CEPS

RECOVERY AND RESILIENCE
REFLECTION PAPERS

Francesco Corti
CEPS Associate Researcher

Jorge Núñez Ferrer
CEPS Associate Senior Research Fellow

No. 2 | April 2021

STEERING AND MONITORING THE RECOVERY AND RESILIENCE PLANS

READING BETWEEN THE LINES

RECOVERY and RESILIENCE REFLECTION PAPERS

Steering and Monitoring the Recovery and Resilience Plans

Reading between the lines

Francesco Corti and Jorge Núñez Ferrer

This paper provides an extensive account of the procedures and rules of the Recovery and Resilience Facility.

It analyses the European Commission's guidance and offers insights into how the process is being steered and how the implementation of the NRRPs will be monitored. The aim is to highlight not only the opportunities, but also the pitfalls of the RRF governance system. We find a number of difficulties on which member states and the European Commission should focus. A major risk is getting lost in administrative procedures and taxonomy exercises, and neglecting the fundamental pillar for a successful recovery, namely structural reforms that have a direct and lasting impact on the stability and resilience of the European economies and that are in line with EU priorities.

Francesco Corti is Associate Researcher at CEPS. Jorge Núñez Ferrer is Associate Senior Research Fellow at CEPS.

This report is the second in a series of regular outputs from a research programme on the preparation and implementation of the EU's Recovery and Resilience Facility, which has been discussed and reviewed by the members of a Recovery and Resilience Reflection Group.

Group members participate monthly in a short discussion and review session, and submit comments on the draft reports. The contents convey the results of the research and members' comments, but the recommendations made in the reports do not necessarily reflect a common position reached by all members, nor do they represent the views of the institutions to which they belong. A list of the reflection group members can be found in the annex to this report. Image credit: Vecteezy.com

CEPS is an independent think tank based in Brussels. Its mission is to produce sound policy research leading to constructive solutions to the challenges facing Europe today.

Available to download for free from the CEPS website (www.ceps.eu)

Contents

Executive summary

EU member states are in the process of preparing their National Recovery and Resilience Plans (NRRPs), which they have to present to the European Commission (EC) by the end of April 2021. Based on the planned timeline, the NRRPs may be fully approved and start to be implemented in the last quarter of 2021.

The Recovery and Resilience Facility (RRF) is an important test for the EU, and its successful implementation could lead to significant and necessary transformations in the EU in terms of structural reforms and climate and digital transition. The RRF is complex, however, and risks encountering serious bottlenecks. If it fails to deliver on its stated goals and member states mismanage the RRF funds, the repercussions for the EU will be more than merely budgetary. They could have political implications for the stability of the European project by eroding trust between member states, on top of a delay in recovery and the necessary structural reforms.

It is essential, therefore, that the NRRPs – the governance and monitoring systems of the funds – are efficient and lead to impactful results. This also requires the governance instruments to be flexible enough to adapt to changing circumstances during implementation.

This paper provides an extensive account of the procedures and rules as displayed in Regulation (EU) 2021/241 on the RRF, and analyses the EC's guidance to member states' national recovery and resilience plans (SWD (2021) 12 final). It offers insights on how the process is being steered and how the implementation of the NRRPs will be monitored. The aim is to highlight not only the opportunities, but also the pitfalls of the RRF governance system.

The RRF falls under the legal framework for assigned revenues (Article 21(2)(a) of the EU's Financial Regulation). This has two repercussions:

1. The RRF is not part of the Multiannual Financial Framework (MFF)
2. It is being implemented by the EC under the system of central management (like all parts of Next Generation EU)

In addition, exceptionally and contrary to traditional RRF funds, the **Council has the final say on approving the NRRPs**, and the role of **budgetary control authority has been formally taken away from the European Parliament**.

Central management of the RRF may offer a welcome solution for the monitoring and administration of EU funds, but it is not a panacea.

The *first opportunity* created by the RRF is that it **has the potential to steer the implementation of structural reforms**. Indeed, the disbursement of the RRF funds is linked to the completion of targets and milestones set in the NRRPs, which are defined in line with the structural reforms identified by the country-specific recommendations (CSRs). This broad conditionality is then combined with a stricter conditionality emerging from the taxonomy of eligible green and digital investments.

The *second opportunity* is linked to the **central management** of the RRF. By **avoiding traditional European Structural and Investment Funds (ESIF) governance under the shared management**

of national and regional authorities, the RRF has the potential to bypass some of the administrative burdens traditionally attached to the ESIF. This should lead to a simplification of the use of the funds, less focused on the bureaucratic process of disbursement and more on the achievement of milestones and targets.

While central management can offer improve the focus on on performance compared to shared management systems used in Cohesion Policy, **several challenges might hamper the successful implementation of the RRF**:

Gold-plating

We could observe a **growing accumulation of ex ante box-ticking requirements** for taxonomy and scoreboards for milestone approvals, **topped with the additional step of the Council as final arbiter for disbursal of the funds**. This could generate excessive administrative burden, and instability and uncertainty in the investment process, which in turn could affect absorption capacity, slow down implementation and limit flexibility.

Administrative overload

The new RRF comes on top of the traditional structural funds. This will bring an additional workload to public administrations, which will not only have to prepare new plans, but will also need to **produce indicators, monitor data and provide information in separate reports for the RRF using different procedures**. All of this while having to prepare the new MFF 2021-27 and, at the same time, complete the disbursement of the 2014-20 MFF commitments until 2023.

