RECOVERY WATCH

POLICY STUDY
June 2023

GOVERNING THE RRF

DRAFTING, IMPLEMENTING, AND MONITORING NATIONAL RECOVERY AND RESILIENCE PLANS AS AN INTERACTIVE MULTILEVEL PROCESS

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WHAT IS THIS PROJECT ABOUT?

The National Recovery and Resilience Plans represent the new framework in which European member states identify their development strategies and allocate European and national resources – with the objective of relaunching socio-economic conditions following the coronavirus pandemic.

This process, initiated as part of the European response to the global health crisis, follows the construction of NextGenerationEU. It combines national and European efforts to relaunch and reshape the economy, steering the digital and climate transitions.

For European progressives, it is worth assessing the potential of these national plans for curbing inequalities and delivering wellbeing for all, as well as investigating how to create a European economic governance that supports social, regional, digital and climate justice.

The Foundation for European Progressive Studies (FEPS), the Friedrich Ebert Stiftung (FES) and the Institut Emile Vandervelde (IEV), in partnership with first-rate knowledge organisations, have built a structured network of experts to monitor the implementation of National Recovery and Resilience Plans and assess their impact on key social outcomes. Fact- and data-based evidence will sharpen the implementation of national plans and instruct progressive policymaking from the local to the European level.

The Recovery Watch will deliver over 15 policy studies dedicated to cross-country analysis of the National Recovery and Resilience Plans and NextGenerationEU. Monitoring the distributive effects of EU spending via NextGenerationEU, and the strategies and policies composing the national plans, the project will focus on four areas: climate action, digital investment, welfare measures and EU governance.

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EXECUTIVE SUMMARY

In addition to its remarkable financial envelope, the Recovery and Resilience Facility (RRF) also marks an important qualitative step forward in EU governance, as it introduces a new "demand-driven and performance-based" governance design. The RRF introduces a number of novelties compared to existing EU economic governance and ensures a better link between investments and reforms, thus putting meat on the bones of the Semester's country-specific recommendations (CSRs). As such, it acts as an amplifier of economic transitions in member states and is generally considered to be a game changer in terms of impact. At the same time, performance-based financing is not new and has been heavily criticised in other settings, both domestic and international, in terms of both its efficiency and effectiveness. Performance-based financing with fixed milestones and targets may also lead to difficulties in coping with unanticipated implementation problems and changes in external circumstances.

In this study, we assess the effectiveness and legitimacy of the RRF's design, by analysing its practical functioning during the drafting, implementation and monitoring of the National Recovery and Resilience Plans (NRRPs) in eight member states (Belgium, Croatia, Estonia, Italy, Latvia, Portugal, Slovakia and Spain) together with a number of contrasting "shadow" cases already described in the literature. More specifically, we assess the extent to which governments took ownership of the plans, the inclusivity of their drafting and the role of the European Commission in steering the process. On implementation and monitoring, we assess how RRF governance has affected domestic policy-making; what obstacles have arisen in the implementation process and how monitoring by the Commission works in practice, with particular attention to its interpretive flexibility and administrative load. The study is based on extensive documentary analysis and supporting interviews with key officials involved in drafting, implementing and monitoring the plans.

Whereas the Commission has assessed all plans as contributing sufficiently to addressing a significant subset of CSRs, we observe significant difference in their levels of ambition. Member states like Portugal, Spain, Croatia, and Slovakia seized the occasion of RRF funding and presented ambitious plans, with significant social policy components, sometimes going beyond the CSRs. In Italy, the focus on public administration and justice reforms has been enhanced, but on the social side significant gaps in fulfilment of CSRs remain. The Belgian plan addresses the CSRs, but the level of precision and ambition in the proposed measures has been repeatedly criticized by the Commission. Estonia and Latvia were more reluctant to link investments to reforms, and we observe a lower level of ownership, which can also be linked to the lower size of the grant allocations, and the higher ongoing expenditure commitments demanded from the national budget. The social focus in the plans of these countries is largely due to pressure from the Commission. In our Northern contrast cases, Germany, the Netherlands and Austria, levels of ownership and ambition are significantly lower, leaving a substantial set of CSRs unaddressed, including in the social domain.

Stakeholder involvement in drafting the plans has been generally low, both on the side of local and regional authorities and in terms of social partners and civil society. Member states have stuck to formal requirements to consult stakeholders, but the quality of the process has been low. Plans have been drafted in a centralized manner and under heavy time constraints. Notable exceptions are Portugal and Belgium, and to a lesser extent Spain.

The negotiation process between Member States and the Commission was long, detailed, and intensive. On the side of investments, the Commission's role was to act as a gatekeeper, ensuring that projects are in line with the criteria of the RRF Regulation. On reforms, it has pressed for their alignment with the CSRs, especially where major social vulnerabilities were identified in the EU Social Scoreboard. In some cases, the Commission also pushed for specific reforms, such as the liberalization of regulated professions in Portugal, or indexation of minimum income provisions in Latvia. In most cases, however, the Commission was prepared to defer to domestic policy choices and negotiating timetables in order to enhance national ownership of reforms, even where the particular measures proposed ran contrary to CSRs, as in the case of pension reforms in Spain and Croatia, provided that these addressed the CSR's underlying objective by a different route. On investments, too, such as the Tallinn hospital in Estonia or the Pisão dam in Portugal, the Commission deferred to domestic policy choices even where it remained critical of them. The Commission's preference was generally to secure a maximum implementation of CSRs. In Croatia, which receives the largest relative amount of grants, it ensured implementation of all CSRs. In Italy, which receives a similar relative grant allocation, the Commission did not demand specific social reforms, although the Draghi government was more ambitious itself in other policy fields. In Member States like Belgium and Slovakia the Commission's role was also to ensure that the plans are streamlined and focus on priorities.

The most visible and widespread effect of the RRPs, common across all member states covered in our study, has been to reinforce the centralisation of authority and decision-making within national governments, although with some national variety (lower in Belgium and Portugal, higher in Italy). Furthermore, a major attraction of the RRF's performance-based financing model for national governments is the enhanced leverage for overcoming domestic opposition to controversial reforms and streamlining the delivery of investments created by the tight linkage between fulfilment of milestones and targets on one hand and approval of payment requests on the other. This "Hand-tying" or "*vincolo esterno*" strategy may help in pushing reforms over the finish line, enhancing accountability by making commitments transparent and concrete, and putting pressure on administrative actors to deliver on time, but can also lead to domestic political backlash if based on insufficient stakeholder buy-in.

