are prepared by the Member States[8] and are then assessed by the Commission. Beyond the compliance with the above-mentioned criteria (CSRs, green and digital targets, DNSH and additionality), the Commission assesses whether *the arrangements proposed by the Member States concerned are expected to ensure an effective monitoring and implementation of the recovery and resilience plan, including the envisaged timetable, milestones and targets, and the related indicators*. M&Ts are the measures of progress towards the achievement of a reform or an investment and are at the centre of the RRF performance-based approach[9]. The fulfilment of M&Ts is in fact the basis for the Commission assessment of the payment requests by Member States[10].

Based on this assessment, the Commission provides a proposal for a Council Implementing Decision (CID) setting out a binding set of measures, the associated M&Ts to be achieved, and the number and amount of

[6] In 2021-2027, ex-ante conditionalities have been renamed as enabling conditions.

[7] See Coman (2023) for a discussion of macroeconomic conditionality in CP, including a reconstruction of the difficult debate that led to its inclusion in the 2014-2020 regulatory framework. 2021-2027 CP keeps the key principles of macroeconomic conditionality, while adjusting some aspects of it: ESF+ and Interreg are excluded; no suspensions linked to excessive deficit are possible as long as the general escape clause of the Stability and Growth Pact is activated; the Commission cannot request a programme amendment during the first two years, the last year or two consecutive years.

[8] When drawing up RRPs, national authorities were required to consult local and regional authorities, social partners, civil society, and youth organisations to the extent required by domestic legislation, and to provide in the RRPs a concise overview detailing the consultation process conducted with social partners and stakeholders, showing how their inputs were integrated.

[9] The EC's guidelines for preparing the recovery plans specify that M&Ts should remain within the control of the Member States and should not be conditional on external factors such as the macroeconomic outlook or the evolution of the labour market. As such, the Guidance suggests the use of input indicators or preferably output indicators, while it discourages impact indicators since they are not under the control of the Member States. It follows that, since fulfilling previously agreed M&Ts is the only criterion to justify disbursing an RRF payment request, M&Ts are likely to remain limited to tracking outputs rather than results or impacts.

[10] See the Council Implementing Decision approving the assessment of the RRPs and the Staff Working Document accompanying the EC proposal for Council Implementing Decisions (CIDs).

instalments. Once the CID is adopted, it is complemented by operational arrangements[11], the financing agreements on which the budgetary commitments are based, and the loan agreements, if applicable. Changes to RRPs require the Commission's assessment and the Council's approval as well. In the case M&Ts are no longer achievable, either partially or totally, Member States can propose amendments to their RRPs. Article 21 of the RRF Regulation defines the condition for plans' modifications[12]. The Commission's assessment of the modification request is based on the evidence of objective circumstances that prevent Member States from fulfilling the initially planned milestone or target.

Overall, the governance of the RRF is significantly different from that of CP funds. First, at the programming phase, under CP, each Member State signs a partnership agreement with the Commission, which sets out the strategic orientation of the funding and the arrangements for using it. It contains details of national or regional programmes intended to address the main challenges facing the country or the region. The Commission adopts implementing acts to approve both the partnership agreement and the programmes[13]. While the partnership agreement can change only at the request of the Member State following the mid-term review[14], amendments to CP programmes, including budget reallocations within the limits authorised by the CPR, occur frequently[15]. Modifications of programmes only require the assessment and approval of the Commission.

Finally, with respect to stakeholder involvement, in CP, Member States must apply the partnership principle, which consists in ensuring the involvement in CP implementation of regional, local, urban and other public authorities, civil society, economic and social partners and, where appropriate, research organisations and universities[16]. In the 2014-20 cycle, a code of conduct on partnership[17] was also issued, which continues to apply in 2021-27. Concretely, the principle translates into the different partners having the opportunity to contribute to drawing up partnership agreements, through ad-hoc consultations, the participation in regular meetings and the submission of written contributions, and to similarly participate in preparing, implementing and evaluating each programme. In relation to 2021-27, these contributions were found to have helped, to some degree, in making programmes specific to the local and regional context (even if less so in the preparation of national partnership agreements) and were recognised as enablers of place-based sustainable and digital transitions, being especially important in the phase of needs analysis and priority development[18].

Payment system and monitoring and evaluation framework

As a performance-based instrument, the RRF implementation is based on the fulfilment of M&Ts. Payment requests may be submitted by the Member States to the Commission twice a year. For each payment request, the Member States commit to implement a certain number of M&Ts. The Commission's assessment of the M&Ts fulfilment relies on their description (set out in the CIDs) as well as the *context and purpose*. In the case of non-fulfilment of M&Ts related to a payment request, the Commission proposes to suspend all or part of

[11] The European Commission prepared a template for operational arrangements but issued it in October 2021 after most CIDs had already been adopted. Operational arrangements contain details of how the CID will be monitored, and what evidence the Commission expects to see to demonstrate that each milestone and target has been achieved.

[12] Plans' modifications are possible also based on two other articles of the RRF Regulation. Based on Art 14.4 Member States could request a loan until 31 August 2023 and therefore submit a modified RRP. Based on Art. 11.2, Member States could revisit their plans if the financial contribution amounts relative to the 30% of the envelope was revisited in July 2022.

[13] A significant difference lies in the fact that while the Commission's assessments of adopted RRPs are publicly available, those of CP partnership agreements and programmes are only shared with the national and regional authorities concerned.

[14] According to Article 13 of the CPR a *Member State may submit to the Commission by 31 March 2025 an amended Partnership Agreement, taking into account the outcome of the mid-term review.*

[15] Amendments of programmes are regulated in article 24 of the CPR.

[16] Recital 14 of the CPR.

[17] Commission Delegated Regulation (EU) No 240/2014.

