# ‘Cash for Reforms’ in the EU after the RRF: Can Cohesion benefit?

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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.

## About the author

Robin Huguenot-Noël is a researcher at the Department of Political and Social Sciences at the European University Institute in Florence. The key focus of his research is to understand how governments' objectives to increase employment rates affected the nature of traditional social policies. In addition, his research concentrates on the following areas: social and employment policy, European integration, EU economic governance, public policy and French and German politics.

## Disclaimer



## Key words

Cohesion Policy, cohesion, conditionality, Recovery and Resilience Facility

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## Acronyms

| | |
|---|---|
| CoR | Committee of the Regions |
| CP | Cohesion Policy |
| CPR | Common Provisions Regulation |
| CSRs | Country Specific Recommendations |
| EACs | Ex-ante conditionalities |
| EDP | Excessive Deficit Procedure |
| EMU | Economic and Monetary Union |
| EPSR | European Pillar of Social Rights |
| ESIF | European Structural and Investment Funds |
| EU | European Union |
| IMF | International Monetary Fund |
| LRA | Local and regional authorities |
| MEC | Macroeconomic conditionality |
| MFF | Multiannual financial framework |
| MIP | Macroeconomic Imbalance Procedure |
| OPs | Operational programmes |
| PAs | Partnership agreements |
| RRF | Recovery and Resilience Facility |
| RSP | Reform Service Programme |
| SGP | Stability and Growth Pact |
| SRSP | Structural Reform Service Programme |
| TFEU | Treaty on the Functioning of the European Union |
| TFGR | Task Force for Greece |
| TSI | Technical Support Instrument |

# 1 Introduction

Is conditionality undermining solidarity? Conditions on how Cohesion Policy funds should be spent have existed since the very launch of policy. Long restricted to ensuring an effective delivery of the funds, the 'conditionality agenda' in Cohesion Policy ventured into new grounds in the last decade with the implementation of the funds being increasingly linked to their ability to contribute to the wider fulfilment of EU's political priorities. The question of *which* EU priorities structural funds should advance has yet generated much debate. In the wake of the sovereign debt crisis, the Council decision to condition the use of structural funds on the fulfilment of EU macroeconomic objectives (especially debt and deficit targets) was accordingly described as imposing an 'exogenous mandate' on the policy, diverting it from its own goal of strengthening cohesion and advancing social and economic convergence in the EU (Andor 2017). Examining the EU's post-pandemic priorities, now reveals a profound shift in its socioeconomic governance: after the temporary suspension of the Stability and Growth Pact (SGP), the EU adopted the 750 billion Euros NextGenerationEU programme. Out of this budget, 672.5 billion Euros of grants and loans were mobilised via the Recovery and Resilience Facility (RRF) to support structural investments and reforms, also in line with objectives agreed in the European Pillar of Social Rights adopted in 2017.

Does this new context, and the RRF in particular, now also provide new means to advance EU cohesion objectives? First reactions have been portrayed the RRF as a competitor for the policy's development agenda for it provides swifter EU cash to address a wider range of EU objectives, with fewer hurdles in promoting domestic reforms. At the same time, because the RRF is a temporary instrument, primarily concerned with the achievement of aggregate indicators, Cohesion Policy may also be able to advance a complementary reform agenda by learning from its long-standing expertise in more tailored policy design and implementation. Building on existing experiences in conditioning EU funds to economic governance targets, this study considers what lessons Cohesion Policy can learn to support the EU's efforts to increasingly link its emerging fiscal capacity to the fulfilment of its political objectives.

The study is structured as follows: In **section 2**, I consider lessons learned from the introduction of policy conditionalities in the 2014-2020 period, before turning, in **section 3**, to the emerging evidence and remaining uncertainties on the current and future links between the policy and the RRF. In **section 4**, I build on these findings to consider the opportunity of further anchoring the policy's financial support in reforms by providing some recommendations for the policy's future. The analysis builds on primary documents (EU and government publications, policy evaluations, grey material), secondary literature, and a series of meetings and interviews conducted with stakeholders involved in the implementation of Cohesion Policy and the RRF between 2017 and 2023.

The main takeaway of this analysis is that, beyond the risks of current and new EU budget tools stepping on the toes of the policy's traditional remit, the 'performance-based' approach followed in the RRF provides an opportunity for Cohesion Policy to clarify its substantial contribution to the EU's development agenda, showcase its added value in implementing it, and leverage on complementary instruments to increase its effectiveness.

# 2 Policy conditionality in the EU budget: Lessons learned

The use of EU funds has been increasingly tied to conditions of different nature. A variety of interpretations exists in the public debate on what constitutes conditionalities and how to define key related terms such as EU 'economic governance' or 'structural reforms'. To simplify, this study considers EU's development goals as its targeted outcome, economic governance objectives as means to achieve this end, and *policy conditionality* as a tool to incentivise member states to contribute to this agenda. Based on these definitions, this section first provides an overview of the 'cash for reforms' rationale underlying the introduction of policy conditionalities[1] in the EU budget. We then review the available evidence on policy conditionality used in the EU budget by focusing on three types of conditionality identified by Bachtler and Mendez (2020: 6), namely macroeconomic, institutional, and structural conditionality, while excluding conditions of a more horizontal nature, such as the performance of the funds or compliance with the rule of law (see table 1).

Table 1 Policy conditionality in Cohesion Policy

| Category | Instrument | Programme period of introduction | Purpose |
|---|---|---|---|
| Macro-economic | Macroeconomic conditionality | 1994-1999 | Compliance with conditions of the Stability and Growth Pact. Initially applied to the Cohesion Fund in 1994, it was strengthened and extended to all shared managed funds in 2014-20 with more automatic enforcement and sanctions. |
| Structural | Structural reform conditionality | 2014-2020 | Implementation of structural and administrative reforms in policy areas subject to country-specific recommendations under the European semester. |
| Institutional | Ex-ante conditionality | 2014-2020 | Fulfilment of ex-ante preconditions: (i) regulatory, mainly the transposition of EU legislation; (ii) strategic, linked to overarching strategic frameworks for investments (iii) institutional, the effectiveness of institutional and administrative structures and systems. |

Source: partially extracted from Bachtler and Mendes (2020)

## 2.1 The origins of the 'cash for reforms' agenda

The idea of conditioning EU spending interventions to domestic reforms has a long history tightly linked to the evolution of the EU's budgetary governance. The introduction of the first mechanism allowing to suspend of the Cohesion Fund to sanction excessive deficit dates back to 1994 when the introduction of macroeconomic conditionality (MEC) was meant to mitigate German concerns over risks of moral hazard (Donati 2023: 302). This agenda was reinforced in the wake of the financial crisis. Conceived as part of EU's effort to strengthen the Economic

[1] Policy conditionality refers to conditions attached to EU spending intervention for "intrinsic policy objective" (Viță 2019: 15), that is, conditions that are directed towards achieving the EU's predefined policy goals and objectives.

and Monetary Union (EMU) after the sovereign debt crisis, provisions introduced in the Common Provisions Regulation (CPR) for the European Structural and Investment Funds (ESIF) strengthened the link between CP and EU's economic governance objectives pursued in the European Semester in the 2014-2020 framework.

