Rethinking the Governance and Delivery of the Cohesion Policy Funds:

Is the Recovery and Resilience Facility (RRF) a Model?

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

The European Commission, the Directorate-General Regional and Urban Policy (lead) and the Directorate-General Employment, Social Affairs and Inclusion (associated) have set up a Reflection Group on the future of Cohesion Policy. The group includes high-level members from academia and practice and in 2023 will meet nine times to reflect on current and future needs and the functioning of Cohesion Policy.

The group will offer conclusions and recommendations that will feed the reflection process on Cohesion Policy post-2027 including through the 9th Cohesion Report in 2024 and the mid-term review of Cohesion Policy programmes in 2025.

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Disclaimer

This paper is an independent input to the reflection paper. The opinions expressed in this paper are the sole responsibility of the authors and do not necessarily represent the official position of Reflection Group or the European Commission.

Key words

Cohesion Policy Funds, Cohesion Policy, Recovery and Resilience Facility, Performance-based financing

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Acronyms

ARPA-E	Advanced Research Projects Agency-Energy
BICC	Budgetary Instrument for Convergence and Competitiveness
CCI	Convergence and Competitiveness Instrument
CF	Cohesion Fund
CID	Council Implementing Decision
CPR	Common Provisions Regulation
CSR	Country Specific Recommendation
DG REGIO	Directorate-General for Regional and Urban Policy
DG SANTE	Directorate-General for Health and Food Safety
ECA	European Court of Auditors
EFC	Economic and Financial Committee
EPSR	European Pillar of Social Rights
ERDF	European Regional Development Fund
ESF	European Social Fund
ESIF	European Structural and Investment Funds
EU	European Union
FVO	European Food and Veterinary Office
GDP	Gross Domestic Product
MA	Management Authority
MC	Monitoring Committee
MS	Member State
NRRP	National Recovery and Resilience Plan
OECD	Organisation for Economic Co-operation and Development
OP	Operational Programmes
PA	Partnership Agreement
PEMANDU	Performance Management and Delivery Unit

PO	Policy Objective
RRF	Recovery and Resilience Facility
RSP	Reform Support Programme

Executive summary

The Cohesion Policy Funds (CPF) have faced continuous debate about their effectiveness in reaching specified performance objectives, while at the same time advancing broader EU policy goals. The Recovery and Resilience Facility (RRF)'s "performance-based financing" model, where payment is based on the fulfilment of milestones and targets, rather than reimbursement of eligible costs, is sometimes presented as a superior alternative and possible inspiration for the future of the CPF. The RRF model centralises authority in the hands of national governments and promises tighter integration of investment and reforms, with monitoring focusing on results instead of receipts. In this context, it is crucial to understand more precisely how the RRF model differs from that of CPF and how the RRF model has been working out in practice, in order to draw lessons for the future of the CPF, which is the goal of this paper.

In contrast to the RRF, the CPF are implemented under shared management, in which Member States set their own specific goals and investment priorities in Operational Programs, but within a common EU strategic and regulatory framework laid down in the Partnership Agreement with the European Commission. Furthermore, the partnership principle in CPF ensures that local and regional authorities, responsible for spending the majority of funds, as well as social partners and civil society, are involved in the preparation, implementation, monitoring, and evaluation of plans, overseen by joint Monitoring Committees.

While shared governance allows for ownership and inclusion, a continuous difficulty is demonstrating the CPFs' effective contribution to EU and national-level goals. In response to this challenge, cost-based financing has increasingly been supplemented by monitoring against performance indicators, while conditionalities have been added to align spending with EU priorities and reform guidance. The effectiveness of both these approaches has been critically evaluated by the European Court of Auditors among others. The latest round of CPF regulations has made performance indicators more targeted and includes a mid-term review that allows the Commission to demand reprogramming if plans insufficiently address EU policy priorities. Despite these reforms, the CPF continue to suffer from a serious reputational problem.

The RRF governance and delivery model has been explicitly designed to be more performance-based than the CPF. Payments from the RRF depend on delivering on pre-agreed reforms and investments, detailed in binding Council Implementing Decisions and bilateral Operational Agreements with the Commission. An important innovation is that under the RRF, payments are linked to concrete outcomes rather than final costs and are subject to approval by the Council. It should be noted that international experience with this type of funding arrangements in the past has mostly led to disappointing results, with implementation focusing more on legal/financial compliance than underlying goals. Whether RRF governance is truly more performance-based than the CPF should also be treated as an open question. Audit and control requirements mean that in practice monitoring must also focus on cost details, while the vast majority of indicators for verification of milestones and targets are based on inputs and outputs rather than results. Some of the potential advantages of the RRF are also obtainable within the CPF governance framework, while that of the RRF is more centralised and less participatory in its design.

When examining the RRF's functioning in practice, our study shows that there is considerable variation in the level of ambition between the plans, with clear frontrunners, like Portugal, Spain, and Croatia, and plans that offer little beyond what was already in the policy pipeline, including the Netherlands and Germany. We also note in our study that the role of the

Commission has grown considerably. Whilst keeping to the remit of the Regulation, the Commission played a strong role in shaping and steering the plans, especially on reforms. Within Member States, the plans have centralised authority in the hands of national governments, with relatively weak input from other stakeholders. A major attraction of the RRF model has been the enhanced leverage for governments in overcoming domestic obstacles in pushing through reforms and amplifying their effect through complementary investments, although there is a risk that these effects may wear off over time. An important drawback is the rigidity and bureaucratisation in terms of monitoring, where, indeed, goal displacement and legal compliance effects seem to hamper ownership and effectiveness. It is difficult and burdensome to revise plans when underlying circumstances change or unanticipated problems occur in a model where milestones and targets are fixed over a six-year period.

Based on this analysis we draw six lessons for the future of the CPF. First, while the RRF's governance is still a work in progress involving learning-by-doing, in its current form it does not live up to the promise of lean monitoring based on "results not receipts". Second, the governance and delivery model of the ESIF also has advantages over that of the RRF in terms of stakeholder participation and revisability. Third, in the absence of additional resources, it is unlikely that a strict performance-based model for the CPF would boost ownership over current arrangements. Fourth, while the national plans under the RRF ensure a better link to EU reform guidance, within the CPF there are ways of strengthening reform requirements that have not yet been used to their full potential. Fifth, adopting the RRF performance-based financing model would be even more difficult for the CPF, because many of the relevant projects and programmes operate at a local or regional level. And finally, to advance the performance orientation of funding, what is missing in both models is a robust multi-tier monitoring system, which could be used by national authorities and the Commission itself to oversee whether EU-funded projects are making good progress towards their intended goals and targets, and to initiate timely corrective action, including where necessary revisions of the original plan, when they are not.

To strengthen the performance orientation of the CPF, we suggest that the EU draw inspiration from international best practices in managing innovative investment and complex reform projects under conditions of uncertainty in both the private and public sectors. The more innovative and complex the project, the less plausible it is that its goals and the intermediate steps to achieve them can be fully specified in advance. Under such conditions, leading private businesses and innovative public investments do not use the putatively complete contracting approach underlying the RRF, but typically set broad common goals for the project and establish a joint governance system to oversee it. Underlying such joint governance systems are "diagnostic monitoring" arrangements for ongoing supervision and periodic review of projects by the stakeholders, aimed at identifying problems encountered in realisation of initial plans as they occur, devising effective methods for improving their implementation where possible, and revising the original goals where this may prove necessary.

Given the informational and staffing limitations of the EU institutions, adapting this approach to the CPFs' governance and delivery model would need to rely on a multi-tiered system, based on robust national monitoring arrangements, overseen by independent domestic authorities, and subject to periodic review by the Commission. To ensure local expertise in this process, we also foresee a stronger role for multi-stakeholder Monitoring Committees. Such a multi-tiered system of diagnostic monitoring of EU-funded projects and programmes, we conclude, could provide a welcome solution to the longstanding performance weaknesses of the Cohesion Policy Funds, while preserving the advantages of their participatory, place-based governance and delivery model.

Introduction

Few major EU programmes have been as widely criticised or as frequently reformed as the Cohesion Policy Funds (also known as the European Structural and Investment Funds, ESIF).[1] Central to the ongoing debate on the governance and delivery of these funds have been recurrent concerns about their effectiveness in reaching specified performance objectives, while at the same time advancing broader EU policy goals.