[18] European Committee of the Regions (2021b).

the financial contribution. In addition, under the RRF Member States can access a single pre-financing of up to 13% of the grant, and if relevant, the loan[19]. In February 2023, the Commission presented a Communication in which it explains in detail the functioning of both the framework for assessing M&Ts and the payment suspension methodology, and in particular the application of upward coefficients to decide on the amount to be suspended. The coefficients are based on the importance of the milestone or target and differ depending on investments and reforms[20].

Contrary to the RRF, CP finances operations primarily based on the reimbursement of incurred costs instead, albeit not exclusively. In the 2014-20 period, CP has foreseen simplified cost options (SCOs) as well, consisting in predetermined unit costs, flat rates and lump sums being used for the reimbursement of expenditures. Member States could also choose to claim reimbursements based on financing not linked to cost (FNLTC) in selected sectors, but this option was not widely adopted. In 2021-27, further steps towards a performance-based approach have been taken: SCOs become mandatory for operations under EUR 200,000, and technical assistance for programme management is reimbursable through flat rates. FNLTC is confirmed as a possible form of disbursement, and technical assistance to strengthen the capacity of beneficiaries and partners (other than programme management-related technical assistance) is reimbursed only by means of FNLTC.

As to the monitoring aspect, in the RRF, the Delegated Regulation (EU) 2021/2106 imposes an obligation on Member States to report twice a year on the progress of M&Ts (no later than by 30 April and 15 October), even in absence of a payment request. Member States report their progress in achieving their M&Ts due in the past and twelve months into the future. In addition to M&Ts, the RRF includes also other types of performance information, i.e. 14 common indicators, set out by the Delegated Regulation (EU) 2021/2106. These indicators are used for the purpose of monitoring and evaluation of the Facility towards the achievement of the RRF general and specific objectives. Member States shall report to the Commission on the common indicators twice a year (by February and August) and the information is included in the RRF Scoreboard, which displays information on the progress of the implementation of the RRPs in each of the six pillars, as well as the progress on the fulfilled M&Ts. Contrary to the M&Ts, however, common indicators are not used for payments' disbursements or suspension.

The CP approach concerning monitoring is different. Over time, the Commission has promoted and supported the development of a detailed system for data reporting concerning not only data on expenditure progress and thematic and geographic distribution of CP funds, but also different features of the operations implemented. Granular information on the operations is made available by the managing authorities of each programme, which have to maintain a list of operations by programme and by fund and publish it online. In some cases, national authorities also make available lists of operations featuring additional details compared to what is foreseen in the CPR. Such comprehensive lists represent formidable sources of information, enabling a thorough mapping of financed operations. Being able to elaborate on the types of projects that have concretely benefitted from EU funding allows to understand how the strategic priorities identified in the programming phase have been translated into reality, and in principle these datasets can offer essential insights on the relevance and the coherence of the expenditure. The Commission has also recently taken steps to integrate such national datasets in a unified database at EU level, enriching them with further detail, even though this exercise faces multiple hurdles[21]. Furthermore, under CP, data on financial implementation and details of the operations constitute a first pillar of monitoring and data reporting; a crucial second pillar is represented by performance indicators, i.e. output and result indicators, which are at the core of monitoring

[19] Article 13 of the RRF Regulation.

[20] As explained in Annex II of the EC Communication: 'Once corrected unit values are established, upward and downward adjustments will be made in the specific cases outlined below. The final amount to be suspended per unfulfilled milestone or target will be equal to the corrected unit value subject to any upward and downward adjustment ('suspension value').

[21] CohesionData.

activities. In 2014-20, mandatory common indicators, instrumental for aggregating data at EU level, were introduced[22], and the capacity of Member States and regions to collect data also improved[23]. The 2021-27 regulatory framework (with some minor modifications) has kept the common indicators, seen as key for aggregating data and ensuring accountability and policy learning. The common output indicators for ERDF, Cohesion Fund and JTF, for instance, are 97, common result indicators are 66. Under CP, the monitoring systems are managed by the managing authority of each programme, and their performance indicators are not linked to disbursement. Five times a year, managing authorities submit financial data to the Commission, and twice a year performance data. The Commission, in addition to managing the Cohesion Open Data Platform, issues an annual management and performance report to the Parliament, in the context of the discharge procedure[24]. In the face of such an ambitious approach to monitoring, managing authorities have over time set up wide-ranging monitoring systems and consolidated the data flows[25]. In some countries, the RRF monitoring systems are largely based on the CP ones, for instance in Lithuania and Romania, in light of the infrastructure and expertise built over time. At the same time, however, CP's evolution towards an ever more ambitious monitoring has also been attached to recurring concerns about administrative burden on public authorities and beneficiaries[26].

Finally, in terms of evaluation system, the RRF only foresees a mid-term and an ex-post evaluation carried by the EU Commission. By contrast, under CP, in addition to the mid-term and ex-post evaluation by the Commission, the Member States perform evaluations of programmes following an evaluation plan.

The table below provides a summary comparison of the RRF and CP.

Table 1 Comparison of the RRF and Cohesion Policy governance

	CP 2021-2027	RRF
Overarching legal basis	Common Provision Regulation (2021) and programme-specific regulations	Regulation (EU) 2021/24
Objectives	5 policy objectives, specific objectives	6 pillars
Key documents	Partnership agreements Programmes	National recovery and resilience plans Operational arrangements
Conditionalities	Enabling conditions Improved and more operational links with European Semester – focus on investment-related CSRs esp. at the beginning of the programming (2019 CSRs) and during the mid-term review (2024 CSRs)	Eligibility criteria CSRs pre-condition to accept reforms and investments
Amendments	Possible based on Art. 13 (for partnership agreements, taking into account the mid-term review) and Art. 24 (for programmes)	Possible based on Art. 21 (objective circumstances), Art. 14.4 (loan request). Art. 11.2 (grant revision)
Monitoring	Transmission of financial data 5 times per year, annual review meeting, final implementation report Obligatory publication of all information and data	Common indicators Social Expenditure methodology Transmission of data two times a year within the Semester on M&Ts