Box-ticking exercise

Gold-plating and administrative burden risk shifting the compliance and monitoring process towards a box-ticking exercise in the management of EU funds. Rather than effective actions, the focus will be on ex ante conditions.

Weakening additionality through substitution effects

Given the different but potentially easier management system for the RRF (as well as REACT-EU) a substitution effect could arise. **Projects that would have been financed by the Cohesion Policy would then be taken on by REACT-EU and the RRF**.

Meaningful monitoring information

The data displayed throughout the RRF is not verified externally, as it is only provided by member states. Each member state will decide with the Commission the set of target indicators for their NRRPs, while the RRF scoreboard will only be presented by December 2021, creating some timing inconsistencies. In addition, the taxonomy used for the allocation of funding to the green and digital transitions is not yet approved and has not been developed according to the provisions of the Better Regulation.

Moreover, the planned timeline for disbursement every six months based on the achievement of milestones and the mid-term evaluation by 2024 may be problematic. **Implementation is**

likely to still be at an early stage and the evidence available will be relatively scarce. Where this could have an important impact, however, is on the introduction of structural and administrative reforms. This is where the focus must be.

Politicisation of the process

Assigning the Council as the ultimate authority to approve the programmes and take the role of budgetary control authority brings a risk of politicising the disbursement procedure and also obfuscating the accountability system of the EU. The role of the Council may lead to delays and potential political tensions.

The following recommendations can be drawn:

1. There should be **more focus on objectives and less on an ex ante box-ticking approach** to ensure all EU objectives and aspirations are represented in the plans.
2. **The focus on structural reforms has to be at the core of the assessment.** It should not be on ensuring the perfect match of percentages – green or digital. Without a solid plan to ensure a viable economy, there is unlikely to be a stable sustainable outcome.
3. **It is essential that the Commission aligns the procurement processes with single market rules, and that the RRF support is not used to distort competition.** Practically, the whole of Next Generation EU, including the RRF, is focused on national measures and therefore on national interests.
4. **The RRF requires a good monitoring system in the member states**. A comprehensive open database on all RRF expenditures will build trust and help monitor the impact of projects and protect the financial interests of the EU. Presently, the recording and publication of data is neither optimal nor properly standardised in many EU countries.
5. The governance model of the RRF reveals some pitfalls that need to be addressed. Two aspects are to be highlighted: a) the involvement of the Council in the approval of national plans should be limited and not lead to **undue politicisation and delays** in the adoption of the plans, and b) the use of **external assigned revenue has forced the adoption of a central management system for the funds**, which creates a parallel structure to the shared management of the ESIF. The funds will probably be channelled through the same authorities, which **will likely increase the administrative burden as the management and reporting differ**.
6. Using the legal basis for assigned revenue, rather than fully integrating Next Generation EU into the budget, exposes the RRF to legal challenges, as has been the case with the constitutional court in Karlsruhe, Germany. **If the Own Resources Decision is blocked, the Council may have no other choice than to integrate the RRF fully into the MFF, avoiding parallel structures**. As difficult as this may seem, it may be the only correct way to address some of its limitations and avoid any future legal challenges.

1. Introduction

Steering the direction of the national recovery and resilience plans (NRRPs) and monitoring the implementation of investments and structural reforms will be an important task for the European Commission (EC) over the next five years. Although the EC does not have the final say on the approval of the plans and payments – a task now in the hands of the Council – Regulation (EU) 2021/241 establishing the Recovery and Resilience Facility (RRF) has placed the EC in the driving seat to steer and monitor the use of funding.

The aim of this paper is thus to look in detail at how the EC intends to steer member states' public investment and structural reforms through the NRRPs and then monitor their implementation. To this end, we provide an extensive account of the procedures and rules as displayed in the RRF Regulation, and analyse the EC's guidance to member states' NRRPs (SWD (2021) 12 final). As a second step, we analyse the main novelties and opportunities introduced by the new RRF compared to traditional cohesion funds, and investigate the possible challenges for the successful design and implementation of the NRRPs.

1.1 Conditionality and the particularities of RRF steering and monitoring

Conditionality is a particularly important part of the European Union's unique governance system.[1] **The EU** is also a union of sovereign states based on mutual trust, where the quality of implementation **relies on the member states' enforcement mechanisms**. Over the years, the EU has increasingly used conditionality as a pillar to steer the use of EU funds by member states. Conditionality has become a very powerful instrument in the EU budget, and a key landmark was reached with the 2014-20 Multiannual Financial Framework (MFF) with the introduction of ex ante conditionality (Núñez Ferrer et al., 2018), which covers a wide number of areas and focuses on three types of conditions (Huguenot-Noel, Hunter and Zuleeg, 2018) linked to policy and strategic frameworks to ensure that:

1. The regulatory frameworks in the member states **comply with the EU *acquis*** in areas that the EU supports financially
2. The strategic documents at national and regional level underpinning European Structural and Investment Funds (ESIF) investments **reach a high quality** and are in line with standards commonly agreed by member states at EU level
3. **Institutional and administrative capacity** is sufficient to **guarantee the sound management of the funds**