The governance and delivery framework for the Cohesion Policy Funds was substantially revised for the 2014-2020 period to reinforce their performance orientation, notably through the introduction of Ex Ante Conditionalities (EACs) and the creation of a mandatory performance reserve. Yet the effectiveness of these measures in making the financing of Cohesion Policy more genuinely performance-based continued to be sharply criticised by the European Court of Auditors (ECA), the European Parliament, and other external commentators. In response, the ESIF governance and delivery framework was revised again for the 2021-2027 period, transforming the Ex Ante Conditionalities into Enabling Conditions applicable throughout the funding period; requiring the use of common result indicators for monitoring each specific objective; and making 50% of the final two years' funding reprogrammable in light of a mid-term review of implementation progress.[2]

Although the new performance framework for the Cohesion Policy Funds has only just begun to be implemented, due to longer than usual delays in the approval of national Partnership Agreements and Operational Programmes, debates on their governance and delivery model after 2027 are already well underway – as can be seen not least from the work of this High-Level Group. Central to the debate on the future of the Cohesion Policy Funds is the experience of the Recovery and Resilience Facility (RRF), the core instrument of the NextGenerationEU pandemic response package. The RRF introduces a "performance-based financing" model where payment is based on the fulfilment of milestones and targets, linked to periodic tranche payments. This model promises to be administratively leaner and more performance-oriented, as monitoring and approval of payment requests is based on "results not receipts". The RRF is administered through direct management by the European Commission, with Member States (MSs) as the beneficiaries, thus centralising authority in the hands of national governments in order to ensure efficient implementation under a tight deadline. It also promises tighter integration of investments and reforms, with the Council as well as the Commission involved in monitoring fulfilment of milestones and targets for both types of measure and approving periodic payments. The RRF model is often contrasted favourably to that of the ESIF, and sometimes advanced as a potential alternative to it, including within parts of the European Commission itself. It is therefore crucial to understand more precisely how the RRF governance and delivery model differs from that of the Cohesion

[1] In this paper, we will use the terms Cohesion Policy Funds and European Structural and Investment Funds (ESIF) interchangeably to refer to the European Regional and Development Fund (ERDF), the Cohesion Fund (CF), and the European Social Fund (now ESF +).

[2] For an overview of changes introduced between the 2014-2020 and 2021-2027 periods, see https://ec.europa.eu/regional_policy/2021-2027_en.

Policy Funds, how this model has been working out in practice, and whether it lives up to its promises.

The central aims of this paper are thus to analyse how the RRF model functions in practice and to consider what lessons may be drawn from its experience for the future of the Cohesion Policy Funds. The body of the argument will proceed in three main steps. First, it will briefly review the existing governance and delivery model of the Cohesion Policy Funds, with a particular focus on the strengths and weaknesses of the goal-setting, implementation, and monitoring process, from a participatory and place-based perspective. Second, the paper will examine the design and practical experience of the RRF's performance-based financing model, based on the findings of an in-depth comparative study of the drafting, implementation, and monitoring of National Recovery and Resilience Plans (NRRPs) in eight Member States.[3] In so doing, the paper will draw attention both to the strengths of the RRF model, in terms of promoting national ownership and generating momentum for the implementation of investments and reforms aligned with broader EU objectives, and to its weaknesses, in terms of exclusion of key stakeholders, especially local and regional authorities; bureaucratic assessment procedures generating high administrative burdens; and lack of flexibility in revising predetermined milestones and targets to take account of unanticipated circumstances and lessons learned during the course of project implementation. The paper will conclude by proposing recommendations for reconciling the beneficial features of the RRF financing model, in terms of advancing specific performance objectives and broader EU policy goals, with those of the existing Cohesion Policy governance and delivery model, in terms of its place-based focus and participation of key stakeholders. The recommendations will focus on the development of a multi-tiered system of "diagnostic monitoring", whose purpose would be to oversee not only whether funded projects are progressing towards fulfilment of agreed milestones and targets, but also to assess what changes may be needed to the initial plan of the project in order to take account of problems and possibilities for improvement uncovered during the implementation process, and to ensure that corrective action is taken where required in a timely fashion.

1 The Governance and Delivery Model of the Cohesion Policy Funds: Strengths and Weaknesses

In order to adequately contrast and compare the RRF delivery model and its promises to that of the Cohesion Policy Funds, this section outlines the most relevant elements of the governance architecture of the latter and the debate on their performance orientation. The first fundamental point to note about the Cohesion Policy Funds is that they are implemented under shared management between the European Commission and the Member States. The EU regulations governing the different funds (ERDF, CF, ESF+) set out general and specific objectives for which the money can be spent. Increasingly, they require minimum proportions of spending to be earmarked for specific EU thematic priorities. In the 2021-2027 period, a minimum proportion of ERDF and CF funding must be directed towards innovation (at least 25%, rising to 85% in more developed regions) and the green transition (at least 30%), while a minimum share of ESF+ funds must similarly be devoted to social inclusion (at least

[3] Zeitlin et al. (2023).

25%), youth employment (at least 12.5%), tackling child poverty (at least 5%), and supporting the most deprived persons (at least 3%).[4]

Within this framework, Member States are responsible for designing Operational Programmes (OPs) to spend the money allocated to them, and for establishing administrative arrangements to manage these programmes; select projects for funding; monitor, report on, and evaluate their implementation; and audit their operations and certify their expenditure, according to common EU rules. The strategic orientation, investment priorities, and arrangements for using the funding are set out in a Partnership Agreement (PA) between the Member State and the Commission, which must also approve the OPs. Neither the Council nor the European Parliament are directly involved in this process. The Commission also has the sole power to approve changes to the PA and the OPs requested by Member States.[5]

While each Member State adopts a single Partnership Agreement at national level, they are free to establish Management Authorities (MAs) for operational programmes at multiple levels, as well as to create a national body to liaise with the Commission and coordinate activities of programme authorities within the country. There is thus wide variation across MSs in the number, thematic remit, and territorial scope of these authorities. As a broad generalisation, the larger the Member State, the higher the number of MAs, which are especially likely to be organised at the regional as well as the national level in federal systems.[6] Each programme must be accompanied by a Monitoring Committee (MC), which is responsible for overseeing and reviewing implementation, including approving project selection criteria, performance reporting, and evaluation plans. MCs must meet at least once per year, with the Commission as a non-voting observer. In accordance with the partnership principle, elaborated through a European Code of Conduct adopted in 2014, each Member State is required to organise "a comprehensive partnership in accordance with its institutional and legal framework", including local and regional public authorities, economic and social partners, civil society organisations, and universities and research bodies (where appropriate). Member States are expected to involve these partners in the preparation of the Partnership Agreement, and in the preparation, implementation, and evaluation of OPs, including through participation in Monitoring Committees.[7]

These shared management arrangements, in which Member States set their own specific goals and investment priorities within a common EU strategic and regulatory framework ensure a high level of national ownership and commitment to their cohesion programmes, reinforced by co-financing requirements ranging from 15% to 60% depending on the fund and level of regional development. The regional management of many programmes, coupled with the requirements under the partnership principle to involve local and regional authorities, social partners, and civil society organisations in their preparation, implementation, monitoring, and evaluation provide, at least in theory, the conditions for a participatory, bottom-up, and place-based approach to the use of the Cohesion Policy Funds.

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[4] ECA (2023a): par. 13.

[5] For overviews of the evolving governance architecture and regulatory framework for the delivery of the Cohesion Policy Funds, see ECA (2023a); Bachtler & Mendez (2020).

[6] For a current list of Management Authorities by Member State, see https://ec.europa.eu/regional_policy/in-your-country/managing-authorities_en.

[7] Sweco, Spatial Foresight, & Nordregio (2016); ECA (2023a): par. 37; Commission Delegated Regulation (EU) 240/2014 on the European code of conduct on partnership in the framework of the ESI Funds; Common Principles Regulation (CPR), recital 14, Art. 8.

At the same time, however, empirical research suggests that such participation varies widely in practice across countries, phases of the policy cycle, and types of stakeholders.[8] The place-sensitivity of the cohesion funds is further reinforced by provisions for integrated territorial investments and other territorial tools designed by Member States, which must be developed and endorsed by the authorities responsible for their implementation, who should also be involved in the selection of projects to be supported.[9]

Under the shared management system of the Cohesion Policy Funds, payments to Member States are based first and foremost on the reimbursement of incurred costs, the declaration of the eligibility and regularity of the expenditure by the Member State, and their assessment and validation by the Commission. While MSs must monitor and report on performance towards achieving their programme objectives, such arrangements "are disconnected from financial reporting" and "from payments, both in terms of the timing and the process." Although MSs may make use of performance rather than cost-based funding models, the former have been rarely used. Hence as the ECA observes, "For Cohesion Policy Funds, control and audit arrangements at both Commission and Member State level mainly focus on the regularity of incurred expenditure, when expenditure is reimbursed based on real costs."[10]

Perhaps unsurprisingly given this funding model, a central criticism of the Cohesion Policy Funds, dating back many years, is the difficulty of ensuring and demonstrating that Member States' programmes contribute effectively to EU policy priorities and meet their own specific objectives. In response to these criticisms, as observed at the outset, the governance and delivery framework for the ESIF has been successively revised in each multi-annual programming period to enhance their alignment with EU policy priorities on the one hand and reinforce their performance orientation on the other.

In the 2014-2020 period, Member States were required to fulfil a long series of Ex Ante Conditionalities aimed at creating the necessary conditions for effective spending, typically by adopting a thematic strategy and a multi-year action plan for its implementation. Such EACs ranged from the existence of a national or regional smart specialisation strategy to support innovation and a strategic policy framework for digital growth to strategic policy frameworks for poverty reduction, Roma inclusion, and lifelong learning. They also included the existence of a strategic policy framework for reinforcing MSs' administrative efficiency and "a system of result indicators necessary to select actions which most effectively contribute to desired results, to monitor progress toward [those] results."[11] Member States were likewise obliged to target expenditure in their OPs on priorities related to the Country-Specific Recommendations (CSRs) issued under the European Semester of socio-economic policy coordination, and could be asked by the Commission to redirect a portion of their Cohesion Policy funding to address new priorities identified by subsequent CSRs during the life of the programmes themselves.[12]

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[8] For a broad overview of such variations, based on a large body of interviews and document analysis, see Sweco, Spatial Foresight, & Nordregion (2016); cf. also Pazos-Vidal (2014). For a rare empirical study of the participation of non-governmental actors in Monitoring Committees, see Cartwright & Batory (2012).

