



Governing the RRF:

Formulating, Implementing, and Monitoring National Plans as an Interactive Multi-Level Process

Lessons for EU Economic Governance
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Jonathan Zeitlin (UvA/EUI), David Bokhorst (EUI), Francesco Corti (CEPS), Edgars Eihmanis (Wroclaw/Tartu), with Tomas Ruiz (CEPS)

Our study

- Three key novelties of the RRF in terms of governance:
 - Investment-reforms nexus
 - National ownership via demand-driven process
 - Performance-based financing linked to milestones and targets fulfilment rather than costs
- Purpose of the study:
 - Analyze the effectiveness the RRF plans and the functioning of the performance-based approach during the formulation, implementation & monitoring of national plans (NRRPs)
- Case selection: 8 MS varying in terms of size and RRF envelope
 - BE, HR, ES, IT, LV, PT, SK, ES + 3 contrasting cases (AT, DE, NL)

Our study (2)

- **Formulation:** we assess three dimensions:
 - Governments' ownership of the plans
 - Inclusivity of the decision-making process;
 - Role of the Commission in steering the process
- **Implementation & monitoring:** we assess
 - how RRF governance has affected domestic policy making;
 - what obstacles have arisen in the implementation process;
 - how monitoring works in practice (focus on interpretive flexibility, administrative burdens, & revisability of commitments in the face of unanticipated changes)
- **Methodology:**
 - Semi-structured interviews with key EU & national officials
 - Extensive documentary analysis

Dilemmas of RRF Governance

- Commitment vs. flexibility in the face of uncertainty
- Precision vs. purpose in performance-based management
- Centralization vs. consultation in plan formulation
- Leverage as a double-edged sword

Formulating the NRRPs: ownership & ambition

- Significant variations in levels of ambition in plans studied
 - MS like **PT, ES, HR, & SK** presented ambitious plans w/ significant social policy components, sometimes going beyond CSRs
 - In **IT**, focus on public admin & justice reforms enhanced under Draghi gov't, but significant gaps in addressing social CSRs & vulnerabilities remain
 - **BE** plan addresses CSRs, but level of ambition & precision criticized by COM
 - **EE & LV** reluctant to link investments to reforms → lower level of ownership
 - Linked to lower grant allocations, & higher ongoing spending commitments demanded from national budgets
 - Social measures largely inserted at COM's insistence
 - In northern contrast cases (**AT, DE, NL**), levels of ambition are much lower, leaving a substantial set of CSRs unaddressed, including in the social domain

Inclusivity of plan formulation

- Low stakeholder involvement in drafting NRRPs, both among LRAs, and social partners and civil society
- MS stuck to formal requirements to consult stakeholders , but quality of the process was low
- Plans drafted in a centralized manner & under heavy time constraints
- Notable exceptions: PT, BE, & to a lesser extent ES

Commission's role in plan formulation

- Overall, closely aligned with responsibilities assigned in RRF Reg
- Ensure coherence & balance of plans, effectiveness of coordination & monitoring arrangements, operationalization of milestones & targets
- Investments: COM seems to have been prepared to defer to MS preferences, so long as these conformed to RRF requirements
- Reforms: stronger role for COM in shaping & steering formulation of NRRPs
 - Pressing for a balance between reforms & investments where this was initially missing in national plans (IT, HR, LV, EE), & pressing for reform measures to address key CSRs
 - In some cases pushed for specific reforms, e.g. indexation of GMI in LV, but was generally prepared to defer to domestic policy choices even where the measures proposed ran contrary to specific CSRs, provided that these addressed the latter's underlying objective by a different route (e.g. pension reforms in ES & HR)

Commission's role in plan formulation (2)

- Significant disparities across MS in extent to which COM pressed for NRRPs to address the full set of CSRs
- In principle, varied with relative size of RRF grant allocation/GDP & extent of challenges identified in CSRs
 - Helps in part to explain low ambition of northern NRRPs (AT, DE, NL)
- But even among MS which received comparable grant allocations, considerable variation in the extent to which COM officials insisted that NRRPs address full set of CSR challenges
 - Compare HR, ES, LV, EE with IT
- EC limited staff capacity vis-à-vis MSs has reinforced information asymmetries, which is reflected in different levels of precision in setting milestones and targets across MSs

Implementation: impact of NRRPs on domestic policy making

- Most visible & widespread effect of NRRPs, common across all MS in our study, has been to reinforce centralization of authority & decision making within national governments
 - Some national variety: lower in BE & PT, higher in IT
- Major attraction of RRF performance-based financing model for national governments is enhanced leverage for overcoming domestic opposition to reform & streamlining delivery of investments
- This “hand-tying” or “*vincolo esterno*” strategy may help push through reforms, enhance public accountability, and put pressure on administrative actors to deliver on time, but can also lead to political backlash if based on insufficient domestic buy-in

Stakeholder exclusion as a source of implementation problems

- Low level of stakeholder involvement in formulating plans has led to mixed results in terms of implementation
- In some cases, low inclusivity in drafting has been corrected in the implementation process (e.g. HR labour market reform)
- In others, however, low inclusivity in drafting appears to have aggravated implementation problems later in the process
 - Water services in HR, where municipalities have challenged the reform in court
 - Childcare expansion in IT, where municipalities lack capacity to cope with tender deadlines & requirements, and in ES, where regional authorities have complained about distribution criteria of funds