The Commission's role in the monitoring phase is perhaps even greater than during the drafting of plans, as it must assess whether milestones and targets are sufficiently fulfilled to warrant payment. Assessment of milestones and targets is based on operational agreements that, again, go into a high level of detail in specifying documents needed for their verification. In assessing implementation, the Commission is under pressure to ensure precision in justifying payment requests from the Council as the ultimate decider, as well as from the European Court of Auditors. At the same time, the Commission's internal assessment capacity is limited. This has resulted in two key issues when it comes to monitoring implementation. Firstly, it has reinforced information asymmetries, which allows for gaming by member states, through setting purposefully unambitious targets. Secondly, it leads to a high level of rigidity in the monitoring process. Interviewees from nearly all countries studied complain about inflexibility in assessment of the fulfilment of milestones and targets, coupled with a high administrative burden in the verification process, which leads to a loss of ownership within the government and implementing bodies. Whereas the RRF was supposed to be performance based, it is now widely perceived as overly bureaucratic, without any clear sense that such monitoring leads to better results. We note here that the Commission has been pushing back against the European Court of Auditors, which argues for further limiting space for flexible interpretation of the fulfilment of milestones and targets.

In addition to our critical assessment of the limited realisation of the performance-based promise of the RRF in implementation practice, we also point to a number of principled doubts about the feasibility of maintaining fixed milestones and targets over a six-year period, as envisaged in the RRF governance design. Based on experience from the first two-and-a-half years of the RRF documented in this study, there was wide agreement among our national interviewees that any future iteration of its governance model would need to incorporate lighter procedures for monitoring and assessing the fulfilment of milestones and targets, focused more on the underlying purpose of the measures concerned than on their precise description in legally binding texts. Such a revised governance model would likewise need to include more flexible processes for modifying investment and reform commitments in response not only to unanticipated changes in external circumstances, but also to lessons learned in the course of project implementation itself.

The study concludes that the RRF's governance has a number of major strengths. Most notably, it reinforces national ownership and commitment to NRRP objectives, provides more direct linkages between reforms and investments, contributes to improved horizontal and vertical coordination of policy-making, focuses on policy outputs rather than cost-based project inputs, promotes the development of more effective structures for monitoring policies and projects; enhances transparency and accountability expectations for governments on the fulfilment of their commitments and increases the leverage for governments to overcome domestic opposition to promised reform. At the same time, our study also shows that the RRF governance design displays a number of serious weaknesses. The mechanical linkage of payments to the fulfilment of fixed milestones and targets often shifts the attention of both national authorities and the Commission away from the underlying purpose and objectives of reforms and investments to verification and documentation procedures, wasting human resources and sapping ownership at all levels of governance. The inflexibility of the performance-based financing and verification system makes it difficult to adjust predetermined milestones and targets in response to unforeseen or changing circumstances and leaves little space for revising and improving projects based on learning from implementation experience. The centralisation of the plan's formulation under time pressure makes it difficult to involve local and regional authorities and social actors. The reinforcement of leverage for governments can empower governments in pursuing reforms, but also risks leading to political backlash if interpreted as external imposition. And finally, the unclear and opaque procedures for ensuring that NRRPs effectively address all, or a substantial subset, of the CSRs create risks of unequal treatment across member states.

The Commission is aware of many of the problems identified in this policy study and has sought practical workarounds for them. In a recent communication, it stresses the need for flexibility and introduces tools to enhance predictability and transparency of implementation. These tools represent a welcome recognition of the need for greater flexibility, but we consider them to be insufficient to overcome the fundamental weakness identified in our study, as the scope for deviating from preagreed commitments remains explicitly minimal.

Ideally, our recommendations would be applied to the RRF in its present form. But if that is not practically feasible given the short period remaining before the end date of the Facility in December 2026, we would urge for these recommendations to be incorporated into the governance design of any successor to the RRF itself, as well as to any future similar EU funding instrument.

1) Revise the RRF's performance-based financing system to allow greater flexibility in modifying investment and reform commitments, through a multitiered system of diagnostic monitoring.

2) Make effective inclusion of key domestic stakeholders in the drafting and implementation of the NRRPs a binding assessment criterion for approval of plans and payment requests.

3) Establish explicit and transparent procedures for ensuring that NRRPs address all, or a significant subset, of the CSRs, including in member states that receive low relative grant allocations.

4) Revise the procedures for adoption of the CSRs, by reducing the voting threshold for amendments to the Commission's proposal and ensuring a greater role for multilateral peer review in assessing their implementation.

The lessons from our study may also have wider implications for other areas of EU policy, as performance-based financing is seen as a model for the future of fiscal governance and potentially for that of the cohesion policy funds and other programmes funded from the EU budget.

1. INTRODUCTION

The ambitious size and financing of the Recovery and Resilience Facility (RRF) through common EU debt make it a breakthrough for European integration. Yet, beyond its remarkable quantitative scope (€723 billion over six years from 2021 to 2026), the RRF marks an important qualitative step forward in EU governance, as it links, for the first time, the implementation of structural reforms and investments with financial support forMember States through non-repayable grants as well as loans. To underpin this financial support, *the RRF incorporates an innovative "demand-driven, performance-based" governance design*, in which member states, in consultation with the Commission and approval by the Council, formulate National Recovery and Resilience Plans (NRRPs), comprising an agreed set of investments and reforms, operationalised into a series of specific milestones and targets, the satisfactory completion of which are conditions for the release of successive tranches of EU funds. The goal of this policy study is to investigate empirically how effectively the RRF's governance design has contributed to advancing the Facility's declared goals, what impact it has had on domestic policy-making in the member states (MSs) and how far it should be regarded as a desirable model to be applied to other areas of EU policy-making.

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The RRF's innovative governance design has inspired widespread debate about its potential application to other EU policies, above and beyond the highly controversial question of whether and in what form the Facility itself should become a permanent feature of the Union's budget. Already, the RRF governance framework has been extended to address the global energy crisis triggered by the invasion of Ukraine through the REPowerEU Plan, which encourages MSs to add new reforms and investments to their NRRPs, aimed at reducing dependence on Russian fossil fuels, accelerating the clean energy transition and alleviating energy poverty, financed by additional grants and the repurposing of the remaining RRF loans as well as other previously allocated EU funds.[1] Looking to the future, there is also considerable discussion – including between the Commission and national officials we interviewed for this study – about whether the RRF governance approach should be applied to other EU programmes funded through the multiannual financial framework (MFF), notably the cohesion policy funds.[2] The Commission has likewise explicitly drawn inspiration from certain aspects of the RRF governance model in its recent proposals for reform of the Stability and Growth Pact and the EU economic governance framework more generally.[3]

Understanding the effectiveness and legitimacy of the RRF's governance design and operation is thus of utmost importance, for both EU institutions and the MSs. The RRF's success will ultimately depend on the implementation of the NRRPs, and the extent to which they meet the expectations and advance the reform and investment goals agreed upon by national governments and the Commission. Hence, it is crucial to understand how the NRRPs have been formulated and are now being implemented, as well as how they are being monitored and, where necessary, revised at both national and European levels.