[9] CPR, recitals 30-32, arts. 28-32; Mendez (2013).

[10] ECA (2023a): pars. VIII, 60-61, 91; cf. also ECA (2021, 2018).

[11] ECA (2021): pars. 16-20 and fig. 1, p. 24; ECA (2018): 24.

[12] Zeitlin & Vanhercke (2014): 57-8.

Assessments of the EACs introduced in the 2014-2020 period by the Commission and others concluded broadly that they appeared to have made a positive contribution to the strategic quality and performance orientation of Member States' cohesion programmes, especially in countries with low administrative capacities, while also reinforcing their links with European policy priorities. But the ECA and other external assessors emphasised the heterogeneity of strategic frameworks and action plans across Member States; long delays in their preparation in many countries; inconsistencies in assessments by the Commission and the fact that the assessments were designed as a one-off exercise at the beginning of the period; and the limited evidence available on their impact on the effectiveness of spending. Although the Commission had the power to suspend payments for non-fulfilment of the EACs, both at the programme adoption stage and mid-way through the period, it used them in only two cases, one of which was eventually lifted. Similarly, although the Commission considered that the EACs contributed to improved implementation of the CSRs in many MSs, it never made use of its powers to request reprogramming of Cohesion Policy Funds in order to address new priorities identified by subsequent CSRs.[13]

For the 2021-2027 period, the EACs have been replaced by a smaller number of horizontal and thematic Enabling Conditions (20 in place of 36), which largely cover the same broad set of issues. Unlike in 2014-2020, Member States are required to implement these Enabling Conditions throughout the programming period, and the Commission can suspend payments at any time if they are no longer fulfilled.[14] These conditions have been reinforced by the new regulation adopted in December 2020 to protect the EU budget against breaches of the rule of law, which allows the Commission to propose measures to suspend payments under the Cohesion Policy Funds in case of threats to the sound financial management of the EU budget or the protection of the EU's financial interests.[15] As in 2014-2020, MSs are expected to address relevant CSRs in their Partnership Agreements and Operational Programmes, and can later be asked to revise them to address new challenges identified in subsequent CSRs.[16]

The other principal means of reinforcing the performance orientation of the Cohesion Policy Funds pursued in successive programming periods has been to strengthen the requirements for monitoring and evaluating their results, while making a portion of the funding reprogrammable in response to the outcome of interim performance reviews. During the 2014-2020 period, 6% of EU Cohesion Policy Funding was set aside as a mandatory performance reserve, whose release was conditional on meeting milestones for implementation of each priority axis within Member States' Operational Programmes by the end of 2018. The performance framework for each priority axis was based on the intervention logic set out in the OPs, and had to include a financial indicator to measure spending and output indicators (common or programme-specific) to measure implementation; Member States could also include result indicators to measure achievement of programme objectives, and/or key implementation steps where no output was expected before 2019. To obtain release of the performance reserve, MSs were required to have reached 85% of the target

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[13] European Commission (2017); Huguenot-Nöel et al. (2018): 13-14; Núñez Ferrer et al. (2018): esp. p. 72; ECA (2021): pars. 16-38.

[14] https://ec.europa.eu/regional_policy/2021-2027_en; ECA (2021): pars 35-38 and fig. 1, pp. 21-22;

[15] Regulation (EU, Euratom) 2020/2092 of the EP and of the Council of 16 December 2020 on a general regime of conditionality for the protection of the Union budget; ECA (2023a): par. 38. In December 2022, the Council used this mechanism to suspend €6.3bn in budgetary commitments from the cohesion policy funds to Hungary: https://www.consilium.europa.eu/en/press/press-releases/2022/12/12/rule-of-law-conditionality-mechanism/.

[16] CPR ,Arts. 5(3), 11(1)a, 12(1), 18(a).

output (or 75% on one indicator if more than two were used). For priorities which did not reach these milestones, MSs were given three months to propose amendments to their OPs to reallocate the reserve to other priorities whose performance was more successful.[17]

In the event, however, the Commission released 82% of the performance reserve, based primarily on Member States' fulfilment of spending and output targets, as very few results indicators were used for this purpose. A study by the European Court of Auditors found that more than half of the milestones and targets were revised prior to the 2019 performance review. Some 30% of all milestones were adjusted downwards, mainly for financial indicators. MSs were allowed to amend the original milestones and targets in "duly justified cases", such as a significant change in economic, environmental, or labour market conditions, as well as if they turned out to have been based on incorrect initial assumptions. The ECA concluded that without such adjustments, the unreleased proportion of the performance reserve would have more than doubled, from 18% to 44%, while the number of priorities "seriously failing" to meet their milestones would have risen from 288 to 605, with a significant impact on a large number of MSs.[18]

Other external assessments of the 2014-2020 performance framework were also very critical. Thus, for example, while national officials and independent experts interviewed for a study conducted on behalf of the European Parliament acknowledged the positive objectives of the performance framework in "focusing attention on strategic tasks, enhancing result orientation and fostering the delivery of products on time", its implementation was widely "found to bring an additional layer of administrative burden without a clear connection to results and the quality of the intervention."[19] Another independent study based on input from Management Authorities reached very similar conclusions, endorsing the result orientation of the performance framework, but lamenting that its "tight focus on key milestones and targets builds rigidity into the programmes", generating additional administrative burdens and red tape without enhancing capacities for strategic programme management.[20]

For the 2021-2027 period, the mandatory performance reserve has been abolished. But Member States are now required to use common result as well as output indicators defined at EU level for monitoring, reporting, and evaluating each specific objective relevant for performance review. Only if the common indicators are "not relevant to important actions under a specific objective" are Member States allowed to use additional programme-specific indicators, which must be fully defined in the performance methodology. Member States are also expected to produce an evaluation plan for assessing the funded programmes, based on criteria specified in the Common Provisions Regulation (CPR), "with the aim to improve the quality of the design and implementation of the programme", and to conduct a final impact assessment (by 2029). MSs are required to conduct a Mid-Term Review in 2024 of each programme, focused on progress in achieving its results as well as output and financial

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[17] ECA (2021): pars. 39-48; McMaster & Kah (2017): 5-8; Polverari (2016).

[18] ECA (2021): pars. 45, 50-60.

[19] Darvas et al. (2019): 60, 62-63. "Implementation of the performance framework was generally found to create an extra layer of rules on top of existing rules in order to speed up spending. However, it has not transformed the earlier compliance-based logic (which involves all checks, audits, management verification) to a results-oriented approach as was its aim" (63).

[20] McMaster & Kah (2017): esp. 28-30, 34, 37. National officials participating in this study reported that the performance framework's focus on fulfilment of key milestones and targets resulted in disadvantaging more innovative/experimental projects, generating "templated" projects which could be realized quickly with little new investment, and prioritizing "safe" projects that will deliver the "numbers" (Ibid.: 34).

milestones. Depending on the outcome of this review, as assessed by the Commission, up to 50% of funding for the final two years (2026-2027) may be subject to (mandatory) reprogramming, in order to respond to new challenges identified in the CSRs, progress in implementing National Energy and Climate Plans and the European Pillar of Social Rights (EPSR), and changes in the socio-economic situation of MSs and regions, as well as implementation progress and evaluation results. In contrast to the previous funding period, when Partnership Agreements between Member States and the Commission could be revised every year, only one amendment of the agreements will now be possible, following the Mid-Term Review.[21]

Central to the EU's efforts to enhance the performance orientation of the Cohesion Policy Funds is thus intensified monitoring, review, and evaluation of Operational Programmes against output and results indicators, standardised at the European level wherever possible for comparability and aggregation purposes. A recent Commission document on performance, monitoring, and evaluation of the Cohesion Policy Funds insightfully defines the purpose of indicator-based monitoring as to "support…effective programme management by enabling continuous adjustment based on ongoing progress."

> "Monitoring of output and direct results", the Commission explains, "means to observe whether intended products are delivered, outcomes are being achieved and whether implementation is on track. Monitoring observes changes in the output and the result indicators. Tracking their values allows a judgement on whether or not the indicators are on track to achieve the milestones and/or targets set. If they do not, this can prompt reflection on implementation, on the appropriateness and effectiveness of interventions or on the appropriateness of the indicator(s) chosen and the targets set."[22]

Yet it is open to serious question how far the common output and results indicators defined for the Cohesion Policy Funds can really be used to prompt reflection on the appropriateness of interventions, as would be needed to support continuous adjustments of projects and programmes based on assessments of ongoing progress. Output indicators are defined in the current version of the CPR as "indicator[s] to measure the specific deliverables of the intervention"; they are designed to "reflect the actions, not the objectives of a programme or…policy".[23]

Reliance on such output indicators to monitor and measure the performance of the Cohesion Policy Funds has been subject in the past to frequent criticism by the ECA and other commentators. As a 2019 study of the effectiveness of cohesion policy conducted for the European Parliament observed,

> "The content of output indicators is not directly related to performance and results. For instance, counting the length of roads built is more like counting the money spent and is an indicator of implementation, but does not guarantee that the ultimate goals for which the road was proposed in the first place have been achieved. Constructing

[21] CPR, Arts. 13, 16-18; European Commission (2021b): 12; Dozhdeva & Fonseca (2023).