## 2.2 Macroeconomic conditionality: Still defying evidence?

The 2013 reform of Cohesion Policy first expanded the scope of macroeconomic conditionality. The new MEC introduced, first, a *preventive* arm allowing the Commission to request a member state to re-programme part of its funding when this is deemed necessary to maximise the growth and impact of the Funds, giving it the right to consider a suspension of payments when member states fail to address its reprogramming request. According to the *corrective* arm of the MEC the Commission must propose a suspension of funding when it is deemed necessary to correct imbalances identified in the context of 'new EU economic governance' procedures.[2] This strengthening of macroeconomic conditionality spurred intense controversies. While the Commission advanced the (job) growth potential of this agenda,[3] some EU member states voiced concerns about the violation of the subsidiarity principle. The European Parliament and the Committee of the Regions (CoR) contested that local and regional authorities (LRAs) be penalised for national responsibilities[4] highlighting risks of these underinvesting by fear of sanctions. There is, as of today, scarce evidence on how spending decisions were affected by the MEC itself. Studies assessing the impact of SGP rules (to which the MEC is linked) on government spending yet tend to validate these concerns. Whereas some scholars consider the impact of fiscal rules on public spending an 'open question' (Darvas and Andersen 2020), others have highlighted their impact on the *composition* of government spending. Mühlenweg and Gerling (2023) thus found that fiscal rules generally affect productive spending at the level of local and regional administrations (2023), corroborating the evidence on countries under the Excessive Deficit Procedure (EDP) disproportionally cutting on social investments relative to other types of social spending (Ceron 2021; Fernandez 2022). As evidence of the pro-cyclical impact of the rules built up, the Commission's appetite to make use of these provisions declined (Coman 2018). First delayed by the European Parliament's use of the 'Structured Dialogue' foreseen in the CPR, sanctions foreseen for Portugal and Spain in 2016 were eventually abandoned (Sacher 2019). Notwithstanding initial opposition by the Parliament, the MEC was finally preserved in the 2021-2027 MFF. The 2020 CP reform package yet also addresses some of its operational shortcomings by watering down some of the conditions for suspensions of the funds and relating these to commitments but not payments – as per the Spanish and Portuguese

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[2] Initially only applying to the Excessive Deficit Procedure (EDP), the 2013 reform of CP extended its scope to cover the Macroeconomic Imbalances Procedure (MIP) as well as other macro-economic adjustment programmes.

[3] A 2014 Commission study thus pointed out that structural reforms could bring possible budgetary savings, positive cross-country spill-overs, and improvements in fiscal positions. According to this report, the Euro area GDP could potentially increase by 3% and 6% after 5 and 10 years respectively if Member States adopt measures to halve the gap vis-à-vis the average of the three best-performing Member States in each of the envisaged reform areas. See: Janos Varga, Jan in 't Veld, "The potential growth impact of structural reforms in the EU. A benchmarking exercise", European Economy, Economic Papers 541, European Commission, December 2014, http://ec.europa.eu/economy_finance/publications/economic_paper/2014/pdf/ecp541_en.pdf

[4] The CoR reiterated its "firm opposition to the idea of 'taking cities and regions hostage' because of failings of national governments" stating that CP should not be "subject to conditionalities that cannot be influenced by local and regional authorities and other beneficiaries. See also Bernard Soulage "Opinion on Guidelines on the application of the measures linking the effectiveness of the European Structural and Investment Funds (ESIF) to sound economic governance, COTER-V-053, Committee of the Regions, 12.02.2015, http://cor.europa.eu/en/activities/opinions/pages/opinion-factsheet.aspx?OpinionNumber=CDR%206247/2014

experience (Jašurek 2021). In this context, while some progress seemed to have been made on acknowledging the need for change on the MEC, its maintenance in the rules regulating the use of the funds in the 2021-2027 programming period – and its reinforcement in the article 10 of the RRF regulation – remains contested.

## 2.3 ExAc, 'enabling conditions' in the innovation driving seat

The 2013 CPR also introduced so-called 'ex-ante conditionalities' (EACs), an incentive mechanism to ensure that the necessary conditions for the effective and efficient use of ESI Funds are in place. Ex-ante conditionalities appeared in different forms ranging from policy and strategic frameworks to regulatory frameworks, or institutional and administrative requirements. Based on several 'thematic objectives' derived from the CSRs and 'general conditionalities' aimed to ensure compliance with EU law and sufficient administrative capacity, EACs also strived to align the use of the funds more closely with the overall EU economic governance framework. In practice, member states were asked to self-assess which EACs had been fulfilled before the adoption of Cohesion Policy programmes, which was then verified by the Commission before the adoption of programmes. For unfulfilled or partially fulfilled conditionalities, the relevant authorities developed action plans with a timetable of actions aimed at their fulfilment by the end of 2016. By contrast to the MEC, EACs were positively received by Cohesion Policy stakeholders and the academic community (McCann, 2015) for they were perceived as supporting 'endogenous' aims of the policy. With hindsight, their effectiveness in achieving targeted objectives has also been judged rather positively. In 2016 and 2017 studies on the value of EACs in the ESIF, the Commission concluded that EACs made the deployment of ESI funds more effective and structured. In the 2014-2020 period, the Commission did not suspend any payments for non-fulfilment of EACs at the OP adoption stage and only made limited use of its reprogramming prerogatives (ECA 2021).[5] If further reports pointed to a 98% compliance rate with initial 'action plans' and set out concrete examples of EACs serving as 'enablers' in policy implementation[6], these also acknowledged the difficulty of assessing their impact. Judged by the Court of Auditors (2017) as an 'innovative yet not fully effective' pilot project, EACs also faced some shortcomings, including inconsistencies in their practical applicability (in the area of lifelong learning in particular), institutional mismatching in the compliance assessment by EU directorate generals, but also a more concerning lack of (sustained) compliance with EU laws

[5] In April 2018 and February 2019, the Commission decided to suspend payments to two OPs (Spain and Italy) after having sent pre-suspension letters for 5 action plans. The suspension for the Spanish OP was lifted in March 2019, whereas payments to the Italian OP remained suspended (ECA 2021).