Monitoring milestones & targets (EC perspective)

- COM's role consists in assessing whether M&Ts are sufficiently fulfilled to warrant payments to MS
- COM under pressure to ensure precision in justifying payment requests to EFC & Council as ultimate decider, as well as from ECA
- COM is limited in capacity, with high staff turnover rate in RRF work
- The information asymmetry in setting M&T returns in the implementation phase and led to high rigidity by the EC in the monitoring & assessment process, especially after ECA criticisms of COM approval of 1st ES payment request

Monitoring milestones & targets (MSs perspective)

- Interviewees from all MS studied complain about inflexibility in assessing fulfilment of M&Ts, coupled with an overly burdensome administrative load, equal to or exceeding that of the structural funds, which leads to a loss of ownership within implementing bodies, and lower absorption of funds
- Some MSs (BE, HR, EE, LT, PT, SK) who have set ambitious targets warn that they will not do so again, because of the rigid and legalistic way these have been interpreted
- Other MSs (ES, IT) consider the ambition of milestones and targets not a problem per se but highlight the importance of a flexible approach to
 - Address the challenges raised by objective circumstances
 - Account for the normal delays linked to any new investment (especially in green or digital) where the PA has less experience
- Whereas the RRF was supposed to be performance-based, it is now perceived as bureaucratic, without any sense that time-intensive monitoring leads to better substantive results
- Legalistic monitoring approach can also be politically dangerous on sensitive issues, e.g. pension reform in BE

Revisability in the face of uncertainty

- Several of our interviewees raised principled doubts about the feasibility of maintaining fixed M&Ts over a 6-year period, as envisaged in the RRF design, given the uncertainties inevitably associated with innovative, long-term projects
- Based on experience with the first 2.5 years of the RRF, there was wide agreement among national interviewees that any future iteration of its governance model would need to incorporate lighter procedures for monitoring & assessing the fulfilment of M&Ts, focused more on their underlying purpose than their precise description in legally binding texts
- Such a revised governance model, in their view, would likewise need to include more flexible processes for modifying investment & reform commitments, in response not only to unanticipated changes in external circumstances (such as the current high inflation rates), but also to lessons learned in the course of project implementation itself

Lessons learned for EU economic governance

Strengths of the RRF governance model

- Stronger national ownership & commitment to reform objectives
- Direct linkage between reforms & investments
- Improved horizontal & vertical coordination of domestic policymaking
- Focus on substantive policy outputs rather than cost inputs
- Promotes development of more effective structure for monitoring implementation of domestic policies & projects
- Increased leverage for national governments in overcoming domestic opposition to promised reforms
- Enhanced transparency & accountability for national governments on fulfilment of agreed commitments

Weaknesses of the RRF governance model (1)

- Mechanical linkage of payments to fulfilment of fixed M&Ts directs attention away from underlying purpose of reforms & investments, wasting human resources & sapping ownership at all levels
- Inflexibility of performance-based financing system makes it difficult to adjust M&Ts to unforeseen circumstances or learning from implementation experience
- Centralization of plan drafting under intense time pressure makes it difficult to involve domestic stakeholders in formulation of commitments for whose implementation they are responsible, with negative consequences for effectiveness & ownership

Weaknesses of the RRF governance model (2)

- Reinforced leverage for implementation of agreed commitments by performance-based financing is a double-edged sword
 - Can empower governments to push through programs against domestic opposition, but can also lead to political backlash against the EU
- Unclear, intransparent procedures for ensuring NRRPs effectively address all or a significant subset of CSRs create risks of unequal treatment across MS
 - Underlines broader risk of giving too much power & discretion to the COM to set domestic reform agendas for MS if CSRs become more effectively binding & prescriptive, e.g. in recent COM proposals for the reform of EU economic governance

Recommendations (1)

- Revise the performance-based financing system to focus more on fulfillment of underlying purpose of reforms & investments than on of precise verification criteria fixed in binding legal texts
- Introduce more more flexible processes for modifying investment & reform commitments, in response not only to unanticipated changes in external circumstances, but also to lessons learned in the course of project implementation itself
- Given staffing & informational limits of COM's monitoring capacity, such a system would need to rely more on robust national monitoring systems, overseen by independent domestic authorities and subject to periodic review by the COM, with a focus on problematic cases, as practiced in other areas of EU regulation (e.g. food safety)
- ECA should be confined to financial auditing to protect interests of the Union against corruption & fraud

Recommendations (2)

- Make effective inclusion of domestic stakeholders (LRAs, social partners, civil society) in the formulation & implementation of national plans a binding assessment criterion for approval of plans & payment requests
- Establish explicit & transparent procedures for ensuring national plans address CSRs, including in MS that receive low financial allocations
- Revise procedures for the adoption of CSRs, by reducing the voting threshold for their amendment (currently 72% of MS, representing 65% of the Union's population, under Lisbon Treaty's reinforced qualified majority voting rules)
- Ensure a greater role for multilateral peer review by national representatives in Council advisory committees, including EMCO & SPC as well as EFC & EPC

Thanks for the attention!

j.h.zeitlin@uva.nl

francesco.corti@ceps.eu