[22] European Commission (2021b): 6.

[23] CPR, Art. 2; European Commission (2021b): 8. During the 2014-2020 period, results indicators were designed to reflect programme impacts, which are now expected to be addressed instead through evaluations during and after the life of the programme (ibid., pp. 8, 13-19).

> new school buildings and then counting their number is easy, but this might not solve the educational problems of a region if…the main problem is the lack of qualified teachers."[24]

Result indicators are defined in the 2021 CPR as "indicator[s] to measure the effects of the interventions supported, with particular reference to the direct addressees, population targeted or users of infrastructure". They are designed to "provide more immediate evidence that can be directly attributed to the actions supported." Monitoring these result indicators (defined mainly as outcomes for beneficiaries) is intended to enable observing direct outcomes of interventions during implementation, and not only at the end of the funding period; it is also expected to provide a stronger basis for subsequent evaluation activities.[25]

Yet consultation of the list of common results indicators adopted for the 2021-2027 funding period reveals that most of these remain very close to output indicators, supplemented only by data on the use and users of the relevant facilities or services. Thus for example typical common indicators for monitoring the results of interventions under Policy Objective (PO) 4 (Social Europe) focus on the annual number of users of new or modernised education, childcare, social housing, or social care facilities constructed, whose capacity constitutes the outcome indicator. In a number of key areas, such as PO1 Smarter Europe and PO2 Greener Europe, pre-existing indicators on numbers of jobs created, matching private investments, innovations by supported SMEs, primary energy consumption, users of smart energy systems, or populations benefitting from flood or wildlife protection measures have simply been reclassified from output to results measures.[26] Even in the case of fund-specific indicators, it is rare that a results indicator is directly linked to a specific outcome for beneficiaries which could be attributed to the intervention, as for instance with the results indicators for ESF+-supported activation and training activities, which include data on the proportion of participants in employment or benefitting from an improved labour market situation six months after leaving the programme.[27]

In the absence of such targeted results indicators, it is hard to see how monitoring them could be used to stimulate serious reflection by project and programme managers on the progress of ongoing interventions, or to support continuous adjustments and revisions to enhance their effectiveness – as opposed, for example, to public reporting on the achievements of EU-funded programmes.

The governance architecture and delivery model of the Cohesion Policy Funds, as they have evolved over successive periods, thus provide a strong basis for national ownership and commitment through the shared management arrangements with the Commission for goal-setting, design, implementation, and co-financing of their investment programmes. By involving regional and authorities, as well as other stakeholders such as social partners and civil society organisations, in the preparation, management, implementation, monitoring, and evaluation of plans and programmes, they also provide the basis for a participatory, bottom-up, and place-based approach to the use of the Cohesion Policy Funds – even if not to the full extent envisaged under the partnership principle. The alignment of national cohesion

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[24] Darvas et al. (2019): 63; cf. also ECA (2018): p. 8.

[25] CPR, Art. 2; European Commission (2021b): 8.

[26] European Commission (2021b): Annexes 1 and 3; ERDF/CF Regulation (2021): Annexes I-II; ESF+ Regulation (2021): Annexes I-IV.

[27] ESF+ Regulation (2021): Annex 1.

programmes with broader Union goals has been reinforced over the years by increasing requirements to earmark minimum proportions of spending for specific EU thematic priorities, and by obligations for Member States to take account of the European Semester's Country-Specific Recommendations in drafting and amending their investment plans. But the Achilles heel of the delivery model remains the difficulty of ensuring and demonstrating that the Cohesion Policy Funds contribute to the effective fulfilment of their objectives, both national and European, through a robust system of performance monitoring, which can also be used to support continuous adjustment of projects and programmes based on real-time assessments of ongoing progress.

Hence, as leading officials of DG REGIO themselves publicly acknowledge, cohesion policy "has a gigantic reputational problem, due precisely to its territorial dimension."

> "There is a tension between European priorities and the local knowledge and needs, which are at the centre of functioning of this policy…In Brussels [this] is perceived as a weakness, because of the centripetal forces that exist at the local level….There is a concern of some people in Brussels that…this policy is sending out money here and there but we don't know exactly what is happening…We need to find a way that what…regions do in the end has a strong link with some of those priorities. Otherwise, the future is going to be a different one, with very little of the territorial dimension."[28]

Given these widespread concerns, it is hardly surprising that many participants in the EU policy debate see the performance-based financing approach of the RRF – in which payments to Member States are based on fulfilment of agreed milestones and targets rather than certification of eligible expenditure – as a future model for the delivery of the Cohesion Policy Funds, along with other spending programmes financed through the Union budget. To inform this debate properly, it is thus essential to understand more precisely not only how the RRF governance and delivery model is designed to operate in theory, but also how it has been working out in practice, issues to be addressed in the next section.

2 The RRF: Performance-Based Financing in Theory and Practice

2.1 The RRF Governance and Delivery Model Compared to the Cohesion Policy Funds

The governance and delivery model of the RRF was explicitly designed to be more strongly performance-based than that of the Cohesion Policy Funds. As a recent communication by the Commission proclaims, the RRF

> "is an innovative, performance-based instrument, where payments are made to Member States, as beneficiaries, upon delivering reforms and investments preagreed in national recovery and resilience plans […] Focused on the timely and efficient implementation of Member States' plans, the performance logic of the RRF makes payments conditional on concrete outcomes. Disbursements thus depend on the

[28] Speech by Nicola De Michelis, Director of Smart and Sustainable Growth and Programme Implementation, DG REGIO at the Conference "2022 edition of the European Week of Regions and Cities", panel on "The role of cohesion policy in strengthening multilevel governance: Lesons and challenges from Portugal", European Commission, Brussels; October 10, 2022 (available at https://vimeo.com/759506147).

> delivery of the preagreed investments and reforms rather than the final costs incurred."[29]

The National Recovery and Resilience Plans (NRRPs), drafted by Member State governments in consultation with the Commission, include milestones and targets for monitoring progress towards the implementation of the agreed measures, whose satisfactory fulfilment according to a predetermined timetable is a condition for periodic tranche payments from the RRF. The reforms, investments, milestones, targets, and timetables are all laid down in considerable detail in the Council Implementing Decisions (CIDs), which are legally binding documents (unlike the NRRPs themselves), and are elaborated further in bilateral Operational Agreements between the Commission and each Member State, which specify as far as possible the documentation required for their verification. The Commission is responsible for assessing the satisfactory fulfilment of the milestones and targets included in Member States' periodic payment requests, but its decision must be approved by a comitology committee of MS representatives, following an opinion from the Economic and Financial Committee (EFC), an advisory body to the Council composed of high-level officials from national finance and economics ministries.[30]

The governance and delivery model of the RRF appears to have been taken over more or less directly from the Reform Support Programme (RSP) proposed by the Commission in 2018 for all MSs and the Budgetary Instrument for Convergence and Competitiveness (BICC), endorsed by the Euro Group in 2019 for eurozone MSs. The RSP and BICC were both based on grants to be provided on the basis of "duly substantiated reform and investment proposals" submitted by MSs, reflecting strategic guidance from the EU through the CSRs, with disbursement of funds contingent on implementation and fulfilment of agreed milestones and targets. Both instruments, in turn, drew on an earlier unsuccessful proposal by the Commission, with political support from Angela Merkel, for a "Convergence and Competitiveness Instrument (CCI)" involving voluntary "reform contracts" between individual MSs and the Commission underpinned by financial support. Very significantly, however, the financial envelope of both the RSP and the BICC was limited to €25 billion over a six-year period, while the funding available for the RFF is nearly 30 times larger, with obvious implications for the scale of tasks involved in negotiating the plans, monitoring their implementation, and verifying the fulfilment of the relevant targets and milestones.[31]

In designing the governance of the RRF, there seems to have been surprisingly little reflection on practical experience elsewhere with performance-based management of public investment and reform programs, whose effectiveness appears to have been decidedly limited.[32] Thus,

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[29] European Commission (2023b): 2.

[30] RRF Regulation, recitals 39, 51-52, and Art. 24. If one or more MSs disagree with a positive opinion by the EFC, considering that "there are serious deviations from the satisfactory fulfilment of the relevant milestones and targets", they may escalate the issue to the European Council for further discussion, until which time (normally a maximum of three months), the decision is suspended. This is the so-called "emergency brake", which has so far never been activated, inserted in the RRF arrangements during negotiations in the European Council over the NextGenerationEU package. For a diagrammatic representation of this process, see ECA (2022b): 261, figure 10.2.

[31] European Commission (2018, 2019, 2013).