This policy study focuses on two sets of research questions about the governance of the RRF: the first concerning the drafting of the NRRPs, and the roles played in this process by national governments, the Commission, and other domestic actors; and the second concerning the arrangements for implementing the NRRPs and for monitoring their progress at both national and European levels. Based on the answers to these questions, the study provides policy recommendations aimed at feeding into the broader EU debate on socio-economic governance, in relation to both the functioning of the current framework and to proposals for extending its principles and methods, including through a potential permanent successor to the RRF.

1. INTRODUCTION

In relation to the drafting of the NRRPs, we focus on the following set of questions:

- To what extent did national governments take ownership of the plans and seize the opportunity of RRF funding to launch ambitious investment and reform programmes?
- How far were other domestic stakeholders, such as social partners and local and regional authorities, involved in the drafting of the plans, and what influence, if any, did this have on their content?
- What role did the Commission play in shaping the content and objectives of the NRRPs? How far, in what ways and with what effects did it seek to use the power to approve the plans to steer domestic reform and investment paths? Did this vary across MSs, depending, for example, on the relative scale of RRF funding?

In relation to the implementation and monitoring of the NRRPs, we focus on the following set of questions:

- How has the performance-based financing of the RRF affected domestic policy-making processes and power relationships within and beyond central governments?
- To what extent are problems experienced with the implementation of specific investments and reforms linked to the limited participation of affected parties, such as social partners and local and regional authorities, in the drafting of the NRRPs?
- How does the Commission's monitoring and assessment of national milestones and targets work in practice? How much flexibility is there in this process, for example, to accommodate the outcomes of reform negotiations between domestic social and political actors?
- Does the RRF's performance-based financing model genuinely reduce administrative burdens on both sides compared to the cost-based payment system associated with the structural and cohesion funds?
- What scope is there for modifying or renegotiating investment and reform commitments in the face of unanticipated changes in circumstances, such as high current levels of inflation?

While the RRF and the Next Generation EU (NextGenEU) programme (of which the RRF comprises 90%) have attracted widespread attention among academic and policy researchers, few studies, to date, have sought to tackle these questions empirically based on real-time evidence about the operation of the NRRPs. Most of the literature that has so far appeared focuses either on the political processes leading up to the agreement of the unprecedented NextGenEU package by European and national leaders,[4] or on analysing the policy content and potential impact of the NRRPs.[5] A few pioneering studies have examined the drafting and negotiation of the NRRPs, focusing mainly on individual countries, above all Italy and Spain, as the largest single beneficiaries of RRF funding,[6] while scarcely any research has investigated the implementation phase itself. This study, to the best of our knowledge, is thus the first to analyse comparatively the drafting, implementation and monitoring of the NRRPs across a substantial number of MSs, based on in-depth empirical research through extensive interviews with key policy actors at both European and national levels, as well as official documents and media coverage.

Our study covers eight MSs: Italy; Spain; Portugal; Croatia; Slovakia; Latvia; Estonia; and Belgium. We chose deliberately to focus mainly on southern and eastern European countries, which are the primary beneficiaries of the RRF, in terms of initial grant allocations as a share of gross domestic product (GDP, ranging in our cases from 3% for Estonia and 5.6% for Latvia to 10.8% for Italy and 11% for Croatia), and where the Commission's potential influence on the drafting of the recovery and resilience plans (RRPs) might be strongest. Most (though not all) of these countries also suffer from high levels of public debt, which constrained their ability to carry out large-scale infrastructural and social investments over the decade following the financial and sovereign debt crises, enhancing their motivation to treat RRF funding as a transformational opportunity. (For the figures cited in this paragraph, see Annex 1, Tables 1 and 2.) Among northern MSs, whose RRF grant allocations typically amount to less than 1% of GDP, we chose to focus on Belgium, as a heavily indebted country (108% of GDP in 2021) for which RRF funding might be significant for domestic policy actors, and as a federal state, in which, unlike others in our sample, regional governments played a central role in the drafting and implementation of the NRRP. By way of contrast, we also draw on interviews and other evidence collected for previous studies of NRRP drafting in Austria, Germany, and the Netherlands.[7]

Taken together, the eight MSs covered in this study account for more than half of the RRF grant funding (51.4% of the initial provisional allocation and 53.4% of the final adjusted allocation).[8] Hence, while it would certainly be worthwhile extending the analysis to other large relative beneficiary MSs, notably Greece (16.7% of GDP) and Romania (12.2 % of GDP), we consider that these eight countries together form a sufficient basis for answering the key governance questions outlined above concerning the drafting, implementation, and monitoring of the RRF.

In substantive terms, we focus primarily on the social dimension of the RRF, broadly defined to include measures addressing employment and skills, education and childcare, health and long-term care, as well as social protection and inclusion policies such as pensions and minimum income support. According to the Commission's RRF scoreboard, MSs, on average, have allocated 28% of their RRF funds to supporting social objectives in these areas. Across our eight countries, the proportion of social expenditure in the NRRPs ranges from 22.8% in Spain and 28% in Italy to 42% in Slovakia and 43.5% in Portugal. In all of these countries, governments have committed to major social reforms in their RRPs, even where these are not directly funded by the RRF itself. The policy study's focus on the social dimension of the RRF partly reflects the substantive expertise of the authors, but also enhances the thematic coherence of our comparative analysis. Since many of the most politically sensitive and contested reforms addressed by the NRRPs are concentrated in the social policy field, and are frontloaded in the early years of their lifespan, this focus likewise enables us to shine an especially powerful light on the key questions about the RRF's governance and its effects outlined above. In addition, however, we also discuss major reforms and investments in other policy fields, such as liberalisation of closed professions and water management, insofar as these have emerged as especially significant and controversial in our country cases.