In addition, in the MFF 2014-20, the use of the ESIF was made conditional on the respect of the macroeconomic conditionality, which includes two dimensions. The first relates to the EC's ability to request a reprogramming of the Operational Programmes (OPs) within the ESIF, when these are not in line with the economic and employment challenges identified in the European Semester. The second dimension relates to possible suspension of part of the payments made

[1] For the history of conditionality in international financial institutions and its importance to the EU, please refer to Núñez Ferrer et al. (2018) and Vita (2018).

by the EC in case of non-compliance with the Macroeconomic Imbalance Procedure and the Stability and Growth Pact.[2]

The present MFF 2021-27 reinforces the existing conditions attached to EU spending, and further strengthens the link between EU expenditure and EU policy objectives as *thematic enabling conditions* and traditional *horizontal enabling cond*itions on effective monitoring, public procurement and application of state aid rules. An important novelty in the new MFF 2021-27 is the *rule of law conditionality*.

The new RRF is no exception to the use of conditionality. It also strengthens conditionality as a response to the different governance system used. The RRF combines (Pisani-Ferry, 2020):

1. **Broad conditionality:** macro country-specific recommendations (CSRs) and the requirement that each of the components be assessed against the whole list of EU objectives
2. **Narrow conditionality**: specific conditions that must be met to ensure the investments achieve the intended goals

1.2 Implications of the choice of legal framework for the RRF

Before we dig into the details of the RRF conditionality, however, it is worth briefly recalling the legal framework underlying the new instrument. The RRF could not be disbursed using the existing financial pipelines and management systems for the ESIF. **The €750 billion of Next Generation EU (NGEU) is to be raised as external assigned revenue (Article 21(2)(a) of the Financial Regulation),[3] which requires the funds to be specific,[4] time constrained and under direct management of the EC**. Central management requires a direct link between the EC and the final beneficiaries. To resolve this, NGEU has defined the member states' governments as final beneficiaries. This choice of management imposed by the legislation has some silver linings, but also some negative features, which will be discussed in this report. This unprecedented situation has led to the adoption of novel and specific clauses in the Own Resources Decision[5] and the RRF Regulation[6] with important consequences on the guidelines and governance system.

[2] For further details, see Vita (2018).

[3] This creates certain anomalies in NGEU. REACT-EU for example, which reinforces the existing Cohesion Policy, is under central management, creating parallel systems for the same kind of actions. This is the same situation for NGEU's Just Transition Fund.

[4] A key objective is to mitigate the economic and social impact of the coronavirus pandemic and make European economies and societies more resilient, underpinned by investments in green and digital transitions. More details on this in Núñez Ferrer (2021).

[5] Council Decision (EU, Euratom) 2020/2053 of 14 December 2020 on the system of own resources of the European Union and repealing Decision 2014/335/EU, Euratom.

[6] European Commission, 2021, Regulation (EU) 2021/241 establishing the Recovery and Resilience Facility, available at: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32021R0241.

2. Steering: the Commission as the 'playmaker' of NRRPs

The NRRPs will be formally submitted to the EC by the end of April. Consultations between the EC and the national governments already started in mid-October 2020. In the meantime, the Commission published new detailed updated guidelines[7] on how member states should draft their NRRPs. In addition, on 10 February 2021, a new Technical Support Instrument (Regulation (EU) 2021/241) was established with the aim of assisting national authorities in improving their capacity to design, develop and implement reforms and prepare, amend, implement and revise NRRPs.

Once the final plans are presented by the member states, these are subjected to an ex ante EC assessment, which is to be provided within two months of the submission of the NRRPs. The **EC assessment is based on four principles of the Better Regulation guidelines: relevance, effectiveness, efficiency and coherence.**[8]

The ***relevance*** of the plans will be assessed based on, first, their contribution to the six overarching pillars set out in Article 3 of the Regulation[9] and the seven flagship objectives of the EU recovery.[10] Second, the NRRPs will have to be aligned with the European Semester CSRs, in particular those where the member states have registered only partial or no progress in 2019 and 2020. Third, each reform and investment in the NRRPs will have to respect the *'do no significant harm'* principle, which defines the six environmental objectives within the meaning of Article 17 of the Taxonomy Regulation.[11] Finally, the relevance of the NRRPs will be assessed based on their contribution to the dual green and digital transition, i.e. allocating 37% to investments in the green transition and 20% to investments in the digital transition. To this end, the EC has elaborated a detailed methodology for climate tracking and digital tracking, which is provided in Annexes VI and VII to the Regulation, with details on the coefficient for the calculation of support to climate change objectives and digital transition.

With respect to the ***effectiveness*** of the plans, the EC will assess the member states' outlined mechanisms for monitoring the implementation of the NRRPs. Each member state will have to indicate **targets** (i.e. *quantitative indicators* to track achievement of reforms and investments) and **milestones** (i.e. *qualitative indicators* on the implementation of reforms and investments), which will serve to monitor the implementation of the plans. The choice of indicators will be assessed by the EC based on their relevance and robustness, and should be focused on measuring inputs and outputs rather than outcomes, given the short timeframe for

[7] All guidelines are published at https://ec.europa.eu/info/business-economy-euro/recovery-coronavirus/recovery-and-resilience-facility_en.

[8] The sole Better Regulation criterion missing is *EU added value*, which is not relevant to the RRF.