[32] According to Commission sources, there were discussions with experts from the World Bank and other international experts about the design of the new performance-based financing instrument, as well as with other DGs in the Commission with experience in supporting national reform projects, but none of these discussions seem to have focused on the problems experienced in the implementation of performance-based financing documented in the comparative literature on their practical operation.

for example, the OECD acknowledges that despite high-profile efforts to advance substantive goals such as value for money and prioritisation, "performance budgeting systems are more likely to promote legal/financial compliance than to influence the design of public sector management practices." Similarly, a World Bank study found "a general pattern of disappointment with the results of performance budgeting, balanced by a strong belief in the underlying logic", leaving a persistent "gap between promise and practice". More generally, the comparative literature on performance management in the public sector through target setting and financial incentives has documented the frequent incidence of their perverse consequences and distortive effects. Examples include "gaming" the system by deliberately setting unambitious targets that are easy to meet; "creaming" or "cherry picking", by concentrating resources on the easiest to serve clients rather than those in the greatest need; focusing on short-term targets at the expense of long-term service quality; manipulating reporting systems to present results in a more favourable light; and outright data falsification. Even where agents are operating in good faith, the consequence of such incentive-based performance management systems is often goal displacement, as resources and energy come to be focused on meeting targets and milestones, while redirecting attention away from the underlying objectives of the programme itself.[33]

While tying payments to Member States to the fulfilment of agreed milestones and targets is undoubtedly a significant innovation of the RRF, it remains open to question how far the design of its delivery model is genuinely more performance-based than that of the Cohesion Policy Funds in their latest incarnation. First of all, though payments from the RRF are not based on the certification of eligible expenditure and costs incurred, Member States must nonetheless include estimated costs for investments and reforms in their NRRPs, and establish control systems to collect and make available data on the final beneficiaries, audit funded projects, and ensure that the funds are managed in accordance with all applicable rules, especially those aimed at preventing conflicts of interest, fraud, corruption, and double funding. The adequacy of these proposed audit and control systems was a necessary condition for the Commission's approval of the NRRPs, and MSs must submit a management declaration with each payment request confirming that they satisfy the requirements laid down in the RRF Regulation.[34]

No less importantly, the vast majority of the indicators for the verification of milestones and targets adopted in the NRRPs are input and output rather than results indicators as defined in the debate about the performance-orientation of the Cohesion Policy Funds. Thus a comparative study for the European Parliament of NRRPs in six Member States (France, Germany, Italy, the Netherlands, Romania, Spain) found that only in two of these (Italy and Romania) did results indicators comprise more than 15% of the total number of indicators for target fulfilment, with Spain just above the 10% level, and a negligible share in the other three countries.[35] In the case of reforms, typical milestone fulfilment indicators stipulate the

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[33] For overviews of the international comparative literature on performance-based financing and management see Beazley (2018); Moynihan & Beazley (2016); Moynihan et al. (2011); Moynihan (2009); and the other studies discussed in Zeitlin et al. (2023): 14-15. Darvas & Welslau (2022: 18) similarly observe that "a global comparison of experiences with performance-based funding…is not encouraging".

[34] RRF Regulation, Arts. 19(3)(i-j), 22, Annex 5, §§ 2.9-2.10; ECA (2023c): 336-339, 353.

[35] Darvas & Weslau (2023): 17-21. Examples of results-based indicators cited in the study include "Reduce by 20 percentage points the variation between the average three best-performing regions and the three worst performing regions in separate waste collection rates by 2024Q4" (Italy); "Reduction by 25% in the number of people killed or

passage and entry into effect of a legislative or administrative measure, not the achievement of specific results to which the measure is expected to contribute.[36] At the EU level, similarly, the 14 common performance indicators compiled by the Commission mostly report on the capacity and number of users of facilities or services funded by the RRF, as in the case of the Cohesion Policy Funds, from which many of the indicators are borrowed, rather than on the broader results for beneficiaries achieved through these measures.[37] The study for the European Parliament attributes the limited focus on result indicators in the NRRPs to concerns that the wider use of such indicators "would introduce uncertainty for Member States, since the achievement of results might not necessarily follow from the completion of outputs, partly due to risks beyond the control of those who implement the projects."[38] Whatever the explanation, a comparative study by the ECA of the two frameworks concludes that "the extent to which RRF financing as such is more performance-based than Cohesion Policy Funds remains to be seen."[39]

Although the RRF is implemented under direct management by the Commission rather than shared management with the Member States as in the case of the Cohesion Policy Funds, their governance architectures share a number of significant common features. First, in both cases, the spending programmes are demand-driven, designed by Member States themselves, who define their own strategic orientation and investment priorities, in consultation with and subject to the approval of the Commission. This demand-driven architecture is intended to ensure a high level of national ownership and commitment – in contrast for example to the Economic Adjustment Programmes and Memoranda of Understanding imposed on bail-out recipient countries during the financial and euro crises.

Second, in both cases Member States are obliged by the regulations governing the funds to devote a minimum share of expenditure to EU spending priorities (37% for the green transition and 20% for the digital transformation in the case of the RRF) and to show in their national plans how they take account of the EPSR and address the challenges identified in the CSRs. At the same time, however, the RRF undoubtedly places greater emphasis on the linkage between investments and reforms, which must form a coherent package, including measures financed from domestic rather than EU funds, while as discussed in the previous section, the Commission has in the past made little use of its formal powers to insist on reprogramming of national cohesion plans in response to new or inadequately implemented CSRs.

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seriously injured as a result of road accidents in urban municipalities compared to the reference year 2019" (Romania); Completion of specified numbers of residential dwelling renovation actions by two target dates, "achieving on average at least a 30% primary energy demand reduction, demonstrated by energy performance certificates of completed works (Spain).

[36] See for example ECA (2023c): 345, 451-452; ECA (2022b): 269-271, 342-343 (controversy between the ECA and the Commission over the fulfilment of the Spanish tax reform).

[37] European Commission (2023c): 17; https://ec.europa.eu/economy_finance/recovery-and-resilience-scoreboard/common_indicators.html?lang=en; Commission Delegated Regulation (EU) 2021/2106 of 28 September 2021 on supplementing Regulation (EU) 2021/241 of the European Parliament and of the Council establishing the Recovery and Resilience Facility by setting out the common indicators and the detailed elements of the recovery and resilience scoreboard; European Commission (2022). An exception to this observation about the limited result orientation of these indicators is Common Indicator 1: Savings in annual primary energy consumption.

[38] Darvas & Weslau (2023): 19.

[39] ECA (2023a): VI.

Third, in both cases primary responsibility for implementing the investment programmes, ensuring that they are managed according to EU financial rules, and tracking, auditing, and reporting on their operations lies with national administrations, subject to ongoing review and ex post control by the Commission.

While the RRF has mostly been portrayed as a significant innovation contrasting to previous EU funding mechanisms, upon closer examination there are striking similarities. A plausible explanation for the perceived contrast may lie less in the differences in governance designs on paper, than in the styles of governing in practice. The availability of additional and borrowed funds combined with the novelty of the instrument created "momentum" which gave the Commission leverage to push Member States to address CSRs and come up with integrated reform and investment plans, even if formally they also had the possibility to do so under the Cohesion Policy Funds.

One crucial difference between the two governance frameworks is of course the system of periodic payments based on fulfilment of performance milestones and targets in the RRF rather than submission of cost-based reimbursement claims as in the Cohesion Policy Funds, which must be approved by the Council as well as the Commission in the former but not the latter. Another is the requirement for Member States to establish a national coordinating authority and single point of contact with the Commission for the RRF, though MSs are also free to establish an overarching national body for coordinating their programmes and liaising with the Commission in the case of the Cohesion Policy Funds. A final important difference is that, in contrast to the ESIF Partnership Agreements and Operational Programmes, the RRF is not formally subject to the partnership principle, though Member States were obliged to report on how they had consulted local and regional authorities and other societal stakeholders in preparing their NRRPs, and the Commission regularly urges national administrations to involve these stakeholders as fully as possible in the implementation of reforms and investments. The governance architecture of the RRF at national level is thus significantly more centralised and less participatory in its design than that of the Cohesion Policy Funds.[40]

2.2 The RRF Governance and Delivery Model in Action: Promises Fulfilled?

How far has the RRF governance and delivery model lived up in practice to the purposes for which it was designed? To what extent in particular have direct management and performance-based financing fulfilled their promises of creating a more goal-directed, efficient, and effective system for steering and monitoring the timely implementation of ambitious national investment and reform plans financed by the EU budget? In the remainder of this section, we respond briefly to these questions, drawing on the findings of an in-depth comparative study of the drafting, implementation, and monitoring of NRRPs in eight Member States (Belgium, Croatia, Estonia Italy, Latvia, Slovakia, Spain, and Portugal). Our study focused primarily on southern and eastern European countries which are the largest relative beneficiaries of RRF funding, and where the influence of the NRRPs on domestic policy making might be expected to be strongest. Taken together, these MSs account for more than half of all RRF grant funding. But we also looked by way of comparison at the drafting of the NRRPs in three northern MSs (Austria, Germany, the Netherlands) where RRF funding was relatively

[40] RRF Regulation, Art. 18(4)(q); European Commission (2021a): 47; European Commission (2023a); ECA (2023a): pars. 37-38.

small in comparison to GDP (less than 1%), though quite substantial both in absolute terms and as a share of total RRF grants (just over 10%).[41]

For reasons of tractability, as well as the substantive expertise of our research team, the study focused primarily on the social dimension of the RRF, broadly defined to include measures addressing employment and skills, education and childcare, health and long-term care, as well as social inclusion and social protection policies. According to the Commission's scoreboard, Member States allocated an average of 28% of their RRF funds to supporting such social objectives. In addition, however, we also looked at major reform and investments in other policy fields, such as liberalisation of closed professions and water management, where these emerged as especially significant or controversial in our country cases. In addition to extensive documentary and media analysis, the study draws on 56 interviews with national and Commission officials involved in drafting, implementing, and monitoring the NRRPs, along with other relevant domestic stakeholders.[42]