As indicated above, this study is based on extensive interviews with EU and national policy actors involved in the drafting, implementation and monitoring of the NRRPs at both European and domestic levels, as well as the analysis of official documents and media coverage. EU officials interviewed were drawn mainly from Commission officials dealing directly with the RRF. National policy actors interviewed include key figures within central government involved in drafting the NRRPs, coordinating and monitoring their implementation, and negotiating with the Commission at both stages, as well as representatives of major spending ministries, social partners, parliamentarians and in the case of Belgium regional government officials. Altogether 56 interviews were conducted, with some interviewees being interviewed more than once. A full but anonymised list of interviewees can be found in Annex 3.[9]

The body of this policy study is organised into five main parts. The next section sets out the theory underlying the RRF's "demand-driven, performance-based" governance model, before going on to highlight some important limitations of performance-based financing based on international assessments of past experience with this approach in other settings. Sections 3 and 4 analyse comparatively the drafting, implementation and monitoring of the NRRPs in our eight MSs as an interactive process between national governments, the Commission and other domestic actors, providing empirical answers to the key questions outlined above, drawing on our detailed country case research. Based on these comparative analyses, the concluding section discusses the strengths and weaknesses of the RRF governance design, proposes a series of policy recommendations to redress the problems identified in this study, and considers how far and in what ways elements of the RRF governance designs should be extended to other EU policy fields, such as the reform of the economic governance framework or the cohesion policy funds.

2. THE GOVERNANCE THEORY OF THE RRF AND ITS LIMITS

The RRF, as the Commission proclaims, is "a demand-driven, performance-based instrument", which "supports the implementation of a combination of mutually reinforcing reforms and investments, which are designed together with member states, and tailor-made to their needs, and provide the adequate incentives to ensure their implementation over the medium term".[10]

The RRF is demand driven, insofar as MSs draft NRRPs and propose coherent packages of reforms and investments, in consultation with the Commission. At the same time, however, these plans must also meet a series of specific requirements set by the EU. Each plan should show how it represents "a comprehensive and adequately balanced response to the economic and social situation of the MS concerned", while contributing appropriately to the recovery and enhanced resilience of the Union through support for measures in key policy areas of European relevance (the "six pillars": green transition; digital transformation; smart, sustainable and inclusive growth; social and territorial cohesion; health and economic, social and institutional resilience; and policies for the next generation). The NRRPs must further devote minimum percentages of expenditure to the green and digital transitions (37% and 20%, respectively), and respect the principle of do no significant harm (DNSH) to the EU's environmental objectives. In addition, they must demonstrate how they contribute to the implementation of the European Pillar of Social Rights (EPSR), "thereby enhancing the economic, social, and territorial cohesion and coherence within the Union", and "effectively address all or a significant subset of challenges identified in the relevant country-specific recommendations" (CSRs) under the European Semester.[11]

As the Commission emphasises in a recent communication reviewing the first two years of experience with this instrument,

> *One of the main strengths of the RRF is that investments are combined with reforms. The RRF supports member states in addressing relevant country-specific recommendations adopted by the Council as part of the European Semester. As such, the RRF provides political momentum and financial incentives for member states to deliver on long-standing and newly emerging reform needs […] which is essential to enhance the resilience and competitiveness of the European economy and to contribute to upward social convergence.*

These reforms, the Commission explains, "are typically designed to have an enabling effect for both public and private investments, by setting the right framework conditions, removing absorption bottlenecks, addressing labour market mismatches and skills shortages, and improving the business environment". While they "typically do not carry a large budgetary cost […] they must also be delivered by the member states".[12]

> "This governance approach based on reform and investment plans proposed by MSs and supported by positive financial incentives rather than negative sanctions is explicitly designed "to ensure national ownership"."

This governance approach based on reform and investment plans proposed by MSs and supported by positive financial incentives rather than negative sanctions is explicitly designed "to ensure national ownership". As the Commission underlines, MSs "have flexibility in designing and implementing the measures in a way that suits their national conditions, which increases their ownership of plans". Hence, in assessing the NRRPs, the RRF regulation stipulates that "the Commission should fully respect the national ownership of the plan and should therefore take into account the justifications and elements provided by the member state concerned".[13]

These design features of the RRF's governance approach respond directly to critical reflections within the Commission and other EU institutions on past failures of EU policies to promote national reforms effectively. These include both the Economic Adjustment Programmes (EAPs) during the euro crisis, which were widely considered to lack national ownership, and the CSRs under the European Semester, the implementation of which often remained limited, according to the Commission's own assessments, despite the (theoretical) possibility of sanctions under the Stability and Growth Pact and the Macroeconomic Imbalance Procedure.[14]

As the Commission recently communicated, the RRF:

> *is an innovative, performance-based instrument, where payments are made to member states, as beneficiaries, upon delivering reforms and investments preagreed in national recovery and resilience plans […] Focused on the timely and efficient implementation of member states' plans, the performance logic of the RRF makes payments conditional on concrete outcomes. Disbursements thus depend on the delivery of the preagreed investments and reforms rather than the final costs incurred.*[15]

The RRF regulation states that the NRRPs

> *should set out the detailed set of measures for [their] monitoring and implementation, including targets and milestones and estimated costs […] For reasons of efficiency and simplification in the financial management of the Facility, Union financial support for recovery and resilience plans should take the form of financing based on the achievement of results measured by reference to milestones and targets indicated in the approved recovery and resilience plans […] The release of funds under the Facility is contingent on the satisfactory fulfilment of the relevant milestones and targets by the member states set out in the recovery and resilience plans, the assessment of such plans having been approved by the Council.*[16]

Here, too, the Commission argues that because these "milestones and targets are designed individually to fit the specific investments and reforms the member states commit to implement, this gives them full ownership to ensure a successful delivery".[17]

As with the demand-driven, incentive-supported elements of the RRF governance design, these performance-based features were likewise based on a critical reflection of the perceived failures of previous EU policies. These include not only the CSRs, whose limited implementation has already been mentioned, but also notably the cohesion policy funds, where monitoring and reimbursement are based primarily on financial audits of expenditure against agreed costs, rather than substantive progress towards achieving project objectives, and where efforts to introduce ex ante policy conditionalities and performance-based financing are widely considered to have yielded meagre results.[18]

The governance design of the RRF appears to have been taken over more or less directly from the Reform Support Programme (RSP) proposed by the Commission in 2018 for all MSs and the budgetary instrument for convergence and competitiveness (BICC), endorsed by the Euro Group in 2019 for eurozone MSs and open to ERM II countries on a voluntary basis. The RSP and BICC were both based on grants to be provided on the basis of "duly substantiated reform and investment proposals" submitted by MSs, reflecting strategic guidance from the EU through the CSRs, with disbursement of funds contingent on implementation and fulfilment of agreed milestones and targets.[19] Both instruments, in turn, drew on an earlier unsuccessful proposal by the Commission, with political support from Angela Merkel, for a "convergence and competitiveness instrument (CCI)" involving voluntary "reform contracts" between individual MSs and the Commission underpinned by financial support.[20]

The adoption of this template, which can already be found in the July 2020 European Council conclusions, appears to have been driven by the Netherlands, which had been involved in developing the BICC as an alternative to more ambitious proposals for a eurozone fiscal capacity that it opposed.[21] Very significantly, the financial envelope of both the RSP and the BICC was limited to €25 billion over a six-year period (it was supposed to form part of the MFF 2021-2027), while the funding available for the RFF is nearly 30 times larger, with obvious implications for the scale of tasks involved in negotiating the plans, monitoring their implementation and verifying the fulfilment of the relevant targets and milestones.