[9] Green transition; digital transformation; smart, sustainable and inclusive growth; social and territorial cohesion; health and economic, social and intuitional resilience; and policies for the next generation, children and youth.

[10] Power up; renovate; recharge and refuel; connect; modernise; scale-up; reskill and upskill.

[11] Climate change mitigation; climate change adaptation; sustainable use and protection of water and marine resources; circular economy; pollution prevention and control; and protection and restoration of biodiversity and ecosystems (see Commission Notice, C(2021) 1054 final).

implementation of the plans. The regular **disbursements of the RRF funds every six months will only be approved on the condition that the intermediate milestones are achieved**. All targets and milestones should be achieved by the end of 2026, when the deadline to request payments will elapse. In addition to this, the **EC will assess member states´ internal control systems** to prevent, detect and correct corruption, fraud, conflicts of interest and double funding.

The ***efficiency*** of the NRRPs will instead be assessed on the plausibility and commensurability of the costs indicated by the member states and their accuracy, accountability and transparency, simplicity and consistency (although the simplicity appears to have been lost). In this respect, member states are expected to submit information on:

1. Individual reforms and investments
2. Methodology to calculate the impact of reforms and investments
3. Information on budgetary implications
4. Calculation methodology
5. Comparative costing data
6. Validation of independent fiscal institutions

Finally, the EC will assess the ***coherence*** of the NRRPs. Notably, the NRRPs will have to be consistent with the information included by the member states in the National Reform Programmes under the European Semester, in their National Energy and Climate Plans and updates thereof under Regulation (EU) 2018/1999, and in the partnership agreements and OPs under the ESIF.

The EC assessment of the NRRPs for each of the above-mentioned criteria will be based on qualitative judgments. To this end, the Regulation illustrates in its Annex V the assessment guidelines for the Facility, which will serve as a basis for the EC to assess the NRRPs proposed by the member states and to determine the financial contribution.

If the assessment is positive, the EC will elaborate a proposal for a Council implementing decision in which reforms and investment projects are presented together with the milestones, targets and time limit by which they should be completed. It will also include the arrangements and timetable for the monitoring and implementation of the recovery and resilience plan, the relevant indicators and the arrangements for providing full access by the EC to the relevant data. On the basis of the estimated costs and the maximum financial contribution established in the Regulation for each member state, the EC will also propose the financial contribution (both grants and – where applicable – loans) for the member state. This proposal will then need to be **approved by the Council with a qualified majority vote within four weeks of receiving the decision from the EC**.

If the EC's assessment of the NRRP is negative, no financial contribution shall be allocated to the member state concerned. Discussions between the EC and the member state to improve the NRRP will continue for a 'reasonable period' until an agreement is found (Article 19.1 of the RRF Regulation). A situation of political stalemate is unlikely, but not to be excluded, and the concept of 'reasonable period' itself brings some risks of political stalemate.

A similar procedure is to be followed for amendments to the NRRPs. A member state can submit a reasoned request to the EC to make a proposal to correct the programmes and amend or replace the Council implementing decision, if it considers that the targets and milestones set are no longer achievable. The EC is in charge of assessing the revisited plan and – within two months – should either reject the amendments or propose an amended implementing decision to the Council for approval within four weeks. The EC implicitly has the power to request amendments, as failure to achieve intermediate milestones will lead to the suspension of payments unless necessary amendments to the programmes are provided.

3. Monitoring: the Commission as 'watchdog'

The central role of the EC in the RRF is not limited to steering national recovery plans. Under central management, monitoring the implementation of the NRRPs is also an activity fully delegated to the EC, which for this purpose will set up **a new Recovery and Resilience Scoreboard by December 2021.** The scoreboard will contain common indicators to be used for reporting on progress and evaluating the Facility on the achievement of its objectives, in addition to the methodology for reporting social expenditure. It will serve as the basis for its annual review report on the implementation of the Facility (the first of which is due by July 2022), its mid-term evaluation due by February 2024, and its ex post evaluation due by December 2028. The scoreboard will be also used to monitor the fulfilment of the relevant milestones and targets by member states when they submit requests for payment to the EC, and will serve as a basis for the recovery and resilience dialogue with the European Parliament.

Member states will be able to submit a request for payment twice a year, upon completion of the relevant milestones and targets agreed. Such request will be made in the framework of the European Semester, where member states will report to the EC on progress made in the achievement of its recovery and resilience plan. The request will first be assessed by the EC, who will be in charge of taking decisions authorising the disbursal of financial contributions.

If the EC's assessment is positive, it will have to ask the Economic and Financial Committee (EFC) for an opinion.[12] The EFC should provide its assessment within four weeks of receiving the preliminary assessment by the EC. If the EFC unanimously accepts the EC's assessment, then the payments will be disbursed. By contrast, if one or more member states consider that there have been serious deviations from the satisfactory fulfilment of the relevant milestones and targets, they may request the President of the European Council to refer the matter to the next European Council. In this case, no decision should be taken authorising the disbursement of the financial contribution and – where applicable – the loan, until the next European Council has exhaustively discussed the matter. This process should not take longer than three months after the EC has asked the EFC for its opinion.

[12] The EFC was set up to promote the coordination of member states' policies necessary for the efficient operation of the internal market. It is composed of member state officials, central banks and the Commission.