[6] EACs were notably said to have incentivised the implementation of Smart Specialisation Strategies or public administration reforms. For example, in Mecklenburg-Vorpommern (Germany), the ExAC were set to give the region an impetus to increase the involvement of relevant stakeholders in its existing innovation strategy. Evidence on the effectiveness of ex-ante conditionality in supporting the modernisation of public administration remains mixed. An EPC case study found that the level of policy changes triggered by the ESI Funds is rather low. On the other hand, evidence from some EU countries suggests that ex-ante conditionalities (ExAC) on ESI Funds can incentivise public administration reform. Examples include building the policy-making capacity of civil servants or boosting the development of government information systems in Estonia. In Portugal, the ExAC on institutional capacity and efficient public administration supposedly played a role in the design of a new vocational training system as part of the government plan to modernise its public administration. See Commission Staff Working Document "The value added of Ex ante Conditionalities in the European Structural and Investment Funds" SWD(2017)127. For an external evaluation, see Metis GmbH (2016), The Implementation of the Provisions in Relation to the Ex Ante Conditionalities during the Programming Phase of the European Structural and Investment (ESI) Funds. See Huguenot-Noël & Hunter (2017) for a more extensive discussion of this issue.

and policies on the ground (e.g. in the case of EU efforts to combat child poverty[7]), despite a positive reporting in self-assessment exercises (Viță 2019: 33). This assessment was also shared by EU institutions, with actors behind the policy acknowledging the complexity of the process and the constrained ability for the Commission to exercise this reprogramming instrument due to the late start of ESIF implementation (Berkowitz et al. 2018). Eventually, advocacy by the friends of cohesion' to focus on fewer, more targeted, but also more 'lasting' conditionalities found its way into the 2021-2027 EU budget with the transformation of the 36 EACs into 20 'enabling conditions' and a new right for the Commission to suspend payments in cases where framework conditions were no longer respected under more rigorous monitoring.

Table 2 Policy conditionality in 2014-2020 Cohesion Policy and feedbacks

| Instrument | Political appreciation | Policy implementation & evaluation | Policy feedbacks for the 2021-2027 programming period |
|---|---|---|---|
| Macroeconomic conditionality | Contented: Support among 'friends of better spending'; Concerns over pro-cyclicality and risks of political backlash among 'friends of cohesion' | Sanction process launched for Spain and Portugal but aborted | Deemed as "ineffective in good times" in the RSP yet maintained in both RRF and CP |
| Ex-ante conditionality | Positively viewed for helping to enhance funds' effectiveness | Sanction process launched for Spain and Italy, leading to payment suspension (finally lifted) | Transformed into longer-lasting 'enabling conditions' with higher focus on payment suspension |
| Structural reform conditionality | Viewed as contributing to the EU agenda; reprogramming seen as complex | Not used | Expansion in both the nature and the scope of reforms targeted |

Source: own elaboration

## 2.4 The rise and expansion of structural reforms conditionality

The 2013 reform of the policy introduced alternative mechanisms, going beyond the MEC and EAC initiatives: a first 'strand' required member states to address relevant CSRs in the programming of partnership agreements (PAs) and operational programmes (OPs), while a second empowered the Commission to request revisions to support the implementation of new CSRs and propose suspension of payments to the Council in case of failure to comply. As structural reforms address long-term problems – on which PA and OPs may only have limited influence – and frequent reprogramming may be disruptive to multiannual investment strategies, such changes were yet expected to be rare (Berkowitz et al. 2018). And in fact, these provisions were never used. Meanwhile, the idea of linking structural reforms to EU expenditures found its way into EU programmes of a more cross-cutting nature. Building on the EU experience in providing technical support for technical reforms, as in the Task Force

[7] See ECA special report 20/2020 'Combating child poverty – Better targeting of Commission support required', paragraph 65.

for Greece (TFGR), the Commission introduced in 2017 the Structural Reform Service Programme (SRSP). As national demands exceeded the available budget, the financial envelope dedicated to the programme was expanded by drawing on Cohesion Policy funds, raising the opposition of the European Parliament.[8] To the concerns of *policy dilution* succeeded one of *policy diversion*. Tensions between so-called 'friends of cohesion' and the 'friends of better spending' expanded with the proposal to create a Reform Service Programme (RSP). Endowed with a budget of EUR 25 billion, the RSP was foreseen as a 'complementary tool' to the policy by addressing structural reforms of a different nature (going beyond cohesion), scope (also including regulatory reforms), and timing (annual rather than multiannual), while providing more suited incentives for reforms than the ones existing in the policy (European Commission 2019).[9] This assessment proved yet contested by the 'friends of cohesion' for it made use of the Cohesion Policy legal base to pursue 'exogenous' objectives, added new conditionalities rather than replacing old ones (such as the MEC), and even pursued contradictory objectives (Huguenot-Noël et al. 2018). In October 2020, the RSP was replaced by the creation of the RRF and a new Technical Support Instrument (TSI). These tools yet largely built on the RSP design, perpetuating existing competition concerns.

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Overall, policy conditionality on the use of EU funds introduced since the sovereign debt crisis set a strong emphasis on promoting structural reforms addressing needs identified within the European Semester. With hindsight, evidence yet continues to point to a low level of compliance of EU member states with these CSRs. Although the Commission recently observed that "member states had achieved at least some progress with regard to more than two-thirds of the recommendations" made since 2011,[10] recent studies also find that only very few countries made "substantial progress" in 2017 and 2018.[11] In this context, the effectiveness of the policy conditionalities introduced in the 2014-2020 MFF has been questioned. The ECA found thus that the link between EU spending and CSR implementation over the 2011-2018 period was weak[12] and policy conditionalities were also described as lacking focus in design. On the eve of the pandemic, uncertainty accordingly remained as to how the funds were meant to contribute to political objectives as wide-ranging as the EMU's overall macroeconomic stability, the funds' implementation efficacy, and country-specific reform needs.

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[8] For more background on the debate, see https://www.europarl.europa.eu/legislative-train/carriage/mff-reform-support-programme/report?sid=7101

[9] European Commission, Proposal for a Regulation of the European Parliament and of the Council on the establishment of the Reform Support Programme, COM(2018)391

[10] European Commission (2018), "European Semester 2018 Spring Package: Commission Issues recommendations for member states to achieve sustainable, inclusive and long-term growth", Brussels. http://europa.eu/rapid/press-release_IP-18-3845_en.htm

[11] Hradisky. M. Valkama, S. A. Gasparotti and M. Minkina (2018), "Country Specific Recommendations for 2017 and 2018", European Parliament. http://www.europarl.europa.eu/RegData/etudes/STUD/2018/614522/IPOL_STU(2018)614522_EN.pdf ; see also European Parliament (2017), "In Depth-Analysis – How to strengthen the European Semester?", Brussels, http://www.europarl.europa.eu/RegData/etudes/IDAN/2017/602113/IPOL_IDA(2017)602113_EN.pdf

[12] European Court of Auditors (2020), Special report 16/2020: "The European Semester – Country Specific Recommendations address important issues but need better implementation", paragraphs 41-44 and 60. See also Opinion No 06/2020 concerning the proposal for a regulation of the Parliament and of the Council establishing a Recovery and Resilience Facility (COM(2020) 408), paragraph 46.