2. THE GOVERNANCE THEORY OF THE RRF AND ITS LIMITS

2.1 LIMITS OF PERFORMANCE-BASED FINANCING

The demand-driven, positive, incentive-supported design of the RRF is genuinely innovative, and does appear to represent a thoughtful and imaginative response to the limited reform achievements and political backlash produced by the EAPs imposed on debtor countries during the euro crisis. This governance design likewise responds to the perceived failures of conditionality-based lending and structural adjustment programs undertaken by the International Monetary Fund (IMF) and World Bank over a much longer period, where lack of ownership of promised reforms by national elites and broader social groups is widely agreed to have resulted in low levels of implementation and compliance in most cases.[22]

According to an early analysis by the European Central Bank (ECB), "the RRF's design and its clear focus on performance" broadly fulfil the theoretical criteria set out in the political economy literature on using financial incentive mechanisms effectively to promote structural reforms, which this literature finds "to be more persuasive for reform implementation than the mere threat of sanctions". The ECB authors observe that,

> *Making RRF funding conditional on reform performance provides a positive incentive for compliance. Furthermore, the RRF encourages reform implementation by mitigating short-term negative effects and enabling countries to complement legislative changes with adequate resources […] Milestones and targets must be met throughout the life cycle of the RRF and measures related to such milestones and targets must not be reversed by the member states.*

Moreover, as the political economy literature has argued, "financial incentives can be useful to overcome the issue of veto players in the political system that have vested interests and benefit from the institutional status quo".[23]

But in designing the governance of the RRF, there seems to have been much less reflection on practical experience with performance-based management of public investment and reform programs, the effectiveness of which, even according to some of their leading advocates, appears to have been decidedly limited.[24] Thus, for example, the Organisation for Economic Co-operation and Development (OECD), which is perhaps the leading international exponent of the use of performance-based budgeting systems, acknowledges that, despite high-profile efforts to advance substantive goals such as value for money and prioritisation, "performance budgeting systems are more likely to promote legal/financial compliance than to influence the design of public sector management practices", while evidence from OECD countries shows that "financial rewards and penalties are rarely used in practice and the most common response to poor performance is still a nil response".[25]

In a similar vein, an study published by the World Bank identifies a persistent gap between the "normative aspirations" of performance budgeting and "how performance data are actually used" in public management. This "gap between promise and practice", the authors observe,

> *gives rise to a series of ironies: while performance budgeting promises evidence-based decision-making, the evidence to support its adoption is weak; while it seeks to increase organisational learning, as yet little has been learned about what makes these systems more or less successful over time; while it demands objective evidence of improved performance, evidence of its own effectiveness is questionable.*[26]

Most analyses of performance-based reforms of public financial management in developed countries focus, as the studies just cited indicate, on the budgeting process at different levels of government. Experiments with performance-based finance (PBF) of externally funded reform and investment projects, by contrast, are more prominent in developing countries, especially in the health sector, where they have been promoted over the past two decades by leading international donors, notably the World Bank. Here, too, however, careful reviews of practical experience with programs inspired by this approach in different national and local contexts cast significant doubt on both its efficiency and effectiveness. These studies also call attention to widespread distortions and perverse effects of performance-based incentives on healthcare agencies and providers, including "oversupply of unnecessary services, gaming and data manipulation […] cherry-picking of purchased services […] hiding stock-outs of essential medicines, respecting norms only during PBF supervision, [and] inducing work overload […] leading to dissatisfaction among health staff".[27]

More generally, the comparative literature on performance management in the public sector through target-setting and financial incentives has documented the frequent incidence of their perverse consequences and distortive effects. Examples include "gaming" the system by deliberately setting unambitious targets that are easy to meet; "creaming" or "cherry picking", by concentrating resources on the easiest to serve clients rather than those in greatest need; focusing on short-term quantitative targets at the expense of long-term service quality; manipulating reporting systems to present results in a more favourable light; and outright data falsification. Even where agents are operating in good faith, the consequence of such incentive-based performance management systems is often goal displacement, as resources and energy come to be focused on meeting the targets and milestones set by or with principals, while redirecting attention away from the underlying or unmeasured objectives of the program itself. The higher-powered the financial incentives, the more complex the task environment, and the greater the information asymmetry between principals and agents, the more likely performance management systems are to produce these perverse and distortive effects. Given the imperfect nature of simple performance metrics under conditions of information asymmetry and task complexity, some prominent analysts have argued that a key step to reducing perverse behaviour is actually to sever the linkage between such metrics and high-powered financial incentives.[28]

Beyond these perverse effects of high-powered financial incentives on agents' behaviour, a central problem with performance-based management systems is their difficulty in coping with unanticipated changes in environmental conditions and uncertainty about future states of the world more broadly. The more innovative and complex the project, the less plausible it is that its goals and the intermediate steps to achieve them can be fully specified in advance. Under such conditions, leading private businesses do not use the putatively complete contracting approach underlying the RRF, in which compensation for collaborators is tied to the realisation of predetermined milestones and targets, which cannot be modified, except in extreme circumstances. Instead, the parties to such "contracting for innovation", like a biotech firm and a pharmaceutical manufacturer seeking to develop a new type of drug or vaccine, typically set broad common goals for the project and establish a joint governance system to oversee it. In this joint governance system, while successful completion of milestones and targets – such as a round of clinical trials – may trigger predetermined payments, their primary purpose is to serve as the basis for monitoring the project, assessing whether it is on track, and deliberating about what needs to be done if it is not. Where milestones are missed, representatives of both parties analyse jointly the source of the problem, discuss what remedial measures should be adopted and decide whether to continue or terminate the project. Where the two sides cannot agree, the issue is "bumped up" to a higher-level joint body of top leaders from both sides, which has the additional benefit of disincentivising and, if necessary, sanctioning uncooperative or obstructive behaviour, such as information hoarding, on the part of the lower-level managers directly responsible for the project.[29]