By contrast, if the EC's assessment is negative, payment of all or part of the financial contribution and – where applicable – the loan, shall be suspended. In this case, the member state concerned should present its observations within one month of the assessment. If, six months after the EC's negative assessment, the member state concerned has not taken the necessary measures, the EC can reduce the amount of the financial contribution and – where applicable – the loan. The member state then has two months to present its observations. Finally, if 18 months after the decision to suspend the payments or commitments the member state has not taken adequate measures, the EC can decide to terminate the agreement and withdraw its commitment to disburse the relevant amount of the financial contribution.

The targets and milestones are not the only criteria against which the NRRPs will be assessed. As is the case for structural funds, the Facility will be linked to the principles of sound economic governance. Therefore, in the case of non-compliance with an excessive deficit procedure, or in the case of non-compliance relating to a corrective action plan under an excessive imbalance procedure (Article 10 of the RRF Regulation), the EC shall propose to the Council to suspend all or part of the commitments or payments.[13] Before any decision is taken, however, this will be subject to the principle of proportionality and will nonetheless take due account of the economic and social circumstances of the member state concerned, in particular the level of unemployment, poverty and social exclusion, and the possible impact of the suspension of funds on the country's economy.

Finally, the new rule of law conditionality also applies to RRF fund disbursement as an essential precondition for compliance with the principles of sound financial management.

4. Opportunities and challenges related to the steering and monitoring of NRRPs

The mechanism set up to implement the new RRF introduces some novelties. Based on a comparative analysis with the traditional ESIF, we identify two important novelties/opportunities introduced by the RRF. However, these opportunities are no silver bullets, and can only be grasped if the challenges that their adoption create are addressed. We list a number of challenges to take into consideration.

4.1 A positive opportunity for better coherence with CSRs and structural reforms

The first opportunity created by the new RRF relates to the explicit link between the NRRPs and the CSRs. **Structural reforms are essential to transform the economies** of the member states to become more resilient and better functioning. The CSR alignment should be welcomed as a

[13] The suspension of commitments shall be subject to a maximum of 25% of the commitments or 0.25% of nominal GDP, but these percentages can increase in cases of persistent non-compliance. The Council can reject the EC proposal only by a qualified majority vote within one month of submission of the EC proposal. A decision to lift the suspension of payments or commitments can be taken by the Council only on a proposal of the EC.

positive innovation introduced by the RRF. **This broad conditionality approach has the advantage of looking at reforms and investments not individually, but as a system**.

In this regard, the 2014-20 ESIF Common Provision Regulation (CPR) already required to take 'relevant' CSRs into account in the preparation of Partnership Agreements and OPs. Some analyses (Ciffolilli et al., 2018; Vita, 2018) have highlighted that the CSRs have been taken up in the strategic choices set out in OPs of the ESIF. In practice, however, the absence of clear incentives or sanctions has limited the influence of the CSRs, as the incentives for the RRF are stronger and the consequences clearer.

4.2 The opportunity to avoid the complexities of 'central management'

The RRF could in principle deliver better than the ESIF due to the different governance system. Compared to the ESIF, the RRF introduces a more simplified control, less focused on the bureaucratic process to disburse the funds and more on the achievement of milestones and targets. This should in principle reduce administrative burdens and increase the speed of deployment, hopefully improving effectiveness. The focus on milestone achievement is also more relevant under direct management, as here the Commission retains control over disbursements. Thus, it appears that by avoiding traditional ESIF governance under shared management, the RRF could bypass some of the administrative burdens traditionally attached to the ESIF. If this is indeed the case, however, it is possible that the management authorities (which will often be the same as those managing the normal ESIF) will tend to use the RRF rather than ESIF to fund needed investments. At the same time, if the RRF indeed performs well, it may offer some lessons for the future of the ESIF.

4.3 The pitfalls of 'central management'

Two realities may undermine the potential simplification. In both the ESIF and RRF, the EC is fully accountable for the use of EU funds, but under shared management the EC has a direct relation with the management authorities in the member states. Under central management, the beneficiary is the central government and there is no formal direct link to the managing authorities, making it harder for the EC to have an insight. The risk is that in such a situation, there is a clear motivation for the EC to 'gold-plate' ex ante to avoid problems ex post. This would result in a similar situation as in the Cohesion Policy under shared management.[14] Objectives and financial control must therefore be achieved by detailed prescribed allocations and processes to avoid complications during and after implementation. This can generate excessive administrative burden, instability and uncertainty in the investment process, which in turn affects absorption capacity and slows down implementation. **The complexity of the structures can lead to managing authorities focusing on the fulfilment of regulatory compliance rather than intervention rationale and outputs, taking a risk-adverse, box-ticking approach when designing calls or selecting and assessing projects**.

[14] The European Commission's High-Level Group on Simplification for the post-2020 Cohesion Policy highlighted in its 2017 conclusions many of the bottlenecks that afflicted the 2014-20 ESIF.

It is important to note, however, that the use of central management in the RRF for investments by public authorities in the member states goes counter to the spirit of the principle of subsidiarity. This principle, enshrined in the treaties, would suggest that management of the EU funds should be at the right level of governance. Many regions of the EU have a large level of autonomy and better knowledge of the situation on the ground than central national authorities. For decades the EU Cohesion Policy has aimed to reinforce ownership of EU programmes by regional authorities. The fact that the shared management system is suffering from excessive bureaucratic burden and delays does not mean that reverting to a central management system is the correct approach and negates the positive aspects of giving regions the capacity to develop their own programmes independently of central governments. In this respect, previous studies have shown that in the use of EU funds, multilevel ownership has a positive impact on the effectiveness of these programmes (Huguenot-Noel et al., 2018).