# 3 New links between Cohesion Policy and the Recovery and Resilience Facility

The RRF has rightly been portrayed as representing a departure from previous EU policies for it adopts an expansionary-oriented approach and introduces a new mode of policymaking. In contrast to the EU's response to the Great Recession, the main objective of the RRF is to support member states not only in recovering from the pandemic but also in establishing a more structural development pathway (Pisani Ferry 2020), including by fostering a qualitative change in the use of EU funds (Schramm et al. 2022). To that extent, the RRF represents an even more assertive move of the EU's capacity to engage in national reform agendas, using means that were so far primarily used in Cohesion Policy. What are then the implications for the policy? We first present and compare Cohesion Policy and the RRF as conceived in the 2021-2027 EU budget, throwing specific light on their expected contribution to the EU's structural reform agenda. We then consider emerging evaluations on the use of the RRF and implications for the policy, before throwing light on the remaining uncertainties for the policy's future resources and governance.

## 3.1 Cohesion Policy and the RRF: More closely aligned objectives, yet with different design and implementation logics

By contrast to those of the RSP, the RRF general objectives rests on a holistic vision, clearing stating its commitment to promoting EU cohesion objectives.[13] The RRF thereby links back the EU's reform agenda to the Union's objective of 'strengthening its economic, social and territorial cohesion' defined in the articles 174-178 of the Treaty on the Functioning of the European Union (TFEU), which have long been considered as the heart of the Cohesion Policy mandate. Like the policy, the RRF is also meant to support "cohesion, resilience and values" investments under the second heading of the MFF. While it is worth noting that social investments do not benefit from quantitative targets (by contrast to climate and digital initiatives, see table 3), the Commission's assessment of the RRF objectives to implement the Social Pillar constitutes a window of opportunity to further build on the policy's experience, e.g. in managing the European Social Fund. The Commission is finally required to verify that resources are not concentrated in most advantaged areas. No provisions yet specifically target the situation facing regions lagging behind (and in particular territories stuck in a 'middle income trap'), a trend systematically evidenced by the 7th and 8th Cohesion Reports (European Commission 2017; European Commission 2021) and bearing critical political relevance for the EU (Rodriguez-Pose 2018; Rodriguez-Pose and Ketterer 2021; Pilati and Hunter 2020). As we will observe, room for improvement remains to better monitor the contributions of the RRF to strengthening social and territorial cohesion.

[13] Article 4 of the RRF regulation thus reads: *The general objective of the Facility shall be to promote the Union's economic, social and territorial cohesion by improving the resilience, crisis preparedness, adjustment capacity and growth potential of the Member States, by mitigating the social and economic impact of that crisis, in particular on women, by contributing to the implementation of the European Pillar of Social Rights, by supporting the green transition, […] thereby contributing to the upward economic and social convergence, restoring and promoting sustainable growth and the integration of the economies of the Union.*

Table 3 Structure of Cohesion Policy and the RRF in the 2021-2027 EU budget

| **Structure** | **Cohesion Policy** | **RRF** |
|---|---|---|
| Legal base | Articles 174-178<br><br>Article 162 (ESF) | Article 121<br><br>Article 148 |
| Temporality | Structural | Conjunctural |
| Means | Mainly investments, linked to reforms | Investment and reforms |
| MFF contribution | "Cohesion, resilience and values" | |
| Objectives | 5 policy objectives | 6 pillars |
| Thematic funding allocation | Thematic concentration requirement | Budget allocation targets (> 37 % for the green transition; > 20 % for digital transformation) |
| Distributive allocation key | Relative prosperity / EU average<br><br>(regional GDP and gross national income (GNI) per capita), taking into account unemployment rates, education levels, net migration from outside the EU, and greenhouse gas emissions | 70% based on member state's population, 2019 GDP per capita, and average five-year unemployment rate for 2015-2019<br><br>30% based on the estimated fall in GDP in 2020 and 2021 |
| Reform compass | 2019-2020 CSRs | |

Source: own elaboration

The main differences between the Cohesion Policy and RRF's 'cash for reform' approaches lie in the way plans and programmes are meant to be designed and implemented (see table 4). The Commission assesses the content of National Recovery and Resilience Plans (NRRPs) submitted by EU member states based on 11 qualitative criteria. Given the pressure to act fast, the Commission, following negotiations with governments, swiftly published its assessment. Most of the NRRPs were accordingly adopted quickly (2/3 of them within 6 months according to the ECA (2023)). This contrasts with the lengthier process observed in the case of Cohesion Policy where EU budgetary negotiations lead to a later disbursement of the funds. Delay was yet in part due to the involvement of LRAs in the context of the 'partnership principle', contrasting with the 'skinny politics 'observed in designing NRRPs, which saw national finance ministries in most EU member states centralise the reform selection (Huguenot-Noël et al. 2023). A major innovation also pertains to the 'performance-based' approach allegedly pursued by the RRF, which conditions its financing to the fulfilment of milestones and targets. While the facility does not go as far as linking funding to the achievement of policy outcomes (as is generally understood in the 'performance-based' budgeting literature), its focus on the achievement of policy outputs nonetheless contrasts with the cost-based approach (tracing the regularity of incurred expenditures) which continues to dominate Cohesion Policy's control and audit arrangements. On the other hand, the RRF model has the downside of deploying EU funds via national systems (rather than under the common EU framework provided by the policy), via direct (and not shared) management, making the kind of differentiated approach promoted with the policy more reliant upon member states' goodwill.