[22] Four categories of indicators were established in the CPR, based on two fundamental variables: whether indicators concern implemented operations or observed change, and whether indicators are at the programme level or belonging to the list of EU common indicators: 1) Programme-specific output indicators are collected based on the type of interventions financed under each programme. For example, they can refer to the number of supported firms, jobs created, new kilometres of rail lines built, etc. They offer information on the implementation of projects and are linked to targets; 2) Programme-specific result indicators are collected based on each programme's specific objectives, and they measure change brought about in different policy areas (i.e. in the priority concerned). Their progress is compared to a baseline and a target. They may capture not only the impact of programme interventions but also other factors external to the policy; 3) Common output indicators are set out at EU level and apply across all MS and regions, providing information that can be aggregated. They are set out in the Annexes of fund-specific Regulations and are mandatory; 4) Common result indicators: only relevant for ESF/YEI, not for ERDF and CF.

[23] Pellegrin and Colnot (2020).

[24] European Court of Auditors (2023a), p. 53.

[25] See Vignetti, S. et al. (2022) for an overview of the different types of monitoring systems for 2014-20 ERDF and Cohesion Fund, their quality and challenges.

[26] See for instance Pellegrin and Colnot (2020).

Evaluations	No obligation to conduct an ex-ante evaluation by MS MS obliged to finalise by end-June 2029 an evaluation for each programme to assess its impact Commission to conduct mid-term evaluation by end-2024 and a retrospective evaluation by end-2031	RRF Mid-term and ex-post evaluation (Art. 32)
Financial Support	Union contribution reimbursement also through FNLTC & based on SCOs (clear conditions covered by programme decision) and reduced scope of controls and audits Empowerment for Commission to set up off-the-shelf methods for Union contribution through SCOs and FNLTC	FNLTC (payment based on achievement of milestone and targets)
Role of the European Commission (planning phase)	Draft budget and accompanying documents in particular the Programme Statements (Financial Regulation) Management Plans which show the actions and outputs for the year ahead, reflecting the priorities set in the State of the Union address and in the Work Programme	Commission shall assess the relevance, effectiveness, efficiency and coherence of the recovery and resilience plan, taking into account the following criteria which it shall apply in accordance with Annex V of the RRF Regulation
	Integrated Financial Reporting Package, in particular the Annual Management and Performance Report, which includes separate sections on performance and results and on management achievements May review Common Strategic Framework if changes are made in the EU strategy	Approval of the disbursement requests based on M&Ts' fulfilment

Source: Own elaboration

The RRF key strengths and limits compared to CP

The key strengths of the RRF compared to the CP

The independent study supporting the RRF Mid-term evaluation (Corti et al. 2024) identifies three factors as the most effective of the RRF: the speed of disbursement, the link between investments and reforms and the performance-based approach. In what follows we focus on the link between investments and reforms under the RRF and the performance-based approach.

<u>Support to reforms</u>: As stressed above, the key novelty of the RRF is the link between reforms and investments and the requirement to comply with a significant sub-set of CSRs as an eligibility condition for the measures included in the plans. To date, more than one third of all measures in the 27 RRPs are reforms (around 2,187 reforms compared to 3,780 investments).

The CSRs conditionality attached to the RRPs pushed Member States to put in place controversial reforms for which there would otherwise be insufficient political capital (see examples below). Second, the RRF defines a clear timeline for the reforms' implementation and M&Ts to monitor the effective intermediate steps for the reforms' adoption. The ex-ante definition of a rigid timeline, accompanied by well-defined M&Ts, the fulfilment of which is a condition of the payment disbursement, is indicated as a key factor to accelerate the political discussion on reforms which would otherwise have taken a much longer time to be adopted.

Predictably, the effectiveness of the RRF in supporting reforms increases in those countries that are the largest beneficiaries of the RRF envelope. According to Italian interviewees, without the RRF it would not have been possible to adopt in such a short timing and at the same time the public administration, justice (civil justice, criminal justice, insolvency framework and tax courts) and competition reforms (to update the regulatory framework to attract both public and private investment). Similarly, the Spanish authorities acknowledge the key role of the RRF in accelerating key reforms such as the labour market and the pension reforms that were adopted in consultation with social partners in a very short time frame. By contrast, in other Member States, the reforms introduced with the RRF are not of the same magnitude. In some countries, like Germany, the reforms included in the plans were either already foreseen in the government coalition programme or introduced only relatively minor changes. This notwithstanding, also in a country like Germany, with relatively lower financial incentives, based on an interview with national authorities, the RRF in part contributed to accelerating the introduction of important reforms, like the joint programme at national and regional levels to tackle investment bottlenecks.

Overall, RRPs have used the term “reform” to refer to different actions, ranging from ambitious and structural changes in key policy sectors (not necessarily linked to investments) to the adoption of rather simple administrative documents, or measures that were already foreseen and almost completed before the pandemic and the launch of the RRF[27]. Yet, in their most ambitious form, reforms under the RRF have the potential to overhaul the governance of entire policy sectors and to introduce disruptive innovations at the legislative level.

<u>Performance-based approach</u>: As highlighted in the study supporting the mid-term evaluation of the RRF, the shift towards performance-based budgeting in the RRF has been welcomed as a positive innovation by several Member States. The shift towards the performance-based approach is considered effective because it ensures predictability and accountability through the clear ex-ante definition of M&Ts and the establishment of a clear timeline for implementation. Article 20 of the Regulation in fact specifies that the time limit by which the final M&Ts must be completed is 31st August 2026, while payments shall be made by 31st December 2026.

Predictability and accountability are welcomed as effective aspects of the RRF for two main reasons. First, the RRF performance-based approach was positively welcomed as a positive cultural shift in public policymaking. The ex-ante formulation of expected M&T is perceived as enhancing deliberation about the usefulness of policy instruments and gives clear metrics to evaluate success. Moreover, the selection of reforms and investments based on expected results pushed Member States to think about reforms and investments in parallel and this is a positive element because it forces having a coherent approach.