4.4 The challenge of administrative overload

Notwithstanding that NGEU may introduce more centralised and potentially more fast and effective decision making, many of the operations will overlap with the ESIF. The new RRF (as well as REACT-EU and the Just Transition Fund) comes on top of the traditional structural funds. **This will bring additional workload to public administrations, who will not only have to prepare new plans, but also produce indicators, monitor data and provide information in reports, at the same time as having to complete the disbursement of the 2014-20 MFF commitments until 2023.** The different reporting for disbursement at six-monthly intervals simply creates a parallel process to the ESIF, adding complexity regardless of whether the RRF is easier or not.

With respect to the indicators, while the proposal to set programme-specific indicators within the NRRPs is a positive novelty for the development of a sound intervention logic, and for effective monitoring and evaluation, this activity will be resource consuming. Research for the European Parliament by de Groen et al. (*forthcoming*) on the ability to trace the projects and beneficiaries of cohesion policy and CAP programmes shows that information is not always clear enough to follow up.[15] **In general, there is a gap between the monitoring that is possible under big data and what is being done at the moment.** The consequence of this is that public administration struggles to provide timely information in the reports. In a similar vein, experience on the structural funds shows that even the Annual Implementation Reports are often seen as burdensome by managing authorities (Pellegrin, 2020).

Another concern relates to the stringent requirements on the number, type and content of evaluations that are mandatory at different steps of policy implementation (ex ante, ongoing and ex post). In this respect, experience with cohesion policy shows that managing authorities in charge of this task for the implementation of the ESIF perceive evaluations as mere legal obligations (Naldini, 2018). In a recent study based on a broad consultation with managing

[15] Interestingly, one of the best databases on cohesion policy is in Italy, with its 'Open Coesione' portal (opencoesione.gov.it/en/). The portal also follows the work of the government under the control of the country's Prime Minister's office on open data of all public expenditure.

authorities on evaluation in cohesion policy, Pellegrin et al. (2020) highlight that in different member states a compliance-oriented approach ('box-ticking exercise') has been developed. This stems from limited resources dedicated to evaluations, but more critically from potential misalignments between the evaluations requested and those of interest to regional and national policymakers and administrators. A further difficulty highlighted in the study is that these needs might vary depending on specific member states or regions, which are all covered by the same EU rules. For instance, ex ante evaluations for all OPs can be considered as a formal obligation in some member states, while having recognised the benefits in terms of preparation and participation in others or across the board (ECA, 2019).

All in all, **the parallel RRF requirements on data collection, monitoring and reporting might turn into an additional overload for public administrations**, which are already burdened by the traditional ESIF management. Despite the 'central management' approach, it is very likely that member states will rely on the staff and expertise already involved in the ESIF.

4.5 The challenge to set up meaningful monitoring information and to use it appropriately

Setting up an efficient process to collect information for monitoring is not enough; the type, quality and proper use of information are also central. For a meaningful monitoring system, the following aspects need to be complied with:

4.5.1 Comparability of information collected

Comparability needs common standards, but the data displayed throughout the RRF is not verified externally, as it is only provided by member states. Each member state will decide with the Commission the set of target indicators for their NRRPs, while the RRF scoreboard will only be presented by December 2021. The recent experience of the Coronavirus Response Investment Initiative (CRII) and CRII Plus initiatives has shown that even when member states are provided with a set of common specific programme indicators in advance, they struggle to coordinate. In the specific case of CRII and CRII Plus, the Commission proposed a voluntary list of programme-specific indicators in May to be applied across member states, in order to identify all changes to the national OPs[16] and track the actual use of funds to tackle the Covid-19 crisis. Since the adoption of these indicators was made voluntary for member states, the Commission itself acknowledged that it was difficult to trace exactly how many resources have been redirected towards Covid-related expenditures. In some cases, indeed, member states used the original monitoring system or their own specific Covid-19 indicators, thus making the aggregation of data impossible. In the case of the NRRPs, indicators will be first identified by member states together with the Commission, which will then have to elaborate a common recovery and resilience scoreboard. Given the CRII and CRII+ experience, this is likely to be a challenging task.

[16] Data available here: https://ec.europa.eu/regional_policy/sources/docgener/informat/indicators_covid19_response_en.pdf. Consulted on 14 October 2020.

4.5.2 Link to actual outcomes rather than processes

While impact and outcomes are the ultimate objective, the RRF's strategy relies overwhelmingly on an ex ante classification of do's and don'ts, rather than leaving it up to the member states to choose how to reach their objectives. The EC is relying on a still unofficial detailed taxonomy proposed in Annexes VI and VII to the Regulation as a tool to achieve the desired outcomes. This taxonomy is based on the methodology of the delegated act to the Taxonomy Regulation (Regulation (EU) 2020/852). The delegated act has been neither adopted nor widely understood or consulted, and has raised concerns over the legitimacy of the opaque approach taken to produce the act that will now guide investments under the RRF.[17] However, the RRF does introduce a level of flexibility in applying the taxonomy by permitting weightings of the investments' digital and green dimensions to "be increased for individual investments to take account of accompanying reform measures that increase their impact on the digital (and green) objectives", which opens the door widely to interpretation.