Table 4 Spending process in Cohesion Policy and the RRF

| Process | Cohesion Policy | RRF |
|---|---|---|
| **DESIGN**<br>Member States draft their programming documents | Several national and regional points of contact in the Member States; Directorates-General responsible: DG REGIO and DG EMPL | A single entity in the Member States acting as the national coordinator and point of contact for the Commission. Responsible bodies within the Commission: RECOVER and DG ECFIN |
| **SUBMISSION**<br>Member States submit their programming documents to the Commission | One partnership agreement at national level and one or several programmes (national or regional) | One main programming document, the RRP |
| **ASSESSMENT**<br>The Commission assesses the programming documents and discusses them with each Member State | Three months to submit observations (for partnership agreement and programmes) | Two months to complete the assessment process but can be extended. One month for the Council to approve |
| **ADOPTION**<br>The programming documents are adopted | The Commission adopts the partnership agreement within four months and the programme within five months from their official submission through implementing acts | Commission endorsement and Council adoption through Council Implementing Decision |

Source: ECA (2023)

## 3.2 Emerging evidence on the RRF and CP contributions to EU reform efforts

As of 2023, we lack enough hindsight to comprehensively assess EU's ability to successfully trigger new reforms through the RRF. First quantitative evaluations are, perhaps usurpingly, rather lukewarm. Assessing the extent to which the 2019-2020 CSRs had been implemented based on the Commission's assessment tool ('CESAR'), the ECA found that some or limited progress had been made in respect of 85 % of them, and substantial progress in respect of 11 %. Only 1 % of CSRs had been implemented in full. For 3 %, no progress had been made (ECA 2020; ECA 2023). At the same time, an emerging literature focused on the RRF design, negotiations, and reception by national stakeholders provide relevant emerging findings on current and future links with Cohesion Policy. Scholars rightly observed that the RRF was politically designed in a way to address 'voices of the past' (Armingeon et al. 2020) by building in an explicitly redistributive dimension, targeting countries facing low growth. Since 2000, many regions that are poorer than the EU average also have the worst growth performance. As recent evidence showed, these vulnerable areas are concentrated in Italy, Portugal, and Spain, all of which are important beneficiaries of the RRF, hinting at the possibility of its allocation key helping to target places where the EU’s growth potential is highest – although to a lower extent than would have been the case under the policy.[14]

While the RRF might complement the policy's objectives, there were also fears of competitive clashes between the funds. First, concerns of *funds diversion* persisted as, pursuant with article 6 of the RRF regulation, member states may decide to move resources from shared management programmes to the Facility.[15] Even under constant funds’ allocation, risks exist that RRF funds be spent to fund mature projects that were planned or eligible under Cohesion Policy. Thus, while the European Court of Auditors pointed to the existing policy overlap under heading 2 of the MFF giving member states “a great deal of discretion in choosing which instrument will finance a given investment” (ECA 2023: 14), scholars also stressed that the RRF would benefit from unfair competition in practice, given its unmatched level of political ownership and lower administrative requirements than those attached to the policy (Molica and Fontàs 2020). Seeing the RRF achieve cohesion objectives by other means than those traditionally employed by the policy may have finally faced lower resistance if the deployment of the RRF had granted higher attention to two dimensions constitutive of its raison d’être: the systemic involvement of local and regional authorities in the definition of investments and reforms; and the territorialization (or ‘place-based’ ambit) of its funding allocation. A survey conducted by the CPMR, a leading organization of local and regional authorities in Brussels, thus showed that its members evaluated their involvement in the definition of NRRPs at a level of dissatisfaction of 3.9 (5 being very unsatisfied and 1 very satisfied), while pointing to the absence of a territorial dimension of the Semester as the biggest cause of its lack of impact on regions’ economic policies.[16] As we will see in further details below, the lack of territorialization of NRRPs also constitutes one of the main take-aways from emerging evaluations of the RRF’s ‘performance-based approach’, with studies pointing to unclear or overly-aggregated milestones and targets facilitating their fulfilment at the cost of a reinforcement of territorial disparities.

## 3.3 Uncertainties, opportunities and risks for the policy’s future resources and governance

The overall contribution of the RRF to Cohesion Policy objectives and its implications for the policy’s future are still progressively unfolding. In parallel to monitoring the progress on reforms advanced in NRRPs, EU institutions continued since 2022 to issue CSRs targeting non-addressed reform needs. Meanwhile, in 2024, CSRs should also be considered for cohesion mid-term review, which will provide an opportunity to better realign the policy’s and the facility’s cash for reforms logic. Further than that, uncertainty prevails as to whether the RRF experience will be renewed in the post-2027 MFF. In a scenario of constant means attributed to the EU budget, risks exist that cohesion funding would be reduced to fund an RRF-like instrument into the regular MFF. Even if an instrument of the kind of the RRF is not included in the next programming phase, the experience of its deployment will influence the

[14] As Bachtler et al. observe (2020: 42), the scale of RRF grants rival Cohesion Policy, but the balance of distribution differs, with 70 percent of the MFF Cohesion budget allocated to Cohesion countries, but just 47 percent of RRF grants, and an estimated 54 percent of REACTEU.

[15] Molica and Fontàs explain that, although the proposed regulation does not specify any ceiling, “it is understood that the transfers would be capped in accordance with article 21 of new CPR (i.e. up to 5% of national envelopes).” (Molica and Fontàs (2020: 6). It should be noted that article 63(9) of the new CPR also provides for such complementary use of EU funds.

[16] See p. 2, next-generation-eu-and-the-eu-economic-governance-framework-where-does-the-involvement-of-cpmr-regions-stand.pdf

debate on the policy’s governance and delivery mode – making a mid-term assessment more essential.

What are then the lessons learned of the attempted marriage between the RRF and CP? Taking heeds from international best practices on policy conditionality shows that EU’s practices are evolving in line with latest developments in the field. The chief underpinning of conditionality, largely residing on economic foundations, has considerably evolved in the last decades. While IMF structural conditionality for example went as far as prescribing industrial policy, international institutions, from the IMF to the World Bank, increasingly acknowledge that for good policies to work effectively, higher attention should be drawn to the quality of political state and economic institutions (see Juhàsz et al. 2023 for a wider review). Evidence further points to conditionalities performing best when these are based on positive incentives (rather than negative sanctions), have a close and meaningful thematical link to spending interventions, and focus on ex-post output or results, rather than ex-ante criteria (for a review, see Viță 2018: 20). According to this matrix, the extension of the cohesion’s development logic – largely based on positive incentives – to the RRF is decisively good news for the EU. Conversely, while the RRF facility primarily links funds to outputs, its ‘performance-based approach’ may serve as a source of inspiration for cohesion to progressively integrate some conditionality based on the achievement of policy outcomes. Now, making this ‘cash for reform’ logic work for Cohesion Policy will also require better linking it to its own policy objectives and intervention logic, possibly forcing it to resist the current trends of growing centralization and concomitant inter-governmentalisation of EU spending interventions.

