Group of high-level specialists on the future of Cohesion Policy

Sixth Meeting

14 September 2023

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Context: RRF

- RRF was agreed as response to the Covid -19 pandemic
- Proposal preparation and approval were extremely fast (compared to any standard)
  - Moment of very high uncertainty driven by the pandemic and extreme economic and social conditions
  - The design had to include fast disbursement of money
- The RRF represents an incredible natural experiment for the EU public finances (and more broadly for the EU) in many respects, among them:
  - **Introduces a performance-based (as opposed to cost-based) approach to funding**
  - **Novel governance structure in decision making**
  - **Links investment and reforms**

RRF key elements

- Published as Council Regulation (EU) 2021/241 on 12 February 2021, it is the cornerstone of the Next Generation EU (NGEU) Funds.
- It consists of up to €723.8 billion (in current prices) in loans (€385.8 billion) and grants (€338 billion).
- The total amount of grants given to each MS is determined by an allocation key, whereby the financial support is distributed across countries based on their pre-pandemic vulnerabilities (measured in terms of GDP per capita and unemployment), the population, and to a minor extent the depth of the economic crisis.
- The total amount of loans given to each Member State is determined by the assessment of its loan request and cannot exceed 6.8% of its 2019 gross national interest (GNI).

Performance –based approach

- The RRF links funding disbursement to the achievement of milestones and targets (M&Ts)
  - This is a shift towards performance budgeting, which was reinforced through a ‘financing not linked to costs’ approach
  - Quite a significant departure from traditional allocation of EU funds
- National Recovery and Resilience Plans (NRRPs) are performance-based contracts agreed ex-ante between MS and the Commission and translated into implementing decisions adopted by the Council*.
- The Commission assesses MS’ fulfilment of M&Ts under each reform and investment, and thus the results achieved, to unlock payments.

Centralisation of decision making

- RRF is associated with a strong centralisation of authority and decision-making within national governments.

- Contrary to Cohesion Policy funds, the RRF is under direct management and MS are the final beneficiaries (Corti and Ferrer 2021).

- The centralisation is most likely reinforced by the performance-based approach
  - The need for the ex-ante definition of M&Ts with low flexibility for ex-post adjustments and the requirements to maintain a single national point of contact for verifying the fulfilment of M&Ts in support of scheduled payment requests (See Zeitlin et al. 2023; Carrosio et al. 2022; Bokhorst and Corti 2023; Vanhercke and Verdun 2021).

- Despite centralisation is a clear trend, differences emerge in the governance setting of national RRPs, which affect the efficiency of the RRF
  - On point of interest: cross-country differences in the degree of involvement of sub-national authorities in the drafting and implementation of the plans affects the efficiency of the plans, in particular investments. According to CoR (2022), some cities and regions claim to have often been neglected in the monitoring and implementation of the RRF plans. By contrast, in some countries the NRRP emerged from a broad national or regional consultative process.

Investments and reforms

- The RRF simultaneously pursuits reforms and investments within the framework of a single instrument
- One of the assessment criteria of the plans is the contribution to effectively addressing all or a significant subset of challenges identified in the CSRs. In practice, disbursements are linked to the achievements of targets and milestones set in the NRRPs, defined in line with the structural reforms identified by CSRs.
  - This broad conditionality is combined with stricter conditionality emerging from the taxonomy of eligible green & digital investments.
- The 2014-20 European Structural and Investment Funds' (ESIF) Common Provision Regulation already required to take 'relevant' CSRs into account in the preparation of Partnership Agreements and Operational Programmes.
- Some analyses (Ciffolilli et al., 2018; Vita, 2018) have highlighted that the CSRs have been taken up in the strategic choices set out in OPs of the ESIF. In practice, however, the absence of clear incentives or sanctions has limited the influence of the CSRs,
- Incentives under the RRF are stronger and the consequences clearer. The RRF should provide political momentum and financial incentives for MS to deliver on long-standing and newly emerging reform needs.