The first key finding of our study is that the level of ambition and national ownership of the NRRPs varied considerably across countries. In a number of cases, notably Portugal, Spain, Croatia, and Slovakia, Member States presented ambitious recovery and resilience plans with a coherent balance between investments and reforms, addressing the full set of CSRs and sometimes going beyond them in the social field. In Italy, the NRRP includes a very extensive programme of investment in the modernisation of infrastructure and public services, accompanied by major reforms of public administration, justice, and competition regulation, but leaves significant gaps in addressing CSRs and vulnerabilities in the social field. The Belgian Plan addresses many of the CSRs, but its precision, coherence, and level of ambition were criticised by the Commission. Estonia and Latvia were initially reluctant to link investments to reforms, and only agreed to include significant social measures at the insistence of the Commission, resulting in a lower degree of national ownership for their Plans. In our three northern contrast cases (Austria, Germany, and the Netherlands), levels of ambition in their plans were much lower across the board, leaving a substantial set of CSRs wholly or largely addressed, including in the social domain. The Netherlands and Germany in particular decided to dedicate all or most (respectively) of their funding to carry out projects which had already been included and budgeted in pre-existing national plans, backdating a substantial portion of spending to 2020 as permitted by the RRF Regulation, thereby minimizing the ownership and impact of their plans within and beyond national administrations.[43]

A second key finding of our study concerns the Commission's role in the drafting of the NRRPs. Overall, the Commission's role in this process, which typically involved numerous meetings and intensive negotiations with national officials, was closely aligned with the responsibilities assigned to it in the RRF Regulation to ensure the relevance and coherence of the plans, the effectiveness of coordination and monitoring arrangements, and the operationalisation of milestones and targets, while fully respecting national ownership. In many cases, the Commission went beyond this gatekeeper role, serving as an informal consultant to MSs to ensure that their plans could be effectively implemented, for example by advising national administrations to reduce and simplify the number of milestones and targets or to extend the timetable for project completion. Regarding investments, the

[41] Zeitlin et al. (2023): 10-11.

[42] Zeitlin et al. (2023): 11 and Annex 3.

[43] Zeitlin et al. (2023): 16-27.

Commission seems to have been prepared to defer to MS preferences in the name of promoting national ownership, so long as these conformed to RRF requirements, even where it was critical of the specific choices involved, pushing at most for marginal shifts in the allocation of funds within and between projects. Concerning reforms, the Commission played a stronger role in shaping and steering the drafting of the NRRPs, both in pressing for a balance between reforms and investments where this was initially missing in some national plans (e.g. Italy, Croatia, Latvia, Estonia) and in pressing for measures to address key CSRs, especially where critical vulnerabilities were identified in the EPSR Social Scoreboard. The most contentious interactions concerned MSs that combined longstanding resistance to implementing social CSRs with poor performance on Social Scoreboard indicators (Latvia, Estonia). There the Commission insisted on inclusion of specific reforms addressing these issues in the NRRPs as a condition of their approval, despite the fact that the measures in question required ongoing expenditures from the national budget which could not be financed by the RRF. In most cases, however, the Commission was prepared to defer to domestic policy choices to enhance national ownership of reforms, while ensuring that the specific measures proposed would not run contrary to specific recommendations of the CSRs and that their underlying objective would be addressed by a different route, as for example with pension reforms in Spain and Croatia.[44]

A third key finding of our study concerns the impact of the NRRPs on domestic policy making, involving both the centralisation of authority in the hands of national governments and the limited participation in most countries of local and regional authorities and other societal stakeholders in the drafting and implementation of their plans. The most visible and widespread effect of the NRRPs, common across all MSs covered in our study was to reinforce the centralisation of decision-making within national governments. Such centralisation is a natural consequence of the RRF's requirements for MSs to establish effective domestic arrangements for implementing and monitoring NRRP commitments and to maintain a single national point of contact for verifying the fulfilment of the relevant milestones and targets in support of periodic payment requests. Their effectiveness formed a crucial criterion for the Commission's assessment of the NRRPs, which were further elaborated and made binding in the CIDs and Operational Arrangements.[45]

A major attraction of the RRF's performance-based financing model for national governments is the enhanced leverage for overcoming domestic opposition to controversial reforms, while smoothing their passage and amplifying their impact through complementary investments. The tight linkage between fulfilment of milestones and targets on the one hand, and approval of payment requests on the other also creates pressures on administrative actors at local and regional as well as central levels to streamline the delivery of investments. In a number of cases, national governments included key elements of their political programmes in the NRRPs as an explicit strategy of "hand tying" or "*vincolo esterno*" aimed at using the external constraint of RRF commitments as a critical resource in pushing them through the policy process. Prominent examples of the effectiveness of this strategy among the countries covered in our study included the liberalisation of closed professions in Portugal and pension reform in Slovakia, both of which were pushed through parliament on the eve of an impending payment request. In some countries like Italy, national officials see the RRF's performance-based financing and monitoring system as a valuable lever for accelerating the approval and implementation of investment projects, including by other levels of government. In others,

[44] Zeitlin et al. (2023): 31-39.

[45] Zeitlin et al. (2023): 42.

such as Croatia and Slovakia, interviewees also see the performance-based management system of the RRF not only as a source of leverage, but also as an accountability mechanism for ensuring that political commitments are made concrete and visible to the media and the public, with clear deadlines for delivery. At the same time, however, the dependency of RRF payment requests on the timely completion of specific milestones and targets can also backfire by creating opportunities for hold-up and side-payment demands by domestic veto players, as in the case of justice reforms in Slovakia. In the longer term, there is a serious risk that as governments change and national ownership of plan objectives declines, the *vincolo esterno* strategy of tying reform commitments to external constraints will start to yield diminishing or even negative returns, as occurred in the past in Italy, where the strategy originated during preparations for euro membership in the 1990s.[46]

In most of the Member States covered in our study, participation by local and regional authorities, social partners, and civil society organisations in the drafting and implementation of the NRRPs has been very limited, confirming the broader pattern identified in other EU-wide assessments. While MSs stuck to the formal requirements of the RRF Regulation to consult societal stakeholders, the quality of this process proved low in most countries, as the plans were drafted in a highly centralised manner under heavy time pressures by small teams led by Prime Ministers' offices and Ministries of Economics and Finance. The major exceptions to this pattern among the countries in our study were Portugal, where the national plan emerged out of a broad public consultation and the national commission established to monitor its implementation includes social partners and civil society representatives; Spain, where the autonomous regional communities have been regularly consulted in the drafting and especially the implementation of the NRRP in their areas of competence, while the social partners were involved in the negotiation of key social and labour market reforms; and Belgium, where the NRRP was assembled from separate regional recovery plans and social partners were consulted through well-established corporatist institutions.[47]

In some cases, like that of labour market reform in Croatia, the limited involvement of societal stakeholders in the drafting of milestones and targets has been corrected during the implementation phase, thereby ensuring support from both unions and employers' organisations. In others, however, failure to ensure political buy-in from domestic stakeholders has created more serious problems in the implementation of promised reforms, as with water management in Croatia, where the municipalities who had not been properly consulted in advance were able to block a proposed reorganisation in the Constitutional Court. Regarding investments, the central problem resulting from inadequate involvement of key stakeholders in the planning process is reduced implementability of the projects themselves. Examples from our study include childcare expansion in Italy, where municipalities responsible for implementation lack administrative and financial capacity to cope with tender deadlines and co-funding requirements, and in Spain, where regions have complained that the distribution criteria of the funds fail to take account of the existing local mix of public and private providers.[48]

A final set of key findings from our study concerns the monitoring and assessment of milestones and targets, together with their revisability in the face of unanticipated changes

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[46] Zeitlin et al. (2023): 43-45. On the declining effectiveness of the vincolo esterno strategy in Italy, see Jones (2017).

[47] Zeitlin et al. (2023): 28-31.