# 4 Using the cash for reform logic to advance Cohesion Policy's development compass

Cohesion Policy was initially introduced as a transfer policy, aimed to counterbalance the concentration of economic activities induced by the deepening of economic integration. As a result, the existence of conditions on the way funds should be spent has sometimes been presented as depriving the policy of its original purpose. To be sure, cash transfers are an essential part of the policy and it cannot be excluded that new forms of transfers may need to be channelled via cohesion funding, for example, to cover need to finance infrastructure investments in Ukraine. But cash transfers alone are equally unlikely to provide enough support to drive the kind of structural transformations currently required to respond to the range of challenges currently faced by the EU, ranging from geopolitical tensions (first of which the Russian invasion of Ukraine), climate disruption, digital and AI transformations, and soaring inequalities, to name but a few. As Petzold (2022: 3) rightly argues, in historical terms, the policy’s flexibility has been its core strength, helping it to preserve its relatively high share of the total EU budget – thereby allowing more regions than would have otherwise been to benefit from EU support. Now, provided that they indeed target the right places, are designed with the appropriate level of stakeholder engagement, and deployed with the right tools, conditionalities may represent a powerful asset in the policy’s developmental agenda. Below, we provide recommendations aimed at strengthening the links between EU structural funds and reforms aimed at helping the EU to deliver on its political objectives.

## 4.1 Intensifying the policy's contribution to the EU's socio-economic governance reform agenda

European integration relied on legal and economic tools before it developed a European public sphere. As the Economic and Monetary Union (EMU) emerged in the 1980s, its design undeniably bore the mark of its time, proposing a model “governing by rules, and ruling by numbers” (Schmit 2020). Particularly after the advent of the EU sovereign debt crisis, this institutional feature led some stakeholders to consider the EU economic governance as an end in itself, relegating wider development ambitions, such as the Europe 2020 strategy, to secondary concerns. Imposing macroeconomic conditionality upon the use of EU funds belonged to the spirit of that time. Now, EU’s ambitions have also changed in positive ways: The EU’s agenda is now more clearly linked to the Sustainable Development Goals. The New Green Deal and the European Pillar of Social Rights (EPSR) have provided the EU institutions with a clearer compass, better reflected in the content of country-specific recommendations. This more holistic development framework provides, overall, a more suitable environment for the policy to be able to deliver on its objectives. Challenges surely also remain ahead: among these, risks are high that the implementation of the EU’s investments in the ‘dual transition’ further encourages the concentration of resources in ‘centres’ and fails to reach those needing it the most *within* the supported regions (Lang et al. 2023). Looking ahead, the first objective should be to clarify the expected role of EU funds in fostering the implementation of the EU’s *regulatory* agenda. With regards to coordination, policy guidance under the Semester process today remains largely focused on macroeconomic stability relegating social and territorial concerns to secondary concerns.[17] To ensure that funds are put where the mouth is, Cohesion Policy stakeholders should help ensure that EU economic governance fulfils its commitment to enhancing cohesion and convergence.

### 4.1.1 Supporting the revision of the economic governance framework to strengthen the policy's contribution to the EU's social objectives and targets

The EPSR, the Action plan for its implementation, and the revised Social Scoreboard show that the EU has made much progress in providing a better compass for social progress in the EU. In the current programming period, the ESF+ has also been more strongly linked to the EPSR and both country reports and assessments of National Recovery and Resilience Plans submitted in the context of the RRF had to monitor progress on this matrix. Such reporting yet never proved as binding as in the case of green and digital investments. A reason for this is that the EU is still in search of a binding framework allowing the institutions to call on member states failing to respect their social commitments the way finance ministries can do under EU fiscal governance rules. Recently, the review of the EU economic governance framework has highlighted the remaining asymmetry in the monitoring of economic and social targets in the European Semester. In this context, voices have re-emerged on the need to provide EU institutions with a ‘Social Imbalance Procedure’ matching the existing MIP. While ongoing discussions suggest that the latter may be replaced by a ‘Social Convergence Framework’, this should not preclude an ambitious reform of social governance in the EU (Sabato et al. 2019; 2023). Regardless of its structure, the upcoming EU budget should be able to rely on mechanisms allowing for enhanced detection and assessment of social imbalances, the elaboration of Multi-annual National Action Plans supporting (technically and financially) the implementation of social investment structural reforms, and new arrangements to monitor progress on EU social targets recently agreed upon. Revising

[17] The 2023 Policy guidance provides a good example of how much priority is given to economic governance matters over other concerns: https://ec.europa.eu/commission/presscorner/detail/en/ip_23_2872

existing rules should yet go beyond revising governance arrangements. Our review of existing conditionalities has drawn light to the strong evidence pointing to the disproportionately negative impact of fiscal rules on productive public investments, further strengthening the case for social investment programmes to benefit from a differentiated treatment granting them further fiscal space in national budgets under existing EU fiscal rules (see Hemerijck and Huguenot-Noël 2022).

### 4.1.2 Specifying the Policy's own contribution to reform priorities identified in the European Semester

As observed in this analysis, CSRs currently serve as a basis to inform the nature of conditionalities in Cohesion Policy, EU-funded reforms in the RRF, but also wider recommendations issued in a European Semester framework continuing to run in parallel. In this context, scholars have argued that the RRF introduces "a new category of CSRs" effectively making some (EU-funded) recommendations "much more binding than others", some scholars recommended that the Commission "scale-back recommendations under the regular Semester" (Nguyen and Redeker 2022). Scaling down further on CSRs would yet bear the risk of conceding to the reductionist agenda advocated for by the 'friends of better spending', leaving economic, social and territorial issues (generally considered as secondary issues) to take a back-stage. Instead, EU institutions should acknowledge that CSRs issued to member states currently serve different functions – which, in turn, require different instruments. In table 5, I distinguish between the proscriptive, prescriptive and normative functions of CSRs and exemplify how this typology may be used to differentiate between different types of recommendations that may be issued by EU institutions with the same objective of fostering female employment growth in EU member states. As we observe, this general objective may be best served by a mix of reforms including better childcare infrastructure, gender-sensitive parental leave provisions, and reforms of the taxation regime in some countries. Only once these functions are clarified should a wider reflection be engaged on the role of different EU instruments – including regulations, soft coordination, and financial incentives/conditionalities – in achieving commonly agreed EU objectives, and the level of granularity with which recommendations should be formulated.