Such governance structures for managing complex, innovative projects involving multiple parties under conditions of uncertainty are not confined to contracting between private businesses. Similar structures and practices are also characteristic of the most successful public industrial policy bodies in both developed and developing countries, such as the Advanced Research Projects Agency-Energy (ARPA-E) in the USA and the Performance Management and Delivery Unit (PEMANDU) in Malaysia. Each of these public agencies, despite their differences, sets open-ended goals for innovative projects, ranging from the development of new energy decarbonisation technologies and investment in mass rapid transit systems to taxation and regulatory reforms, and establishes joint committees to monitor and review their performance, using progress against initial milestones and targets as a basis for re-examining and revising both goals and means of achieving them where needed, with termination as an ultimate sanction in the case of persistent failure.[30]

Underlying these forms of contracting for innovation in both the public and private sectors is what governance scholar Charles Sabel calls "diagnostic monitoring": arrangements for ongoing supervision and periodic review by stakeholders of "problems encountered in realising initial and avowedly provisional plans, with the aim of devising effective methods of implementation when that is possible or revisiting project goals when there is good reason to think it is not". Such diagnostic monitoring is a response to increasing levels of uncertainty and heterogeneity, which undermine the possibility of relying on ex ante plans, the assumptions for which will likely prove incorrect or incomplete and be in need of revision during the course of the implementation process. In contrast to standard forms of compliance monitoring, which presuppose a stable and homogeneous world, "where principals can make detailed plans and reduce them to precise instructions to agents to carry them out", because in such a world experience can be relied on to teach what works, the aim of such diagnostic monitoring is "to facilitate and organise problem solving by the actors, not to use the threat of punishment for bad performance as an incentive for good behaviour".[31]

3. DRAFTING THE NRRPS: BETWEEN NATIONAL GOVERNMENTS, DOMESTIC STAKEHOLDERS AND THE EUROPEAN COMMISSION

How has the governance theory of the RRF as a demand-driven, incentive-supported, and performance-based instrument worked out in practice? In this section, we focus on the drafting phase of the NRRPs, looking, in particular, at how far national governments took ownership of the plans and used RRF funding to propose ambitious investment and reform programmes; to what extent they involved other domestic stakeholders in their preparation; and what role the Commission played in shaping the plans' contents and objectives across different MSs. We address these questions through a comparative analysis of the findings of our in-depth case studies of eight MSs (Belgium, Croatia, Estonia, Italy, Latvia, Portugal, Slovakia and Spain), drawn predominately from Eastern and Southern Europe. We complement these findings with contrasting evidence from three additional northern MSs, drawn from previous studies of NRRP drafting in Austria, Germany and the Netherlands.[32] Unless otherwise indicated, empirical statements about the eight MSs covered in this study are drawn from these country case studies, whose principal findings are summarised in Annex 2.

3.1 NRRPS: OWNERSHIP AND AMBITION

To what extent did national governments take ownership of the NRRPs and seize the opportunity of RRF funding to launch ambitious investment and reform programmes? We answer this question, which varied widely across the countries covered in our study, by reference to the following indicators and assessment criteria: the relative size and scope of the plan; the additionality of the investments involved; the scope and ambition of reforms, including those not covered by the CSRs; the extent to which plan was based on national governmental programmes or prior plans; and assessments of ambition by the Commission and national officials.

3.1.1 PORTUGAL

We begin our comparative analysis with the case of Portugal, perhaps the most ambitious of the plans covered in our study, with the highest level of national ownership. As shown in the tables in Annex 1, the initial size of the RRP, which included €2.7 billion of loans[33] and €13.9 billion in grants (later increased to €15.6 billion), amounting to 7.9% of GDP, to finance 82 investments and 32 reforms. 43.5% of Portugal's RRP expenditure (the highest in our sample) was devoted to social commitments, focused particularly on urban regeneration, social housing and healthcare infrastructure, but also on qualifications, skills and "social responses", including the implementation of national strategies against poverty and disability, and the development of support schemes for underprivileged communities in metropolitan areas. Reforms include measures aimed at overhauling teaching and vocational training, implementing an agenda for the promotion of decent work and fighting gender inequality in the labour market; the most significant and controversial measure concerns the liberalisation of closed professions (e.g. law). 64% of this social expenditure was devoted to new (not previously budgeted) projects, ensuring a high level of additionality.[34] Unlike in other MSs, the RRP addressed all social CSRs, and was assessed as "very ambitious" by both the Commission and national authorities (e.g. EU6). The RRP was largely based on the Strategic Vision for the Portuguese Recovery Plan, led by Antonio Costa Silva, subsequently Economy Minister, and driven by a socialist-led left coalition re-elected in 2022 with an absolute majority. It was seen as an historic opportunity to escape the constraints of Portugal's high debt-to-GDP ratio of 125.5% and to reverse social damage caused by austerity and public underinvestment under the EAP and conservative governments during and after the euro crisis. The plan clearly represents the priorities of the Portuguese governing coalition, which coincided with the 2019-2020 CSRs. Commission officials were positively surprised by the high social content of the Portuguese plan and emphasised its resonance with the government's focus on enhancing social coherence and fighting inequalities (EU7).

3. DRAFTING THE NRRPS: BETWEEN NATIONAL GOVERNMENTS, DOMESTIC STAKEHOLDERS AND THE EUROPEAN COMMISSION

3.1.2 SPAIN

Another plan characterised by a high level of ambition and national ownership is that of Spain. The initial grant allocation of €69.5 billion (later increased to €77.7 billion), equivalent to 5.8% of GDP, was the highest in absolute terms in the EU. While Spain did not originally request any loans, it has now asked for an additional €84 billion from this source.[35] The Spanish RRP includes 112 investments and 102 reforms. Only 22.8% of expenditure is devoted to social commitments, prioritising social expenditure and housing, adult learning and general education policies, as well as social services and inclusion policies, including long-term community-based care, but 60% of social investments are devoted to new projects.[36] The Spanish plan also includes 33 social reforms, including a major reform of the labour market to promote transitions from temporary to permanent jobs; a pension reform, enhancing adequacy by indexing benefits to inflation and decoupling initial level from life expectancy, compensated for by active ageing measures to raise the effective age of retirement; and the introduction of a national plan for long-term care. The Spanish plan addresses all social CSRs (and vulnerabilities identified in the Social Scoreboard), while also including reforms in three areas not addressed by CSRs: pension adequacy; long-term care; and social inclusion of people with disabilities.[37] The RRP was much driven by the policy agenda of the socialist-led coalition (re-elected in 2020 without a full majority, by 167 of 350 votes in parliament, including 18 abstentions), but also reflects broader inputs from within and beyond central government, as discussed in Section 3.2. As in the case of Portugal, the Spanish plan was seen as an historic opportunity to escape the constraints of high indebtedness (118.3% of GDP), compensate for social damage caused by austerity and public underinvestment during and after the euro crisis, and revise the neoliberal labour market and pension policies enacted under previous conservative governments. It is considered a very ambitious plan by all assessments, with a high level of national ownership, despite some compromises with the Commission on labour market and pension reforms (see Section 3.3). As one top national official explained:

> *The RRF has changed the meaning of national ownership. It implies a big leap forward with respect to what was understood by national ownership before, especially during the financial and euro crisis, when national ownership basically meant transposing into national legislation what had been decided elsewhere at a higher level. Enshrining in national constitutions (or very high-ranking pieces of legislation) of socially harsh prescriptions aimed at gaining credibility in financial markets but which have proven to be politically non-viable and socially unsustainable. Reforms inspired by troika-like mindsets, many times against the will of both national governments and social consensus. And it didn't work. The RRF has managed to foster a higher degree of CSR implementation while ensuring that reforms and investments are truly the result of a democratically backed political agenda and, in many cases, including the agreement between social partners. (ES-GOV1)*

3.1.3 CROATIA

The size of the Croatian plan (initially set at €6.3 billion in grant allocations, subsequently revised downwards to €5.5 billion), equivalent to 11% of GDP, is one of the highest in relative terms in the EU. Compared to Portugal and Spain, Croatia is less debt constrained (with general government debt at 78.4% of GDP in 2021) and is also a high relative beneficiary of cohesion policy funding, which helps explain why the government did not initially request loans, even though these were available at below market rates.[38] The Croatian plan includes 146 investments and 76 reforms. The plan has an extensive social focus, with 22.7% of expenditure devoted to social commitments. Reforms and investments aim, amongst others, to achieve full territorial coverage of pharmacy care and medicine availability; investments in expanding childcare by 22,500 places are coupled with reforms guaranteeing a place for each child after the age of 4; investments in education are coupled with reforms to increase mandatory teaching hours in primary schools, review the curricula and modernise higher education; furthermore, the plan includes a wide range of reforms and investments in the area of labour markets and social services, including on guaranteed minimum benefits and minimum wages. Social investments include, to a large degree, infrastructure investment, such as new childcare facilities and centres for elderly people. The Croatian RRP addresses all CSRs (and vulnerabilities identified in the Social Scoreboard), while also intervening in three areas not mentioned in the CSRs (pensions, long-term care and the inclusion of people with disabilities).[39] As in Portugal and Spain, the plan was driven by the policy priorities of the incoming government. While the composition of the government coalition is similar to its predecessor, social and employment priorities are not new, but the high level of funding from the RRF has allowed for a significant expansion in the ambition of measures undertaken, for example, when it comes to the abovementioned childcare places or investments in skills development for vulnerable groups. The Croatian plan was assessed as "expected to bring a lasting impact, reinforce structural changes […] and help strengthen institutional resilience" by the Commission, and reforms are supported by a rather strong domestic consensus.[40] In the wake of the euro crisis, Croatia has focused for a number of years on fiscal sustainability, cost reduction and efficiency gains in its policy plans. The current plan is focused on the buildup of services in light of a tightening labour market that is still suffering from low activity and skills mismatches.

3. DRAFTING THE NRRPS: BETWEEN NATIONAL GOVERNMENTS, DOMESTIC STAKEHOLDERS AND THE EUROPEAN COMMISSION

3.1.4 SLOVAKIA

The initial allocation to the Slovak plan, at €6.3 billion in grants (later decreased to €6.0 billion), equivalent to 6.5% of GDP, was smaller in relative terms than that of Croatia and Portugal. No loans were requested, although the country is moderately debt constrained (62.2% of GDP in 2021), as it is a high relative beneficiary of cohesion policy funding, and officials felt that they were reaching the limits of absorptive capacity of EU funds. The Slovak RRP is nonetheless ambitious, comprising 58 investments and 58 reforms, with 45.1% of expenditure devoted to social commitments. The plan has a significant focus on social policy areas, with €1.4 billion earmarked for healthcare and €1.4 billion for education and research. Amongst the reforms are legal entitlements to a place in kindergarten and preprimary education linked to investments in childcare capacity; reforms in higher education in terms of governance, financing, accreditation and evaluation linked to investments in digital equipment, training and scholarships; reforms in the health sector, with enhanced access to primary care services in regions that suffer from a gap compared to needs; the introduction of multiannual expenditure ceilings in fiscal governance; a justice reform to improve the integrity of the system and a pension reform that links the retirement age to life expectancy. On social policies and investments, the plan pays specific attention to disadvantaged groups, such as the Roma population, although the plan does not include specific social inclusion measures, as also pointed out by the Commission's assessment. The drafting of the RRP followed shortly after the election of a new government in March 2020, which, for the first time in nearly a decade, produced a coalition without the social democratic Smer-SD. The incoming coalition aimed at building a reform-committed public profile and focused on the same priorities as those formulated in the CSRs. Slovakia put many of the major reforms of the coalition agreement into the RRP. The success of the plan is therefore central to the political debate in Slovakia and closely tied to the reputation of the prime minister (PM). The plan is seen by the Commission as contributing significantly to economic growth, employment creation and addressing the challenges set out in the CSRs.[41]

3.1.5 ITALY

In total €191.5 billion, comprising €68.9 billion in grants plus €122.6 billion in loans, equivalent to 11.1% of GDP, the Italian RRP is by far the largest in the EU in absolute terms, and the second-largest grant beneficiary in relative terms.[42] To this funding from the EU, Italy then added €30.6 billion in national resources to cover current expenses linked to the plan but not fundable under RRF rules. The Italian plan comprises 151 investments and 63 reforms, with 28.8% of expenditure devoted to social commitments, of which 64% was directed to wholly new projects.[43] Major social investments include €4.6 billion for the expansion of early childhood education and care facilities, €2.1 billion to update and digitalise school facilities, €3.3 billion dedicated to social housing and infrastructure in urban municipalities, and €4.05 billion to digitalise healthcare infrastructure. The Italian RRP does not address all the social CSRs, most importantly to "provide adequate income replacement and access to social protection, notably for atypical workers",[44] where the "impact of social transfers other than pensions on poverty reduction was considered a "critical situation" in the Social Scoreboard.[45] Proposals to extend the coverage of social insurance to precarious and self-employed workers, based on the recommendations of an official review committee convened by the Conte II government, were dropped by the Draghi drafting team.[46] Although the Italian RRP foresees major infrastructure investments in childcare facilities, it does not link these investments to a reform, as Slovakia or Croatia do, despite the recommendation in the 2019 CSRs for a comprehensive strategy to support female labour participation. This absence of a comprehensive strategy for young people and families is identified in the 2022 Country Report for Italy as one of the key gaps in the plan.[47]

The Italian plan, however, does includes other interventions that did not feature in the social CSRs, such as interventions supporting people with disabilities or granting new scholarships for university access.[48] As the second-most highly indebted country in the EU (150.3% of GDP), Italy approached the RRF as a "now or never opportunity" and was among the first group of countries to begin preparing its plan after the July 2020 European Council. Drafting of the plan was very significantly affected by the change from the Conte II to the Draghi government in February 2022. The number of proposed reforms nearly doubled, and detail included in some of them greatly increased, especially in public administration and justice. National authorities used the RRF to pursue long discussed but never implemented reforms, also in fields of administrative simplification and competition regulation.