Second, the approach of M&Ts attaches additional leverage for administrations at the domestic level (Bokhorst and Corti, 2023). The requirement to prepare reforms and investments plans and the link between M&Ts fulfilment and payments’ disbursement was an incentive for some national governments to include long-time contested measures in the plans. This is particularly true in those countries like Spain, Croatia, Italy, Portugal, where the financial envelope is high and where the risk of losing EU funds due to noncompliance with M&Ts is higher. In these cases, the performance-based approach reduces leeway for deviation and increases common responsibility to meet the agreed objectives within the agreed timeline. By contrast, in countries with lower financial envelope from the RRF, the financial incentive of the RRF is lower and therefore also the incentive to comply with the M&Ts included in the plan. This said, even in countries with a higher RRF financial envelope the choice of reforms did not incentivise governments to adopt long-awaited reforms but to rather include measures that are easier to implement in order to avoid possible delays with the payments’ requests.

At the same time, RRF’s approach has been subject to various criticisms, including for not really being performance-based. The European Court of Auditors (ECA), for instance, assessed the RRF’s performance monitoring framework as capable of measuring implementation progress, but not sufficient to capture performance (ECA, 2023d) and the literature has come to similar conclusions[28]. More specifically, ECA noted that a key weakness of RRF M&Ts lies in their focus on inputs and especially on outputs, rather than results. In addition, their level of ambition varies, with some of them being more demanding than others[29]. Even in

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[27] For example, in the Operational Arrangements between the Commission and Spain, a milestone (related to measure C10.R1) concerns the creation of the Institute for the Just Transition Fund. The Institute, established in April 2020, was already foreseen in the Just Transition Strategy approved in February 2019, although not yet put into law. Even if in line with the possibility for the RRF to finance reforms and investments made from February 2020, this example offers an illustration of a case where a reform did not really disrupt the policy framework.

[28] See for instance Zeitlin et al. (2023) and Böhme et al. (2023).

[29] ECA provides examples illustrating a large diversity in final targets of measures related to the following domains: training initiatives; industry decarbonisation; energy efficiency; sustainable transport. For instance, in the domain of industry decarbonisation, targets range from “number of completed projects” to “completion of projects achieving at least 30 % reduction in indirect and direct greenhouse gas emissions compared to the ex-ante emissions”. In the area

cases where the same cross-border project is supported under multiple RRPs, milestones and targets are not harmonised. Moreover, some milestones and targets are not described in a clear way: this poses risks in terms of difficult assessment.

Literature also sheds light on the need for caution in what can reasonably be expected from a result-based system in light of previous experiences. According to a study by the World Bank, there has been "a general pattern of disappointment with the results of performance budgeting, balanced by a strong belief in the underlying logic", leading to a "gap between promise and practice" (Moynihan and Beazley, 2016). Payment systems not linked to costs may in fact create distortive incentives30: public administrations may set unambitious targets; they may focus on short-term goals rather than adopting a long-term vision; they may deliver outputs and results by focusing on the needs that are easiest to tackle (frequently referred to as "low-hanging fruits"), rather than on the greatest needs31.

Persisting concerns and similarities with CP funds

While the RRF has been welcomed for some positive innovations, regarding the speed of disbursement, the support to reforms and the shift to FNLC, still several challenges emerge in the implementation of the new facility that largely resemble concerns already affecting CP.

Low absorption capacity: As emerges in the study supporting the mid-term evaluation of the RRF, the lack of administrative capacity is one of the main obstacles to effective implementation of the RRF investments in a number of Member States, in particular those who were already facing low absorption rates of EU funding. This is indicated as one of the main causes for delays in the investments, and especially so those that involve local and regional authorities. Such delays are also in part due to the parallel implementation of the RRPs and CP, which translates into parallel processes for data collection, monitoring and reporting, which adds to the difficulties emerging from the novelty of the RRF *per se* as a new instrument.

Among the problems related to the low administrative capacity affecting the absorption of the RRF funding, the following can be identified:

- The inefficient management of resources and processes by the administrations in charge of the interventions;
- The complexity of the paperwork for accessing RRF funds;
- The cumulative delays in the expression of opinions and the granting of authorisations by national and local public authorities;
- The lack of coordination between several implementing bodies.

Despite the support to strengthen the administrative capacity put in place by some Member States, this remains a significant factor affecting the effectiveness of the RRPs as well as CP. As several researches pointed out already in 2020, the main risks of delays due to administrative capacity in the RRF regard the same Member States that had a low absorption rate under CP. As an example, in Italy, the lack of administrative capacity risks reinforcing the pre-existing territorial asymmetries whereby local authorities in disadvantaged territories do not access to RRF funding. In this respect, the Italian Government's Department of Cohesion

of sustainable transport, targets range from the number of "vehicles purchased" (or "vehicles purchased and in operation" or "vehicles replaced with electric ones") to "reduced air pollutant emissions" by using more sustainable means of transport. Source: ECA (2023). Special report 26/2023.

[30] See Moynihan (2009), Moynihan (2011), Beazley (2018), Zeitlin et al. (2023), Darvas and Weslau (2023).

[31] More broadly, an idea frequently mentioned in relation to the use of targets in public policy is the so-called "Goodhart's law", according to which "When a measure becomes a target, it ceases to be a good measure".

Policies stressed that – mainly due to a lack of administrative capacity - 30% of the resources so far awarded through competitive procedures in the South of Italy are subject to a medium to high risk of reallocation outside the South (Presidenza del Consiglio dei Ministri, 2022). In Spain, the lack of support and technical assistance to providers or local authorities to accurately develop project proposals and the lack of time to present projects which is linked to the lack of sufficient personnel are indicated as well as two key concerns hampering the effectiveness of the RRF investments in childcare.