Table 5 Typology of functions of EU country specific recommendations

| CSR function | Definition | Function | Core EU tool | Example (Family policy) |
|---|---|---|---|---|
| **Proscriptive** | Indicate what a country must do or must not do to achieve intended goals. | Necessary condition to achieve objectives pursued by structural funds | Regulations<br>(e.g. conditionalities on structural funds) | Existence of a framework for quality early education and care infrastructure development |
| **Prescriptive** | Provide specific guidance on what a country should do in a particular situation. They are clear instructions indicating a | Recommended for member states to achieve targets set at EU level | Financial incentives<br>(e.g. EU-funded reforms in the RRF) | Introducing better paid but shorter-lasting parental leave benefits |

| | | | | |
|---|---|---|---|---|
| | specific action or remedy. | | | |
| **Normative** | Establish a standard to which countries are encouraged to adhere. They provide guidance based on norms, values, or standards that are deemed acceptable or desirable. | Advocated by the EU as part of its development objectives | Coordination<br>(e.g. peer reviews in multilevel surveillance) | Shifting away from the common taxation of married couples towards individual treatment |

Source: own elaboration

### 4.1.3 Systematising LRAs input to the policy guidance on reform and investment priorities in Country Reports and the RRF

In the current programming period, policy guidance provided under the European Semester helped provide some clarity as to which reforms should be prioritized in EU policy coordination and the implementation of EU funds. Remarkably, the more active involvement of DG REGIO in the European Semester process has led to the inclusion of so-called 'Annex D' on investment priorities as part of Country Reports.[18] A particularly welcome development, this approach should not remain a one-off and rather be revived annually. To ensure that LRAs views are being represented, a joint report prepared in cooperation with the Committee of the Regions could be added to both the country reports and the monitoring of the RRF until the end of its deployment in December 2026. Looking ahead, systematizing the engagement of DG REGIO with the Committee of the Regions and concerned regions will be crucial to help ensure that an appropriate mix is found between the flexibility required to address evolving EU priorities and the stability necessary for the effective implementation of the kind of long-term investment generally funded by the structural funds.

## 4.2 Improving the policy's alignment with the Semester and ensuring cohesion with other EU funds promoting reforms

### 4.2.1 Informing the future policy design based on ongoing policy conditionality experimentation

Policy conditionalities experimented during the current programming period have already revealed strengths and shortcomings in strengthening the EU's economic, social and territorial cohesion. Best practices and improvement needs should be systematically gathered to provide a strong evidence base on which to inform future developments. Recent studies

[18] The Annex D entitled Investment Guidance on Cohesion Policy Funding 2021-2027 published in the 2019 Semester contained, for the first time, an analysis of the territorial disparities existing in EU member states. This annex constituted the negotiating mandate of the Commission (DG AGRI, REGI, EMPL, MARE) for the 2021-27 programmes under shared management. Country reports are available at https://ec.europa.eu/info/publications/2019-european-semestercountry-reports_en

pointed, for example, to the high levels of cooperation and acceptance generated by the Just Transition Platform across the regions targeted for energy transition support (Hunter and Pilati 2022). Equally positive are policy feedbacks linked to the roll-out of EU projects supporting innovative agricultural practices the European Innovation Partnerships (EIPs) and the Agricultural Knowledge and Innovation Systems (AKIS) initiative (Huguenot-Noël & Vaquero Piñeiro 2022: 21-22). These policy feedbacks strengthen the case for structural funds to support, using investment and reforms, initiatives supporting the development of quality state and economic institutions, based on such bottom-up (and at times experimental) approach.

Looking at the RRF, the Belgian NRRP proposal to introduce a structure based on a pilot method, drawing inspiration from the "Zero long-term unemployed territories" initiative included in the ESF+ Walloon program, provides an inspiring example of scaling up successes. Conversely, studies on the implementation of the RRF have shown clear shortcomings in terms of both vertical and horizontal coordination, that is, in providing sufficient scope for LRAs but also wider actors of the civil society to engage on policy priorities. This has also been reflected in the design of selected measures. The implementation of ALMP measures in the Italian and French NRRP provides a telling example of a failure to territorialise reform and investment via EU funds, in a background of hyper-concentration of decision-making by the central government (Corti and Ruiz 2023; Huguenot-Noël et al. 2023): After different regional targets were set at EU and national levels for tailored services to jobseekers, only EU targets were met in the case of Italy, leaving EU funds to flow despite growing regional asymmetries.[19] Meanwhile, by introducing an all-encompassing tax relief for companies hiring apprentices, the French NRRP is expected to crowd out existing measures providing tailored initiatives primarily benefiting youth in most deprived areas. These feedbacks point instead to the need for the future policy to consider a stronger territorial differentiation both in allocating and monitoring the use of EU funds. An avenue to achieve this would be to introduce territorialized milestones and targets or better linking earmarking (minimum allocation requirements) in response to failure identified in the implementation of the EU social acquis – e.g. under the European Social Fund Plus (ESF+) regulations – to the achievement of results in specific territories.

### 4.2.2 Considering the case for introducing a stronger performance-based logic in Cohesion Policy

Once there is further clarity on the kind of reforms that structural funds can effectively spur, Cohesion Policy should actively consider the case for integrating into its toolbox the performance-based approach followed by the RRF. Careful attention should be paid to the latest evaluations of the effectiveness of the milestones and targets used in the NRRPs to inform their design. As highlighted above, milestones and targets in a future Cohesion Policy should further be adapted to the policy's legacy, respecting both the partnership principle in consultations leading to their elaboration and its historical 'place-based approach' in the identification of investment and reform needs at different levels of governance.

[19] Corti and Ruiz also show that the absence of any territorial criteria set in the milestones conditioning the disbursement of EU funds in the Italian NRRP also lead to its implementation contradicting the objectives set out in the Italian childcare plan.

### 4.2.3 Strengthening the thematic coherence across EU 'cash for reform' tools based on the emerging evidence of CP-RRF coordination

In the next programming period, the EU budget will likely include programmes supporting reforms beyond those considered in the context of Cohesion Policy. Beyond the existing concerns on a competitive use of the (future) facility and the policy's funds, a high potential for further synergies exists. Currently, article 9 of the RRF regulation and article 63(9) of the CPR provide that a reform or investment supported by a community programme may also benefit from the complementary use of other EU funds. The current programming period provides for different pathways taken by member states in coordinating the use of different EU funds (Lopriore 2022), which could be equally applied to reform coordination. A first obvious pathway is ***temporal*** in nature and relates to the sequencing of the instruments. Indeed, while project results must be achieved by December 2026 for the RRF, the eligibility horizon extends to the end of 2029 for the EU Structural and Investment Funds. An example of this is the Portuguese plan which intends to follow up with ESIF to support an initial investment made in the hydrogen sector via the RRF. Equally intuitive would be a ***territorial*** differentiation establishing a specific field of intervention for each of the funds, as per the French example which uses the RRF to fund soft mobility in rural areas and the European Regional Development Fund (ERDF) to do it in urban areas. Alternative pathways could yet also be considered, such as a ***thematic*** differentiation. In Latvia, for example, public administration reforms (excluded from the list of 'enabling conditions' in the 2021-2027 CP) are reserved for the RRF, while social housing will exclusively be funded via Cohesion Policy. In a slightly different vein, Italy distinguished the use of funds based on a ***tools-based*** or instrumental logic – discriminating between different kinds of spending tools – using tax reductions to incentivise R&D projects in the RRF, while providing subsidies via the ERDF. Finally, differentiation may be operated based on ***targeted beneficiaries*** as per the example of Germany, where energy efficiency support was provided by the RRF for residential buildings while it was granted from the ERDF for non-residential ones. The '5 Ts typology' presented in table 6 provides various options helping to consider how to organize the coordination between those funds in promoting reforms identified in CSRs.