4.5.3 Usefulness of monitoring data and milestones for disbursement

The Commission will monitor implementation of NRRPs biannually. The Commission´s services will check compliance with milestones and targets before approving payment requests, and will determine the authorisation of disbursement of payments. At the same time, it will report annually to the Council and the Parliament on whether the national plans are fulfilling their objectives, in order to make adjustments possible and to authorise the disbursement of payments. According to the Regulation, by 20 February 2024, the EC will provide an independent evaluation report on the implementation of the Facility. The planned timeline for annual monitoring and the mid-term evaluation (2024), however, seems to be problematic, as implementation is likely to still be at an early stage and the evidence available will be relatively scarce. Whether it will be possible to learn valuable lessons as regards the design of the programmes, the adoption process, project selection, etc. – all critical for good implementation and a high likelihood of impact – is an open question. Another timing issue involves the deadline for the ex post evaluation of the plans (December 2028), which is still relatively early to assess the impact of intervention, and yet too late to successfully inform the following programming period (Naldini, 2018).

5. Challenges created by politicisation and the RRF accountability conundrum

A final concern relates to the **risk of undue politicisation of the disbursement procedure**. The RRF Regulation leaves it unclear precisely what happens if another member state raises concerns in the EU Council, and the EFC hence cannot reach a consensus on disbursement to a member state. What is written in the Regulation is that – in the case of concerns raised by the EFC – the issue should be debated in the European Council, and the European Parliament should be informed. This process should, as a rule, take no longer than three months from the

[17] This is described in more detail by long-time EU affairs experts Thierry l'Escaille and Daniel Guéguen at the following link: https://danielgueguen.blogactiv.eu/2021/03/11/the-european-commission-and-taxonomy/.

date on which the EC asked the EFC for its opinion. However, the Regulation does not specify what happens if, after three months, consensus has not been obtained in the Council. If it implies that the EC's proposal for disbursement will be voted by the Council by qualified majority vote, this means that no individual member state can singlehandedly block an RRF grant disbursement to another member state. Even though only a coalition of member states representing a qualified majority opposed to an EC implementing act (very high political threshold) can block the EC from its intention to disburse RRF resources to a given member state, and suspension remains an unlikely scenario, the political consequences of this cannot be underestimated. In this case, one can imagine that – to avoid a political stalemate – negotiations will take place in which the member state concerned might revisit its investments and reform plans. The intervention of the Council as arbiter in these cases sends a negative sign of double mistrust: first in the EC's ability to manage EU funds, and second between EU member states. It puts into question whether the support is based on real needs on the ground or on a political interpretation of the programmes. It also creates further delays in the funding and implementation of the RRF, supposedly intended as a response to an 'emergency'.

The politicisation of the RRF has also de facto complicated, rather than simplified, the accountability process. Who is accountable to whom? For the EU budget the EC is accountable to the European Parliament. Here the accountability seems to shift to the Council, which for the MFF it is not. The current problems of accountability have been well documented by Cipriani (2010), who explains in great detail the shortcomings in accountability of the normal EU budget.

The problem is first the lack of direct accountability of national authorities to the EU, and also the creation of another system in parallel to the normal EU budget, with overlaps with the cohesion policy or other EU budget programmes. As mentioned already, the RRF will, to a substantial extent, be delivered through existing management authorities, often for RRF activities that complement those of the EU budget. Having essentially two strands of EU budget being managed differently makes little sense.

According to the RRF Regulation, the European Parliament will scrutinise the spending through the normal discharge procedure, and the European Court of Auditors (ECA) will also produce a report for the discharge. However, under direct management, with the milestone approach to funding, the normal work of the ECA in presenting the error rate of the EU funds cannot be applied to the RRF. The ECA's reporting has to be designed specifically for the RRF to make it relevant to assess the quality of the expenditure.

6. Conclusions

Ensuring the success of the RRF is a key challenge for the EU. On the one hand, its successful implementation could pave the way for new initiatives and maybe a full fiscal union. On the other hand, if it fails to deliver on its stated goals and member states waste the RRF funds, this would undermine the EU politically.

This means that the NRRPs, the monitoring systems and governance of the funds need to be effective and meaningful, which includes the capacity to adapt to changing circumstances. In this paper we have highlighted the opportunities, but also the numerous pitfalls of the RRF governance system.

What has emerged is that the use of direct management for the RRF funds may allow a more dynamic and efficient model to be developed for the management of EU funds; one that is more focused on outcomes than processes. At the same time, however, the absence of real ability for the EC to exercise close control over the authorities actually managing the funds has led to a gold-plating approach, by strong ex ante conditionality and rather rigid financial ex ante allocation through detailed taxonomy of green and digital investments. This rigidity with regard to the development, possible subsequent amendments to the plans and resulting time delays risks eliminating the benefits of a central management approach.