[48] Zeitlin et al. (2023): 46-47.

in circumstances and problems experienced during the implementation process. The Commission's role in the monitoring phase is even greater than during the drafting process, as it must assess whether milestones and targets have been sufficiently fulfilled to warrant payment. The Commission is under pressure to ensure precision in justifying payment requests from the Council as the ultimate decider, as well as from the European Court of Auditors, which has inserted itself prominently in the process. At the same time, despite the reinforcement of analytical capacity in its country teams, the Commission's local knowledge and substantive assessment capacity remains limited.[49]

These structural features of the RRF model have given rise to two major practical problems in monitoring and assessing implementation of the national plans. Firstly, they have reinforced information asymmetries, which allow for gaming behaviour by Member States, through setting purposely unambitious targets (as previously observed in the international literature on performance-based financing and in responses to the performance framework of the Cohesion Policy Funds). Secondly, they lead to a high level of rigidity in the monitoring and assessment process. Interviewees from nearly all countries studied complain about inflexibility in the Commission's assessment of the fulfilment of milestones and targets, exacerbated by the interventions of the ECA, which has been pushing for a more literal and legalistic interpretation of their description in the Council Implementing Decisions. Many MSs which set ambitious targets in their NRRPs warn that they would not do so again in the future, because of the rigid way these are being interpreted.[50] National interviewees likewise complain bitterly about the high administrative burden in the verification process, which leads to a loss of ownership and commitment within the government and implementing bodies. Whereas the RRF was supposed to performance-based, it is now widely perceived as overly bureaucratic, with less flexibility and heavier reporting than the Cohesion Policy Funds, especially since its good financial management requirements still oblige MSs to drill down to the level of invoices to ensure that the money is being properly spent. But perhaps the worst aspect of the administrative burden created by the RRF monitoring and assessment process is that it does not contribute to improving implementation of the reform and investment projects themselves. While national officials gratefully acknowledge the cooperation of Commission officials in helping to find practical solutions to problems in the assessment process, these interactions, which absorb considerable time and human resources on both sides, typically focus on finding workarounds to formal verification issues rather than on improving substantive achievement of milestones and targets.[51]

The Commission is aware to some extent of the pushback from MSs on the rigidity and bureaucratisation of the monitoring and assessment process. But as officials we spoke with stressed, the RRF is a new instrument, which is still taking shape through learning by doing, where both parties need to adjust to a changed modus operandi. Rigidity, in their view, may not always stem from the nature of the instrument itself, but instead from how monitoring requests are interpreted nationally, how administrations coordinate internally, or how milestones are operationalised, among other teething troubles which may be gradually overcome by pragmatism on both sides. The Commission has also been pushing back against the ECA's efforts to further rigidify the RRF monitoring process, including by publishing its

[49] Zeitlin et al. (2023): 47-48.

[50] Zeitlin et al. (2023): 49-52.

[51] Zeitlin et al. (2023): 52-53.

own framework for assessing milestones and targets, which emphasises their broader "context and purpose" in interpreting MSs' legal obligations.[52]

Beyond these issues of interpretative inflexibility and administrative burden in monitoring and assessing milestones and targets, a crucial limitation of the RRF's performance-based financing model is the difficulty of revising plan commitments in the face of unanticipated implementation problems and changes in external circumstances. The RRF Regulation does allow MSs to propose revisions to their NRRPs in the face of unanticipated adverse developments, as most are now doing to take advantage of additional funding from the REPowerEU programme aimed at reducing dependence on Russian energy. But the threshold for such revisions is very high, since all changes must be justified in terms of "objective circumstances", levels of ambition for investments and reforms should not be reduced, and the revised plan must undergo a full new process of approval by the Commission and the Council, taking account inter alia of the most recent CSRs. In this context, several of our national interviewees, with long experience in managing complex investment and reform projects, including under the Cohesion Policy Funds, raised principled doubts about the feasibility and effectiveness of maintaining fixed milestones and targets over a six-year period, as envisaged in the RRF governance and delivery model. There was wide agreement among our national interviewees that any future iteration of the RRF governance model would need to incorporate lighter procedures for monitoring and assessing the fulfilment of milestones and targets, focused more on the underlying purpose of the measures concerned than on their precise description in legally binding texts. Such a revised governance and delivery model would likewise need to include more flexible processes for modifying investment and reform commitments in response not only to unanticipated changes in external circumstances, but also to lessons learned in the course of project implementation itself.[53]

Our study thus finds that the RRF's governance and delivery model has a number of major strengths. Most notably, it reinforces national ownership and commitment to NRRP objectives; provides a more direct linkage between reforms and investments; contributes to improved coordination of policy making and monitoring of implementation; enhances government accountability for fulfilment of policy commitments; and increases their leverage to overcome domestic opposition to promised reforms. At the same time, however, our study also shows that the RRF governance and delivery model displays a number of serious weaknesses, which are highly relevant to the current debate on the future of the Cohesion Policy Funds. The centralisation of the plan's formulation under high time pressure makes it difficult to involve local and regional authorities and other societal stakeholders, often giving rise to subsequent implementation problems. The reinforced leverage for governments created by performance-based financing can empower them in pursuing reforms, but also risks leading to hold-ups and political backlash. Most importantly, the mechanical linkage of payments to the fulfilment of fixed milestones and targets often shifts attention of both national authorities and the Commission away from the underlying purpose and objectives of reforms and investments to document verification procedures, wasting human resources and sapping ownership at all levels of governance. The inflexibility of the performance-based financing and assessment system likewise makes it difficult to adjust predetermined

[52] Zeitlin et al. (2023): 50, 53, 60-61; ECA (2022) Annual Report 2021, 269-271, 342-343 (Commission replies); European Commission (2023): Annex 1; ECA (2023b): 23; ECA (2023c): 343-350, 449-455 (Commission replies).

[53] Zeitlin et al. (2023): 53-55.

milestones and targets in response to unforeseen or changing circumstances and leaves little space for revising and improving projects based on learning from implementation experience.

3 Conclusions and Recommendations: Enhancing the Performance-Orientation of the Cohesion Policy Funds through Multi-Tiered Diagnostic Monitoring

What lessons can be learned from the experience of the RRF for the current debate on the future of the Cohesion Policy Funds? How far and in what way can the beneficial features of its performance-based financing model, in terms of advancing the implementation of reforms and investments aligned with broader EU policy goals, be combined with those of the existing ESIF governance and delivery model, in terms of stakeholder participation and place-based orientation, while avoiding the weaknesses and perverse effects documented in our study?

A first lesson that emerges from our study of the RRF is that its governance and delivery model as currently practiced does not really replace receipts with results as the basis for payments from the EU budget. On the one hand, the process of assessing the fulfilment of milestones and targets, which are largely based on output rather than results indicators, has become extremely heavy and bureaucratic, often focused more on documentary verification than on the underlying purpose and results of the reforms and investments themselves. On the other hand, to fulfil all the requirements of good financial management embodied in the RRF, national authorities still have to descend to the level of invoices in their control and monitoring processes, to ensure that every cent has been spent properly in conformity with the rules. In this sense, the RRF's performance-based financing system, while marking a step in the right direction, does not represent a consistently superior alternative to the cost-based reimbursement model of the Cohesion Policy Funds.

Secondly, the governance and delivery model of the ESIF also has advantages over that of the RRF in terms of stakeholder participation and revisability. Following the partnership principle, local and regional authorities, social partners, and civil society organisations can all participate in the preparation, implementation, monitoring, and evaluation of cohesion programmes and projects, even if there are significant variations in its practical application across different national and regional settings. In contrast to the RRF, the partnership principle thus helps to ensure that local stakeholders directly affected by EU-funded projects are also involved in their design and oversight, thereby enhancing their place-sensitivity and implementability. In terms of revisability, changes to cohesion policy programmes and projects only require assessment and approval by the Commission, not by the Council, as in the RRF. Hence where unanticipated problems are experienced in project implementation, or where performance indicators and cost estimates turn out to have been based on incorrect initial assumptions, it is easier to amend them than in the case of the RRF. A risk of this model, however, is that MSs may use such flexibility to adjust downwards the ambitions of their programmes and projects, as occurred in the case of the performance reserve system of the 2014-2020 Cohesion Policy Funds.

Thirdly, the introduction of strict performance-based financing requirements for the Cohesion Policy Funds would be unlikely to enhance national ownership compared to the current shared management system, which is already demand-driven, based on Partnership Agreements negotiated between MSs and the Commission, with participation of local and regional stakeholders in the design and implementation of individual projects and Operational Programmes. Any positive effects in this regard would be even less likely to materialise if changes in the ESIF governance and delivery model were not accompanied by substantial additional resources from the EU budget, which by all accounts played a crucial role in triggering and sustaining the commitment of Member State governments and other domestic stakeholders to ambitious investments and reforms in their NRRPs.

Fourthly, the Cohesion Policy Funds in their current form already incorporate formal mechanisms to ensure that their strategic orientation and investment priorities are aligned with broader EU goals. Thus, as with the RRF, Member States are legally obliged in their Partnership Agreements and Operational Programmes, which must be approved by the Commission, to devote a minimum share of expenditure to specific EU spending priorities, and to show how their plans take account of the EPSR and address the challenges identified to them in the CSRs. Here, however, it seems clear that the extent to which Member States addressed the relevant CSRs has played a less prominent role in the approval of their PAs and OPs than with the NRRPs, while as we have seen, the Commission has not made use in the past of its existing powers to demand reprogramming of cohesion programmes to address new or inadequately implemented CSRs. If it were desired to reinforce the linkage between national cohesion programmes and EU reform priorities, it would thus be possible to strengthen the requirements for Member States to show how they have addressed all or a substantial subset of the relevant CSRs as a condition for their approval by the Commission, and to oblige the latter to report on how it took account of the CSRs in approving MSs' reprogramming proposals after the Mid-Term Review. But were the CSRs thereby to become a more effectively binding condition for the use of EU funds, the procedures for their adoption would need to be revised to ensure that they represent a broad epistemic and political consensus among Member States on domestic reform agendas, reaching beyond the Commission's own institutional views, as also recommended in our RRF study.[54]

Fifthly, assessment of the fulfilment of binding milestones and targets as a condition for payments to Member States would be even more difficult for the Commission to conduct effectively in the case of the Cohesion Policy Funds than in that of the RRF, because so many of the relevant projects and programmes operate at a local or regional level, where the Commission's informational deficit relative to domestic authorities is greatest. One clear advantage of the RRF monitoring and control system over that of the ESIF is the requirement for Member States to establish a national coordinating authority and single point of contact with the Commission, which could appropriately be extended to the Cohesion Policy Funds, where some but by no means all MSs currently have created similar overarching bodies on a voluntary basis.