Table 6 A 'five Ts' framework to differentiate Cohesion Policy from other EU reform tools

| Differentiation Strategy | RRF | Cohesion Policy | Country example |
|---|---|---|---|
| Temporal | Projects achieved by December 2026 | Projects achieved by December 2029 | Portugal |
| Territorial | Rural | Urban | France |
| Thematic | Public administration | Social housing and deinstitutionalization | Latvia |
| Tools | Tax deductions | Direct subsidies | Italy |
| Targeted beneficiaries | Public | Private | Germany |

Source: adapted from Lopriore (2022)

## 4.3 Addressing shortcomings in the use of EU funds via improved support, monitoring and impact assessments

EU funds in the 2021-2027 programming period have gone through major changes in both in terms of scale and ambitions. As observed above, the new approach of strengthening the link to domestic reforms, often associated with a more centralised governance, has come with a range of controversies. To ensure that EU funds flow in ways that can help improve the development potential of those places needing it the most, more attention should be drawn on how to monitor the effectiveness of this approach to inform both ongoing and future developments of the policy.

### 4.3.1 Pursue efforts to strengthen administrative capability to deliver on the reform agenda

At the risk of stating the obvious, (regional) managing authorities across the EU have different levels of administrative capacity. The accumulation and diversification of thematic objectives may further limit their investment and reform delivery capacity. In the absence of a proportionate approach, the EU's reform agenda could lead to moving EU funds away from the regions and individuals that need it the most. To prevent this, the distribution of funding in future 'cash for reform' tools should ensure that sufficient funding is provided for administrative capacity building, building on the existing Technical Support Instrument (TSI).

### 4.3.2 Assess the effectiveness of EU funds via a multitier system of diagnostic monitoring

Our evaluation of existing 'cash for reforms' tools has revealed that EU funds are still missing a comprehensive framework to assess whether EU-funded projects are making good progress towards their intended goals and targets as had originally been envisaged by DG REGIO in the context of the 'Smart Specialisation Strategies". Zeitlin et al. (2023) propose to involve national coordination and evaluation bodies to assess the long-standing performance of EU funding and to integrate this monitoring into a single overarching multilevel framework. As stressed above, such assessment framework, which could be used in the preparation of 'country reports', should be preceded by clear expectations regarding the contributions of LRAs, identifying the nature of investments and reforms that should be prioritised for each member state and what should be the contribution of each level of governance to their delivery. This framework could then be monitored via a more tailored analysis of the impact of EU funds in each region, for example, in highly decentralised member states (e.g. Germany, Italy or Spain). As suggested in 4.1.3., joint reports prepared by the different LRAs involved could then be added to the supervision procedures of the RRF European Semester or any other facility succeeding the RRF.

### 4.3.3 Reinforce partnership with other EU institutions and directorate generals to improve impact assessments ex-ante

Except for the Annex D added to country reports in 2019, there is currently no regional or cross-border dimension in the CSRs and the European Semester process does not currently provide for a tailored approach looking at the role played by regional authorities in implementing Cohesion Policy. This shortcoming is the more surprising that the European Commission can rely on extensive expertise on megatrends and other territorial impact assessments produced by ESPON, an EU funded programme, and the Joint Research Centre (JRC), its research centre.[20] At the same time, in the words of the European Court of Auditors itself, the ex-post evaluation of programmes "often comes too late to inform the legislative proposals for the next period" for both Cohesion Policy and the RRF (ECA 2023: 4). Looking ahead, DG REGIO should build on the kind of initiatives currently pursued by DG EMPL in streamlining the use of (territorial) distributional impact assessments across EU policies. To inform policymaking in real time, further insights could also be gained from the DG's efforts

[20] A good example is for example provided by JRC tools aimed at measuring the territorial resilience capacity of EU territories. See European Commission Joint Research Centre (2018). "JRC Technical Reports: A composite policy tool to measure territorial resilience capacity", http://publications.jrc.ec.europa.eu/repository/bitstream/JRC111389/jrc111389_jrc_tr_indicator.pdf

to compensate for the absence of recent official statistics by creating new partnerships with statistical offices allowing to use sources of more experimental nature (as is currently done with Eurostat flash estimates or simulations from the Euromod baseline report).[21]

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To sum up, delving into the existing links between existing EU funds and the European Semester helped reveal both benefits and remaining flaws. Using EU funds to promote the adoption of regulatory and administrative reforms helping to achieve EU development goals proved relatively successful. Suspending EU transfers to regions in need due to deficits incurred at the national level, by contrast, is ineffective and possibly counterproductive. By following a logic based on positive incentives, rather than negative ones, the adoption of the Recovery and Resilience Fund in 2020 marked an important step in the use of EU funds. Yet by concentrating most of the funds generated under Next Generation EU into the RRF, EU institutions also put a vast emphasis on domestically designed programmes, neglecting in turn genuinely European instruments that would provide more steering power for the Commission to advance its regulatory agenda and allow for a stronger involvement of the European Parliament. Remaining uncertainties about whether Cohesion Policy will have to compose with a new positive-incentive instrument in the future programming period open several avenues for reflection. One of them would involve considering the possible coordination of such tools, as suggested in the ‘5 Ts’ framework. But the next MFF will also have to face structural breaks, opening the door to a more fundamental rethinking of how the budget is organised. In this context, some calls have emerged to abolish the policy’s support for regions in rich member states while other flagged its difficulties in reducing inequalities *within* regions. Addressing existing concerns will first involve clarifying how the policy spending programmes could be more closely intertwined with the EU’s *regulatory* agenda, in particular in the social arena. When it comes to coordination, EU institutions should further clarify the *nature* and the *function* of reforms incentivized by Cohesion Policy. Based on the available evidence, this study advocated for the policy to focus on reforms having a close and meaningful thematic link to EU spending interventions and clearly identifying the level of governance at which they should be targeted. This could, for example, take the form of territorialized milestones and targets or better linking earmarking thresholds in EU (social) funds to the achievement of social results in specific territories. Ultimately, the road ahead for the Cohesion Policy will once again hinge on its capacity to transform. This time, however, within a possibly more supportive framework, which will hopefully bear the imprint of its influence.

[21] More information on this is provided at page 33 of the 2022 Employment and Social Developments in Europe report, produced by DG EMPL.

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