Low flexibility**:** with the implementation of the RRPs, the demand for flexibility has increased as a result of the changing circumstances affecting the roll-out of the national plans, such as pressure on energy, food and other commodity prices, and the disruptions in global supply chains and logistics, linked to the war in Ukraine, but also the delays cumulated because of administrative delays and the innovative nature of certain types of investments. Such demand for flexibility is linked mainly to: 1) the M&Ts assessment by the Commission and 2) the possibility of changing the plans.

With respect to the assessment of M&Ts, Member States are concerned about the lack of clarity on the interpretation of deviation from the agreed M&Ts, and criticize the discretion of the Commission in the assessment, especially when it comes to reforms. Even though the 2023 Communication by the Commission on the suspension methodology has been welcomed, still some Member States criticize the application of upward adjustment coefficients, considered as unclear, unpredictable and of non-transparent nature. At the same time, Member States criticize the increasingly rigid and excessively literal interpretation of the Commission of M&Ts. According to some Member States – given the changing circumstances in which plans are implemented – more flexibility should be granted in the assessment of M&Ts. Such flexibility is interpreted in terms of deviation especially from the targets and in the timeline of the M&Ts. With respect to these concerns, however, we should recall that when assessing M&Ts fulfilment, the Commission relies on their description (set out in the Council Implementing Decisions) and consider the context and purpose to determine the requirements that Member States must fulfil. This means that the Commission considers the broader objective of the measures assessed. This said, deviating from what agreed in the M&Ts would be infringing the performance nature of the RRF itself. For this reason, the EC communication of February 2023 explains that in a limited number of circumstances and in line with the application of the de minimis principle, minimal deviations linked to the amounts, formal requirements, timing or substance can be accepted. Annex II of the EC Communication further details the framework for assessing M&Ts and the application of the minimal deviations. Yet, to preserve predictability and accountability, one should refrain from any discretionary approach in the assessment of the M&Ts.

With respect to the possibility of changing the plans, Member States think that the revision process is burdensome, slow and implies unnecessary complexity. They point to the lack of difference between the procedures to introduce small or major changes, and between types of investments (based on risk profiles). They criticize the lengthy procedures, even in the case of minor adjustments, and the time lag between plans' modifications and Council approval of the procedures. Member States point to the risk that the lack of flexibility, in this case, might hinder the plans' implementation and timely presentation of payment requests. They further highlight the excessive number of procedures and justification that increases the time for modification so much that it almost makes the modification itself ineffective, especially considering the final deadline for the RRF of 2026.

Administrative burden: as emerges in the study supporting the RRF mid-term evaluation, there is widespread concern that the RRF, as currently managed, imposes unnecessary administrative burdens on public administrations. Unnecessary administrative burden is linked to several aspects:

- The procedures to review the plans;
- The reporting on common indicators;
- The multiple audits and controls by EU and national institutions.

With respect to the procedures to modify the plans, they are considered not only limitedly flexible (as illustrated above) but also excessively burdensome. Several Member States lament that the Commission asks for excessive justification for the objective circumstances. In this respect, the informal dialogue between Member States and the Commission is considered in part helpful but in part also a burden, which significantly slows down the plans' modification. In this respect, some countries criticise the long time it takes for the Commission to answer Member States requests, which clashes with the amount of documentation that is then required of Member States in a very short time.

Regarding excessive reporting, Member States specifically highlight common indicators, deemed as not useful for tracking actual RRPs' results. In this respect, some countries note that continuous reporting risks diverting attention from effective implementation. Common indicators were not included in the initial proposal for the RRF regulation published by the Commission on 28th May 2020 but were introduced during the negotiations between the Council and the Parliament under the request of the latter with the aim to regularly report on the RRF objectives' implementation progress. In practice, however, the reporting on common indicators is not linked to the specific implementation of RRF reforms and investments and, therefore, as stressed by a majority of Member States, it is impossible to draw a causality line between the reported information and the progress in the RRF implementation which thus puts into question the added value of this exercise. As observed by the European Court of Auditors, contrary to the common indicators in CP, the RRF ones do not have associated targets to be achieved and are not systematically linked to each RRP, which thus diminishes their contribution to actually report on the progress of the measures in the plans.

With respect to audit and controls, a large majority of Member States considers the lack of clarity with respect to the role of audits and controls at the EU and national level as the least effective aspect of the RRF. National coordination bodies complain in particular about the lack of clarity in the RRF regulation about the authority in charge of the audit and control, the excessive documentation requested by multiple actors at the same time, which is considered inefficient and detrimental to the roll-out of the plans. Further, the lack of clarity is also linked to the time spent by national authorities in providing justifications for the controls and audits and the time spent with control and audit bodies in mission to Member States. Some countries stress that the audit and control system imposes unrealistic and pointless verification requirements.

Overall, the impression in a majority of Member States is that the administrative costs of RRF compliance are higher or much higher than other national investment programmes and similar or even higher than the Cohesion Policy funds. The perception of Member States is that the RRF is becoming progressively more focused on 'receipts' than 'results', with the risk that it does not contribute productively to improving the implementation of the reform and investment projects themselves.

The interplay between RRF and CP

The interplay between RRF and Cohesion Policy has been analysed by looking at two aspects:

- The demarcation and complementarity between the two instruments
- The challenges due to the parallel implementation of these instruments.

The demarcation and complementarity between the two instruments

During the programming phase of RRF and 2021-27 CP programmes, Member States had the responsibility of ensuring that coordination and consistency between the two were in place. In fact, the parallel execution of RRF and CP enables Member States to strategically choose between financing investments using either of the two instruments. It is explicitly prohibited for an operation to receive funding from both RRF and CP, and RRF resources cannot be used to cover the national co-financing of CP projects.