Finally, what is seriously missing in the Cohesion Policy Funds, as in the RRF, is a robust multi-tier monitoring system, which could be used by national authorities and the Commission itself to oversee whether EU-funded projects are making good progress towards their intended goals and targets, and to initiate timely corrective action, including where necessary revisions of the original plan, when they are not.

[54] Under the current voting procedures, adopted in the Lisbon Treaty, when the Council takes a decision not based on a Commission proposal, this must be supported by a "reinforced qualified majority" comprising 72% of MSs, accounting for 65% of the Union's population. This is a very high threshold, and amendments to the CSRs have become increasingly infrequent since the new rules entered into force in 2017. We therefore recommended in our RRF study that if the CSRs are to become more effectively binding, a positive qualified majority vote should be required for their adoption, with the country to which they are addressed being excluded from voting (Zeitlin et al. 2023: 63).

What might such a monitoring system look like? Here the EU could draw inspiration from international best practices in managing innovative investment and complex reform projects under conditions of uncertainty in both the private and public sectors, which do not appear to have been considered in designing the RRF. The more innovative and complex the project, the less plausible it is that its goals and the intermediate steps to achieve them can be fully specified in advance. Under such conditions, leading private businesses do not use the putatively complete contracting approach underlying the RRF, in which compensation for collaborators is tied to the realisation of predetermined milestones and targets, which cannot be modified, except in extreme circumstances. Instead, the parties to such "contracting for innovation", such as a biotech firm and a pharmaceutical manufacturer seeking to develop a new type of drug or vaccine, typically set broad common goals for the project and establish a joint governance system to oversee it. In this joint governance system, while successful completion of milestones and targets – such as a round of clinical trials – may trigger predetermined payments, their primary purpose is to serve as the basis for monitoring the project, assessing whether it is on track, and deliberating about what needs to be done if it is not. Where milestones are missed, representatives of both parties analyse jointly the source of the problem, discuss what remedial measures should be adopted and decide whether to continue or terminate the project. Where the two sides cannot agree, the issue is "bumped up" to a higher-level joint body of top leaders from both sides, which has the additional benefit of disincentivising and, if necessary sanctioning, uncooperative or obstructive behaviour, such as information hoarding, on the part of the lower-level managers directly responsible for the project.[55]

Such governance structures for managing complex, innovative projects involving multiple parties under conditions of uncertainty are not confined to contracting between private businesses. Similar structures and practices are also characteristic of the most successful public industrial policy bodies in both developed and developing countries, such as the Advanced Research Projects Agency-Energy (ARPA-E) in the USA and the Performance Management and Delivery Unit (PEMANDU) in Malaysia. Each of these public agencies, despite their differences, sets open-ended goals for innovative projects, ranging from the development of new energy decarbonisation technologies and investment in mass rapid transit systems to taxation and regulatory reforms, and establishes joint committees to monitor and review their performance, using progress against initial milestones and targets as a basis for re-examining and revising both goals and means of achieving them where needed, with termination as an ultimate sanction in the case of persistent failure.[56]

Underlying these forms of contracting for innovation in both the public and private sectors is what governance scholar Charles Sabel calls "diagnostic monitoring": arrangements for ongoing supervision and periodic review by stakeholders of "problems encountered in realizing initial and avowedly provisional plans, with the aim of devising effective methods of implementation when that is possible or revisiting project goals when there is good reason to think it is not." Such diagnostic monitoring is a response to increasing levels of uncertainty, which undermine the possibility of relying on ex ante plans, whose assumptions will likely prove incorrect or incomplete and be in need of revision during the course of the

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[55] Gilson et al. (2009).

[56] On PEMANDU, see Sabel & Jordan (2015); on ARPA-E, see Sabel & Victor (2022): 169-76. Like "contracting for innovation" in the private sector, PEMANDU relies heavily on "bump-up" mechanisms for resolving coordination failures and disagreements among lower-level project leaders by escalating them to higher-level joint bodies with power to terminate projects and sanction uncooperative behavior (Sabel & Jordan 2015: esp. pp. 14-16).

implementation process. In contrast to standard forms of compliance monitoring, which presuppose a stable world, "where principals can make detailed plans and reduce them to precise instructions to agents to carry them out," because in such a world experience can be relied on to teach what works, the aim of such diagnostic monitoring is "to facilitate and organise problem solving by the actors, not to use the threat of punishment for bad performance as an incentive for good behaviour."[57]

How might such a diagnostic monitoring system be adapted to the governance and delivery model of the Cohesion Policy Funds? The greatest challenge in designing such a monitoring system for the ESIF is the sheer number of plans, programmes, and projects involved. The diagnostic monitoring processes involved in "contracting for innovation" in the public sector typically entail a small portfolio of projects, whereas the Cohesion Policy Funds support hundreds of programmes and many thousands of projects across the 27 Member States. Given the Commission's staffing and informational limits, it would be simply impossible for it to engage directly in monitoring of this type across such a wide range of projects.

A more flexible and revisable performance-based financing system would thus need to rely on robust national monitoring systems, overseen by independent domestic authorities, and subject to periodic review by the Commission, with a focus on problematic or controversial cases, which could then be "bumped up" to a higher level for bilateral resolution. Tiered multi-level oversight systems of this kind are well-developed in many areas of EU regulation. A good example is food safety, where EU regulation mandates that individual food-processing businesses maintain hazard detection and mitigation plans; the effective implementation of these plans (including regular remediation of hazards detected) is overseen by independent national food safety authorities; and these national authorities are, in turn, overseen by the European Food and Veterinary Office (FVO, now a division of DG SANTE), which assesses the adequacy of their enforcement of EU food safety standards on the basis of site visits, including to individual establishments, and makes recommendations for necessary improvements, which MSs are obliged to address, subject to the potential exclusion of their products from the EU market.[58]

In the case of the Cohesion Policy Funds, national coordination bodies, reinforced along the lines of those mandated for the RRF as recommended above, could be made responsible for ensuring that an internal diagnostic monitoring process is established for each programme and investment project, whose purpose would be to oversee not only whether they are progressing towards timely fulfilment of the agreed milestones and targets, but also to assess what changes may be needed to the initial plan of the measure to take account of problems and possibilities for improvement uncovered during the implementation process.

A crucial role in this process would be played by the multi-stakeholder Monitoring Committees mandated by the Cohesion Fund Regulations, in which Commission representatives participate as observers, which are already responsible for both programme and project-level oversight and evaluation. To perform this diagnostic role effectively, these MCs would have to become smaller and more focused (some cover more than one OP), would have to meet more often than the current minimum frequency of once per year, and be involved more strategically in reviewing the performance of individual projects and advising Management

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[57] Sabel, (2016a and b); Kuznetsov & Sabel (2017).

[58] For a good account of the operation of the EU food safety oversight system along these lines, see Weimer, M. and E. Vos (2015).

Authorities on the possible need for remedial action, as well as on periodic adjustments of resource allocation and investment priorities within the broader programmes themselves, as recommended for example by the OECD.[59] Such a diagnostic monitoring system would likewise require the development of a robust set of programme and project-specific performance indicators, focused on their intervention logic, expected outcomes, and contribution to higher-level policy objectives, building on existing good practices in Member States, as likewise recommended by the OECD.[60]

Since national coordination bodies are by nature political and closely linked to governments and ministries, it would also be necessary to establish some kind of independent evaluation authority in each MS, tasked with ensuring that the diagnostic monitoring system as a whole was working according to these principles, and to review and endorse assessments of progress towards the implementation of individual projects and programmes produced by the Management Authorities, before they were submitted to the Commission as the basis for periodic payment requests. Internal audits and controls to protect the financial interests of the Union would be conducted by separate bodies, as at present. The Commission would then review the findings of the independent evaluation bodies, undertaking its own investigation of specific projects and programmes in cases of concern, drawing on the ongoing performance assessments by the Monitoring Committees where they also participate as observers. Such a multi-tiered system of diagnostic monitoring and review of programme and project implementation, it need hardly be said, can only work where the Union has legitimate confidence in the integrity of national institutions for the enforcement of EU law, and so should not be applied to any MS whose commitment to the rule of law remains in doubt.

Such a system of diagnostic monitoring for the “Smart Specialisation” Strategies required as an Ex Ante (now Enabling) Condition by the Cohesion Policy Funds was already proposed to DG REGIO back in 2016, but was never taken up.[61] Introducing a multi-tiered system of diagnostic monitoring of EU-funded projects and programmes, involving national coordination, monitoring, and evaluation bodies overseen by the European Commission, could thus provide a welcome solution to the longstanding performance weaknesses of the Cohesion Policy Funds, while preserving the advantages of their participatory, place-based governance and delivery model. Such a diagnostic monitoring system would also enhance the transparency and reviewability of decisions about the Commission’s assessments of Member States’ implementation performance and payment requests rightly demanded by bodies such as the European Parliament and the Court of Auditors, without imposing bureaucratic routines aimed at minimizing space for the legitimate exercise of interpretative judgement.

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[59] OECD (2020): 101-102.

[60] OECD (2020): 102-103; Polverari (2016).

[61] Sabel (2016a, 2016b); Morgan & Radosevic (2023): . 102.

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