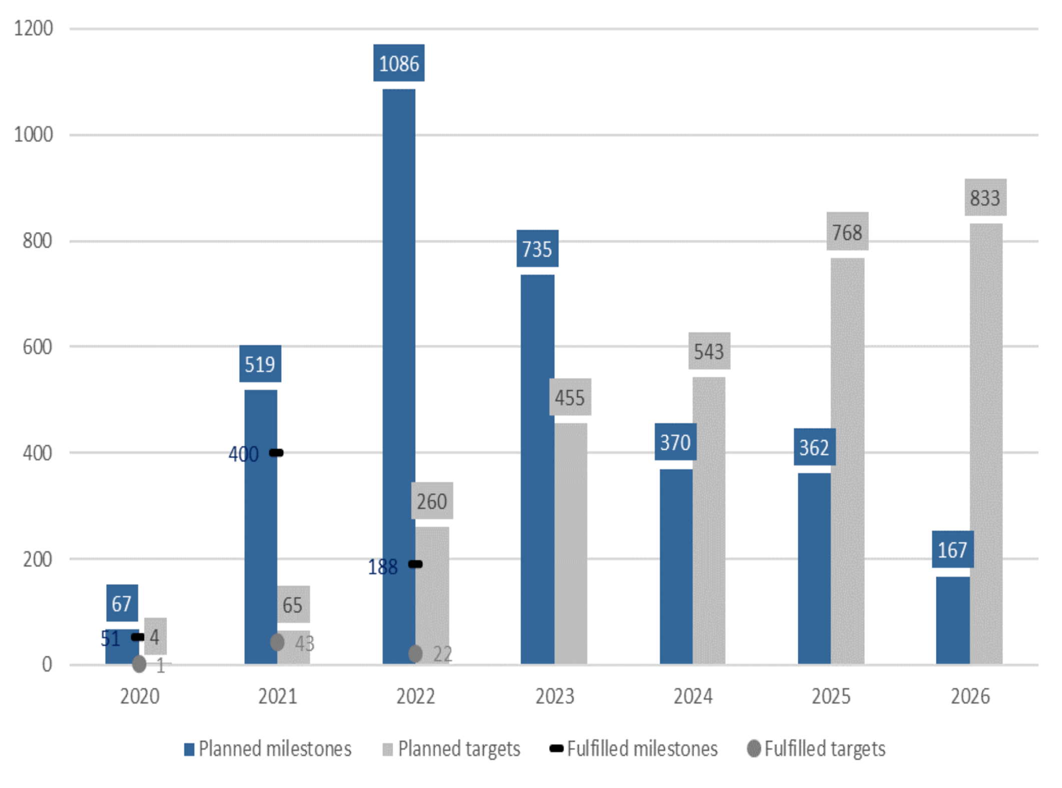
Investment and reforms cont.

- Reforms must address **needs and problems** and should be in line with the objectives defined in the RRF. This requires more than just ensuring that the NRRPs take account of the CSRs
- Reforms need to be appropriate for the objectives targeted and **coherent with the investments** proposed in the plan
- Reforms need to be **credible**. The NRRPs should include a solid analysis to understand current status and challenges in reaching a more resilient economy, with reforms linked to funds. The credibility of the reforms depends on expected lasting impact.
- The arrangements proposed should also ensure **the effective monitoring** and implementation of the recovery and resilience plan, including the envisaged timeline and clear and realistic milestones.

What do we know from the RRF implementation?

- **RRF has triggered the implementation of major reforms across a wide range of policy areas**: like
  - labour market (Spain), social protection and pensions (Croatia, Latvia, Lithuania, Spain), civil and criminal justice (Italy, Spain, Croatia) public administration, including digitalization (Italy, Slovakia, Germany) etc
- However, only a **small % of planned M&Ts have been fulfilled:** 639 milestones (19.3% of the total) and 66 targets (2.3% of the total)
- The fulfilment of the M&Ts is behind the schedule provided in the Council implementing decisions and there are **increased risks of delays in 2023 and the following years**.
- The **definition of M&Ts varies** significantly across MS and the degree of granularity in the definition is heterogeneous.
- The fulfilment of **M&Ts does not automatically translate into the successful implementation** of reforms and investments.
- In most MS, reforms address challenges identified in CSRs.
- There is support that the **RRF contributed to putting on the agenda long-awaited reforms**, as reforms benefit from being packaged with investments

Planned and achieved milestones and targets per year



Source: Fenix, July 2023

Concluding remarks

- RRF is not a silver bullet template for the future of cohesion policy, but it should not be rejected a priory. Crucial to learn from it
- The emphasis on **performance and link between investment and reforms are not new and likely to stay**
  - See 2018 revision of financial regulation and European Parliament supporting and urging expansion of these measures, explicitly recognizing "the need to strengthen the focus of future spending on performance"
  - Ex-ante conditionality was already introduced in the 2014-20 MFF
- Since most reforms are based on CSR, hence due in any case, or linked to proposed investment (to make it effective) the conditionality should be "constructive" and the **incentive to implement the reforms is high** (payment)
- The performance-based approach RRF requires a **monitoring and assessment system, which can involve heavy procedures**. Assessing the fulfilment of M&Ts is not an easy task.
- In practice the RRF Regulation does not require the achievement of results, but instead "*measures of progress towards the achievement of a reform or an investment*".
  - Commission's guidelines for preparing recovery plans: M&T **indicators** should remain within the control of the MS and should not be conditional on external factors such as the macroeconomic outlook or the evolution of the labour market. The Guidance suggests the use of **input indicators** (e.g. money spent or reform) **or preferably output indicators** (e.g. buildings renewed etc) , while it discourages impact indicators since they are not under the control of the MS.
  - In this respect, since (not) fulfilling previously agreed M&Ts is the only criterion to justify (not) disbursing an RRF payment request, milestones and targets are likely to remain limited to tracking outputs rather than results, let alone impacts.
- This is as a limit to assessing actual translation of M&Ts into successful implementation of reforms & investments
- **Lack of territorial dimension in the design of the RRF** is an important limitation (not only from governance perspective): implementation of investment and reforms most often involves sub-national authorities

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