Within the RRF regulatory framework, the responsibility for ensuring the harmonious interaction of both instruments was delegated to national authorities. Overall, since CP partnership agreements were still in the early stages of development when national RRPs were submitted, RRPs only provided concise descriptions of how the RRF and CP complemented each other. For instance, the RRPs from Germany, Italy, and Spain included general references to the need for alignment but lacked specific details on how the RRPs related to the national partnership agreement or CP programmes. As noted by the European Court of Auditors (ECA, 2023a), while RRPs laid out some fundamental principles regarding complementarity, further coordination during the implementation phase at regional and project levels remained necessary. A study commissioned by the Committee of the Regions[32] also noted that the lack of elaboration in RRPs regarding their connection to CP reflected the limited involvement of local and regional authorities in the planning process.

However, some Member States have devised specific demarcation strategies, and the literature has identified various types of approaches in this regard (Lopriore, 2022):

- A thematic demarcation involves setting aside certain areas of funding exclusively for the RRF. This type of demarcation is heavily influenced by the regulatory framework, as the RRF can support sectors that fall outside the typical scope of CP, such as the justice sector.
- A territorial demarcation, where the RRF and CP focus on different types of geographic regions, such as rural and urban areas.
- A demarcation based on the type of beneficiary, e.g. distinguishing between public and private entities.
- A temporal demarcation, where funds are absorbed first from RRF resources and then from CP funds.

Partnership agreements and CP programmes also offer general guidance on demarcation in relation to the RRP, but even they do not extensively detail it. For instance, the Italian partnership agreement makes frequent but somewhat vague references to synergies with the RRF across various investment sectors and it acknowledges that demarcation will be a crucial issue at a later stage, setting up a specific technical panel to address it during the implementation phase (as of October 2023, the panel is not yet in place).

Illustrative examples show that Member States have adopted a combination of demarcation criteria.

- In Germany, the demarcation strategy was driven by the separate governance of the two instruments, with RRF being centrally managed and CP programmes implemented by Länder. This separation discouraged demarcation based on types of territories and instead favoured a thematic and beneficiary-based approach. For instance, the German RRP supports energy efficiency measures in residential buildings, while ERDF provides support for non-residential ones.
- In Italy, the demarcation primarily follows a thematic approach. The RRF allocates significant funding to sectors that are not covered by CP, such as justice, or to sectors to which CP provides much fewer resources, like healthcare. Elements of demarcation based on beneficiary types or types of investment are also present. Similar to Germany, the funding for energy efficiency interventions in public buildings is expected to come mainly from CP, while the RRF's contribution in this area is relatively smaller. For energy communities with fewer than 5,000 residents, support is provided through the RRP, whereas those with more than 5,000 residents are funded by CP. Furthermore, large infrastructure projects are generally included within the RRP, while regional-level projects tend to fall under CP.
- In Lithuania, different types of demarcation are in place, depending on the sector. In some cases, the demarcation of investments is based on a territorial approach. In the field of the development of the ecosystem for innovative start-ups, the support for from CP funds is directed to the start-ups in the region of Central-Western Lithuania, while RRF invests into the start-ups in the Capital Region. Beneficiary preparedness is also taken into consideration. In the transport sector, CP funds sustainable mobility measures for 18 major cities and resorts that have already adopted Sustainable

[32] European Committee of the Regions (2021). Regional and local authorities and the national recovery and resilience plans.

Urban Mobility Plans (SUMPs) in the framework of the Operational Programme for the EU funds' investments 2014-2020. For the other 2 cities, whose SUMPs were not financed by the funds of 2014-2020, sustainable mobility measures are funded through the RRF.

- In Spain, the demarcation approach partly follows a thematic pattern. The RRP outlines major interventions in areas such as labour and pensions, along with significant support for improving the country's transport infrastructure. In contrast, the 2021-27 CP allocates only 3% of its total budget to Policy Objective 3 (A more connected Europe by enhancing mobility), focusing more heavily on competitiveness and innovation (26% to Policy Objective 1 – Smarter Europe), the green transition (28% in total to Policy Objective 2 – Greener Europe, and the Just Transition), and social and inclusive growth (36% to Policy Objective 4 – Social Europe). A temporal demarcation toward the RRF is observed under the social component: actions related to vocational training are supported by the RRP until 2024, followed up by CP in subsequent years through ESF+.

Against this background, while demarcation strategies are crucial to prevent overlaps between the two instruments, they do not necessarily guarantee complementarities (i.e. the financing of different operations that complement each other, or the use of the two instruments to fund different aspects of the same operation). In theory, as also recognised by EPRC (2021) as well as Bachtler and Mendez (2021), the potential for complementarities between the two instruments was substantial due to thematic overlaps that could be exploited to generate additional impacts, the RRF's ability to enhance investment framework conditions and implement broad Country-Specific Recommendations, and the possibility to build on CP's experience for RRF implementation. However, there are practical difficulties that hinder complementarities including the limited or absent explicit territorial dimension of the RRPs (resulting in divergent focuses compared to CP), complex strategic and operational cooperation, thematic overlaps that increase the risk of competition, prioritization of RRPs over CP due to the pressure for rapid absorption, differing governance systems, and challenges in aligning schedules and procedures of different funds.

In the implementation phase, CP procedures provide mechanisms for establishing clear demarcation boundaries and promoting complementarities between RRPs and CP investments. Programme monitoring committee meetings within each CP programme, in particular, enable in-depth and frequent discussions on these issues. Additionally, the selection criteria are a vital component in this demarcation and coordination endeavour. As the RRF implementation progresses, it is expected that complementarities are more likely to emerge in successive funding with CP funds, ensuring the sustainability of EU public investment even after the RRF concludes. However, this mechanism could potentially slow down the CP implementation.