Against this background, there are a number of lessons that can be drawn from this report:

1. There should be **more focus on objectives and less on an ex ante box-ticking approach** to ensure that all EU objectives and aspirations are represented in the plans.
2. **A focus on structural reforms has to be at the core of the assessment,** rather than on ensuring the perfect match of percentages – green or digital. Without a solid plan to ensure a viable economy, there is unlikely to be a stable sustainable outcome.
3. **It is essential that the Commission aligns the procurement processes with single market rules, and that the RRF support is not used to distort competition.** Practically, the whole of NGEU, including the RRF, is focused on national measures and therefore on national interests.
4. **The RRF requires a good monitoring system in the member states**. A cornerstone of the RRF to build trust is the existence of a comprehensive open database on all RRF expenditures to help monitor the impact of projects and protect the financial interests of the EU. Presently, the recording and publication of data is neither optimal nor really properly standardised in many EU countries.
5. The governance model of the RRF reveals some pitfalls that need to be addressed. Two aspects are to be highlighted: a) the involvement of the Council in the approval of national plans should be limited and not lead to **undue politicisation and delays** in the adoption of the plans, and b) the use of **external assigned revenue has forced the adoption of a central management system for the funds**, which creates a parallel structure to the shared management of the ESIF. The funds will probably be channelled through the same authorities, which **will likely increase the administrative burden as the management and reporting differ**.
6. Using the legal basis for assigned revenue, rather than fully integrating NGEU into the budget, exposes the RRF to legal challenges, as has been the case with the constitutional court in Karlsruhe, Germany. **If the Own Resources Decision is blocked, the Council may have no other choice than to integrate the RRF fully into the MFF, avoiding parallel structures**. As difficult as this may seem, it may be the only correct way to address some of its limitations and avoid any future legal challenges.

References

Ciffolilli, A., S. Condello, A. Naldini and S. Richte (2018), "Support of ESI Funds to the implementation of the Country Specific Recommendations and to structural reforms in Member States", Report prepared for the European Commission.

Cipriani, G. (2010), "The EU Budget: Responsibility without accountability?", CEPS paperback.

De Groen, W.P., R. Musmeci, D. Gojsic, J. Núñez Ferrer and D. Belicka (2021), "The Largest 50 Beneficiaries in each EU Member State of CAP and Cohesion Funds", Study for the European Parliament Budget Control Committee, forthcoming.

European Court of Auditors (2019), Delivering performance in Cohesion, Briefing Paper.

Huguenot-Noel, R., A. Hunter and F. Zuleeg (2018), "Research for REGI Committee – Future links between structural reforms and EU cohesion policy", European Parliament, Policy Department for Structural and Cohesion Policies, Brussels.

Naldini, A. (2018), Improvements and risks of the proposed evaluation of the Cohesion Policy in the 2021-2027 period: A personal reflection to open a debate. Evaluation 24, pp. 496-504.

Núñez Ferrer, J. (2021), "Avoiding the Main Risks in the Recovery Plans of Member States", Recovery and Resilience Reflection Paper No. 1, CEPS, March 2021.

Núñez Ferrer J., D. Rinaldi, R. Musmeci and O. Polli (2018), "The EU Budget and its Conditionalities: An Assessment of their Contribution to Performance and Reforms", Report for the European Commission.

OECD (2020), "Strengthening governance of EU funds under cohesion policy", OECD Multi-level Governance Studies.

Pellegrin, J. and L. Colnot with M. Pedralli (2020), "The role of evaluation in Cohesion Policy", Study requested by the REGI Committee.

Pisani-Ferry, J. (2020), "European Union recovery funds: strings attached, but not tied up in knots", Bruegel Policy Contribution Issue No. 19.

Vita, V. (2018), "Research for REGI Committee – Conditionalities in Cohesion Policy", study for the European Parliament's Policy Department for Structural and Cohesion Policies, European Parliament.

Annex 1. Members of the Recovery and Resilience Reflection Group

Members as of 1 April 2021

The members of the group participate solely in an advisory and individual capacity. The reports and work of this project do not necessarily reflect the opinions of the members, nor do they represent the views of the institutions to which they belong. All contents of this project are of the sole responsibility of the project leader, Jorge Núñez Ferrer.

Carlo Altomonte	Professor, University of Bocconi
Julia Bachtrögler-Unger	Economist, Austrian Institute of Economic Research
Peter Blizkovski	Secretary General – Committee of the Regions
Alessandro Carano	European Commission – Task Force RRF
Alfredo de Feo	Professor, European University Institute
Katharina Gnath	Senior Project Manager, Bertelsmann Stiftung
Theo Jens	Professor, University of Hasselt
Carmen Jordán Asensi	COREPER – Cabinet of the Spanish Presidency
Ivailo Kalfin	Senior Lecturer, University of Varna, former foreign and labour minister and MEP, Bulgaria
José Moises Martin	Economist, Agenda Publica
Thilo Maurer	Administrator, European Parliament, Directorate for Budgetary Affairs
Marta Pilati	Policy Analyst, European Policy Centre
Eulalia Rubio	Senior Research Fellow, Jacques Delors Institute
Sander Van de Laar	Jurist, Dutch Central Bank
Fien Verheij	Policy Advisor, Ministry of Finance, Netherlands
Martin Weber	Director, European Court of Auditors

CEPS team

Jorge Núñez Ferrer	Project Leader, Associate Senior Research Fellow
Karel Lannoo	CEO
Cinzia Alcidi	Research Director, Head of the Economic Policy Unit
Willem Pieter de Groen	Senior Research Fellow, Head of Financial Markets and Institutions Unit
Francesco Corti	Associate Researcher
Roberto Musmeci	Researcher