As the implementation of RRF reform components advances, the synergies between RRF-supported reforms and CP investments gain prominence. RRF support for reforms directly benefits CP in the sectors it invests in, and indirectly through broader reforms that establish a strong framework for public investments. Sectoral reforms supported by the RRF introduce innovation into the context in which CP investments operate. This includes new legislation, strategies, governance structures, and simplified procedures. In turn, CP programmes provide financial resources to utilize the revised framework, promoting on-the-ground investments. Therefore, support for reforms is a necessary complement to CP's investment focus, as confirmed by interviewees from various backgrounds. For instance, in Italy, RRF support for reforms and investments in energy and transportation is combined with ERDF measures. In Spain, updates to the Water Law and related regulations supported by the RRP are expected to create a legal framework conducive to increased investments, including those co-funded by CP funds. In Lithuania, RRF-supported reforms related to lifelong learning are coupled with ESF+ following up with post-reform training activities. Additionally, public administration reforms, while not providing immediate benefits, have a positive impact on the implementation of public investments, including under the CP framework. This reasoning also applies to justice reforms at an indirect level.

The challenges due to the parallel implementation of the two instruments

The limited absorption capacity of Member States is considered the most significant challenge for the simultaneous implementation of the RRF and CP programmes. The running of both instruments in parallel can in fact exacerbate administrative capacity gaps, in view of the considerable burden and pressure placed on central and local administrations, as well as external experts and private entities. According to the European Court of Auditors (ECA, 2023a), for instance, the parallel programming of the two instruments was problematic, further prolonging the traditional delays associated with MFF programming.

As stressed above, these shortcomings linked to the absorption capacity have multifaceted causes, including issues related to human resources in the public sector (e.g., insufficient staffing, lack of specialized staff, regulatory constraints on hiring, high staff turnover, unattractiveness of the public sector for skilled professionals, lack of strong management input, frequent changes in leadership) and frequent changes in legislation (e.g., in procurement rules). In Italy, for instance, there is a well-acknowledged presence of weaknesses in conceiving, designing, and implementing projects, especially at the local administration level.

The differing eligibility periods between the RRF and CP, coupled with the absence of a national co-financing requirement for the former, have significant implications in terms of coordination and prioritization challenges. Member States must align their project planning and implementation schedules with the specific eligibility periods of each instrument to efficiently maximize the use of available funds. This can result in variations in the prioritization of existing project pipelines. Additionally, final beneficiaries, such as municipalities and enterprises, need to determine which instrument aligns better with projects in their investment plans based on eligibility criteria and fund timing, influencing the selection and sequencing of projects.

Linked to the above, a further challenge relates to substitution (or displacement) effects. According to interviews conducted in the context of the mid-term evaluation of the RRF, the latter generated substitution effects to the detriment of CP for 2021-27 programmes, while not significantly for 2014-20 programmes, as these were already well advanced. For 2021-27, in some Member States, mature projects expected to be implemented under 2021-27 CP were shifted to the RRP. This choice is clearly linked to the shorter timeframe of the RRF (due to end in 2026). A shift of mature projects occurred for instance in Spain, Italy and Greece, where the RRP received higher priority and media attention, and expectations of a lower burden compared to CP, due to the absence of a national co-financing obligation. However, the significance of the substitution issue varies depending on the specific national circumstances. In countries with substantial investment gaps in traditional sectors and extensive project pipelines such as Romania, RRF resources are perceived to complement CP to address existing needs.

There are also signs of investments returning from the RRF to the CP framework, but the extent of this phenomenon remains to be seen. In Italy, for instance, some railway projects have been withdrawn from the RRP and will likely be funded under the national Development and Cohesion Fund, which Italy uses to complement CP. However, it is too early to draw definitive conclusions regarding the significance of these shifts.

Moreover, during the implementation phase, two potential additional risks can emerge: first, the RRF might hinder balanced socio-economic development between core areas and peripheries, as well as more and less developed regions; second, the RRF might jeopardise the integrated and holistic investment approach promoted by CP in the last decades. As concerns the first aspect, due to its objectives and focus on green and digital investment with a place-blind approach, RRF resources naturally concentrate on more developed regions and country capitals compared to CP. This tendency can be exacerbated by the prevalence of responses to national-level calls originating from areas with higher administrative capacity or a larger productive base. Even in a country like Italy, where the RRP aims to allocate at least 40% of the resources to less developed regions in the South, compliance with this provision is at risk due to the insufficient absorption capacity of potential beneficiaries in these regions. This situation creates a trade-off between efficiency and equity in determining territorial allocations.

As for the second potential risk, consider the following illustrative example: CP has implemented Smart Specialization Strategies (S3) to promote comprehensive innovation and industrial policies. These strategies identify priority areas for investment in a specific territory based on local strengths, potential, and an entrepreneurial discovery process involving broad stakeholder engagement. While S3 strategies have been a key component of CP since 2014-20, the RRF, which does not mention S3 in its regulation, does not enable the same level of policy design based on place-based analyses, local engagement processes, and an integrated approach to the industrial and innovation domains. This lack of alignment between the RRF investments and S3 has been observed in Spain (Gañán de Molina et al., 2022), and efforts by the Commission's Joint Research Centre are underway to identify potential synergies between the two.

Against the above, one might conclude that the lack of a regional anchor is necessarily a limitation of the RRF. This might be the case of investments in policy areas that by definition serve the needs of a limited territory, providing the necessary infrastructure for the provision of essential services (for instance in the areas of transport, management of environmental resources, education, health infrastructure). Other policy domains, however, have a less pronounced local dimension, but address essential collective needs: this is the case of European public goods[33], such as security and defence, health research, R&D in large and complex projects, the fight against climate change. For investments in these areas, the centralisation of planning of the RRF and the lack of a place-based approach could be also seen as a positive element, as it could allow for a more rational and efficient resource allocation. In this regard, more than half of the RRPs include measures contributing to multi-country projects or cross-border initiatives related to the green transition, with the IPCEI on hydrogen exhibiting the highest uptake. The second biggest contribution is seen in the area of the digital transition, where once more, most RRPs include measures contributing to multi-country projects or cross-border initiatives. Here, the IPCEIs on microelectronics (12 RRPs) and cloud technologies (6 RRPs) are amongst the multi-country projects with the highest take-up in RRPs.

Conclusions

With a view to contribute to the ongoing reflections on the future of post-2027 CP, this chapter offered a comparative analysis of the key features of the governance of the RRF and CP, shedding light on the strengths and the least effective aspects of the former. We further delved into the interplay between RRF and CP in four countries, with a focus on the demarcation and complementarity between the two instruments as well as on the challenges due to their parallel implementation. Based on what illustrated above, we conclude that the RRF can provide at least two sources of inspiration for the future of CP and EU public investment policies: the performance-based payment mechanism and the link between reforms and investments.

First, the conditionality of payments upon fulfilment of M&Ts is one of the most appreciated key innovations introduced with the RRF. Even though the implementation of this new approach – as discussed above – came with some concerns on persisting administrative burden linked mainly to the excessive reporting requirements and overlapping of audits and controls, Member States still consider the shift towards performance-based budgeting as a important innovation, for some countries – like Italy and Spain – an important cultural shift in public policy making. The positive appreciation of the M&Ts approach is linked to the predictability of policy planning due to the ex-ante definition of investments and reforms, and their expected outputs, in a clear timeline, as well as to accountability. Overall, predictability and accountability are appreciated as they enhance transparency in public finance and increase the efficiency of decision making. In this respect, several Member States highlighted that the RRF – similarly to CP – represented an

[33] For a discussion on European public goods see Buti and Papaconstantinou (2022), Buti et al. (2023).

incentive to the development of a more effective structure for monitoring the implementation of domestic policies. Put differently, the continuous monitoring is perceived as a positive effect and a shift towards an evaluation culture of public policies. At the same time, a positive perception of the RRF's performance-based approach might be linked to the fact that M&Ts are focused more on inputs and outputs than to results: if Member States had to demonstrate the achievement of actual results generated by outputs, it is possible that their opinion on the performance-based approach would be less positive.

While CP has traditionally been on a continuous trajectory of policy adjustments and evolution toward a more performance-oriented implementation system, with the 2021-27 regulatory package representing the latest step, the RRF's implementation can serve as an occasion for policy learning. The RRF's performance-based payment system, in this regard, can be a stimulus for reflection, even though some simplification might be introduced to avoid the above-mentioned administrative burden. Moreover, a detailed examination would be needed to ensure that the weaknesses identified by ECA and the literature are properly addressed. Margins for simplification of the RRF approach can be identified to reduce the burden linked to plan amendments, control and audits, and reporting procedures:

- Plan amendments: currently, the RRF Regulation does not foresee differentiated procedures to introduce small or major changes in the plans, which translates in unnecessary long procedures that unavoidably slow down the implementation of the plans. A possible way to shorten the RRPs' modification process would be – in the case of minor adjustment – to rely only on the Commission assessment without the necessary approval by the Council as it already happens with CP.
- Reporting requirements: administrative burdens are linked also to the biannual reporting on M&Ts' requirements which is not always needed especially in the case of countries that already have two payment requests per year and therefore do submit biannually the information on the status of M&Ts. In this case, the reporting system could be steered to avoid duplication of the reporting process by making the biannual reporting voluntary in these cases. The second administrative burden related to reporting concerns the common indicators, which are considered largely not able to really link the RRF intervention to the outcome tracked, as stressed in the recent report by the ECA (2023d). In this case, making the reporting on common indicators voluntary could be envisaged.
- Audit and controls: significant administrative burden comes from the unclarity on the audit and control responsibility distribution and the overlap between national control systems, the Commission and the European Court of Auditors resulting in time-consuming and inefficient processes that risk shifting the focus away from performance to cost justification. In this respect, simplification can be gained by ensuring better coordination among actors and avoiding multiple checks, reducing requests from Commission for supplementary information to be on the side of caution for future ECA audits, and performing ex-ante checks on the reliability and accuracy of data on M&Ts, as recently suggested also by the ECA (2023d).

Second, while the real impact of the reforms supported by the RRF is still to be realised, the activation of reforms, encompassing not only 'enabling' reforms for investments like permitting under REPowerEU but also more traditional structural reforms and those designed to safeguard the proper use of EU funds, is widely acknowledged as a positive aspect of the RRF and impactful policy mechanism when combined with investments. The RRF contributed to putting on the agenda long-awaited reforms linked to the CSRs. Especially in countries receiving a comparatively higher financial envelope from the RRF, "putting a price tag" on reforms acts as an incentive. The link between the financial support is unanimously recognized as the most relevant factor explaining the RRF's success in introducing reforms addressing the Semester's CSRs. The implementation of the RRF reforms has led to tangible results across a wide range of policy areas: labour market (Spain), social protection and pensions (Croatia, Latvia, Lithuania, Spain), civil and criminal justice (Italy, Spain, Croatia) public administration, including digitalisation (Italy, Slovakia), spending review and public finance governance (Belgium), licensing simplification reforms to boost the investments in renewables

(Greece, Portugal, Spain), roll-out of renewable energy and sustainable transport (Croatia, Romania), structural reform of the education system (Spain, Croatia) as well as research and innovation (Spain). Clearly, translating the investment-reform approach of the RRF into CP might not be as easy and in this respect the main limit comes with the government level involved in the decision. As stressed above, the successful implementation of the reforms is linked to the commitment of national or federal governments while CP is managed in many Member States at the regional level.

To conclude, this chapter provided a broad illustration of the functioning of the RRF and compared it with CP. In so doing we highlighted some of the strengths and weaknesses of the former with the aim to identify – in a preliminary fashion – possible elements that could be considered in the current debate on the future of CP. This said, no straightforward transfer of these two elements into CP is possible. Careful research is needed to assess if and how to embed them within CP, due to the complexity of the policy. The current parallel implementation of RRF and CP, anyway, represents an extraordinary laboratory for experimenting new ideas and approaches. and the RRF could be a source of inspiration on how to tackle present and upcoming challenges, and any reflections on the future of the EU budget will need to build on the lessons learned from its experience.

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