> *As acknowledged by our interviews, the RRF was considered an important opportunity, a trigger and a tool for the implementation of social reforms that would either not been adopted because of lack of adequate funding or would have been further delayed. Overall, the RRF gave an incentive to implement reforms or investments that were postponed or delayed in the past and was thus an opportunity used by domestic actors to accelerate them.*[49]

3. DRAFTING THE NRRPS: BETWEEN NATIONAL GOVERNMENTS, DOMESTIC STAKEHOLDERS AND THE EUROPEAN COMMISSION

3.1.6 BELGIUM

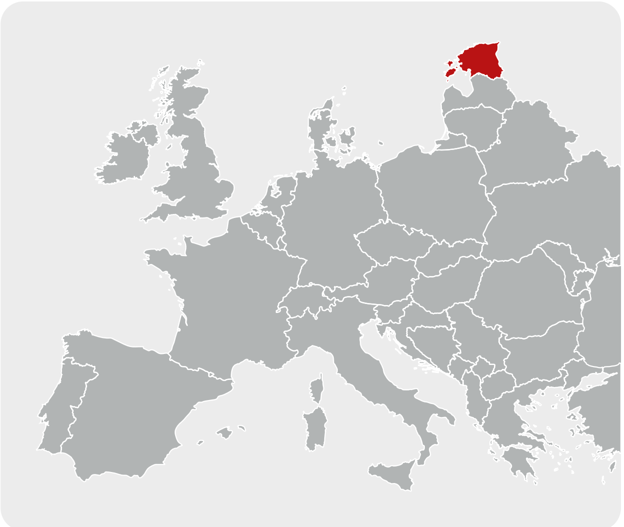
With an initial size of €5.9 billion in grants (later reduced to €4.5 billion, one of the largest decreases in the EU), the Belgian NRRP, equivalent to 1.2% of GDP, was a quite different order of magnitude to those of the other plans discussed so far.[50] At the same time, however, Belgium's high level of debt-to-GDP ratio (109.2%) meant that the RRF funding was seen as a significant opportunity by both federal and regional government officials. Belgium's NRRP comprised 105 investments and 35 reforms, with 32.2% of expenditure devoted to social commitments, 65% of which consisted of new projects.[51] Social spending in the plan focused mainly on general education, adult learning, and social housing infrastructure.[52] The Belgian plan leaves some social CSRs unaddressed, such as those on increasing the sustainability of long-term care and removing disincentives to work. But the plan includes a strategy for the Walloon region to delay or avoid institutionalisation of the elderly, as well as a social housing and childcare investment plan, not foreseen in the CSRs nor by the Scoreboard.[53] The Commission's assessment is rather critical of the plan's ambitions, not only in terms of the measures proposed to advance the green transition, but also in the social sphere. Here the Commission raises, amongst others, the following concerns: Belgium has committed to announce a submission of a proposal to reduce the tax burden on labour, but has not provided a commitment and timeline for the adoption of the announced reform. Therefore, it has not been included as a measure in the RRF. The pension reform is only described in general terms, without providing details on the envisaged measures. Belgium also proposes a number of measures to promote the inclusion of vulnerable groups on the labour market; however, the overall plan is seen as falling short of presenting a holistic and integrated approach to support social and labour market inclusion of vulnerable groups. On education, the proposed investment and reforms are expected to make a contribution to improving education outcomes, but measures are generic, rather than targeting vulnerable pupils and teachers, and thus, insufficient to address inequality in education outcomes, despite the significant disparities in educational outcomes being considered a real concern. On lifelong learning, Belgium invests in widening the offering of training and Wallonia invests in the construction and renovation of training centres, but the plan does not present a comprehensive strategy to strengthen participation in lifelong learning; again the Commission here points to the issue of structural inequalities.

In contrast to other MSs, the Belgian NRRP was based on separate plans drawn up by three regional governments, responsible for 80% of public investment. The Flanders region had already drafted a €4.3 billion COVID recovery plan and transferred elements of pre-existing plans most relevant to CSRs and criteria for digital and climate investment to the national plan. The Flemish plan, furthermore, includes investments and reforms focused on education (digital investments and investments in higher education); lifelong learning provisions; renovation of social housing and inclusivity on the labour market, such as the integration of migrants. For Wallonia, there are also new priorities in the plan that otherwise would not have been initiated, such as investments in childcare facilities for vulnerable groups. Importantly, it was the Commission who pushed for targeting the investment to the most vulnerable municipalities, in terms of income and female employment, which led to a different targeting than otherwise would have been chosen by the region itself. For the Walloon government, trying to achieve the European Barcelona targets for childcare capacity, which aims at a minimum coverage of 33% for children under 3 in EU countries, plays a leading role in this policy area, and thus, it is committed to try to achieve new capacity. Local priorities were coordinated at the federal level and combined with national reforms. Among the most important of these is a pension reform focused both on social adequacy and financial sustainability. The milestones promise to increase minimum pensions, strengthen the link between contributions and benefits, and improve the gender balance and regional disparities. These measures, most notably the increase in minimum pensions, raise pension expenditure in the medium to long term. To offset the rise in cost, Belgium plans to invest in longer working lives. The NRRP suggests that such measures could include part-time pensions, the introduction of a pension bonus, increased investment in lifelong learning or the facilitation of career reorientation for older workers. Rather than specifying a concrete output, Belgium committed itself to the goal of financial sustainability in the plan, as also stipulated in the coalition agreement, from which the language in the plan was copied and pasted.

The regional focus and priorities of the Belgian NRRP mean that there is a high level of domestic ownership of the proposed measures, especially investments, which are mostly new, and which had been constrained by previous lack of financial resources and fiscal capacity. Overall, the level of ambition in the Belgian plan may be considered adequate, since it does address some of the CSRs, but compared to other MSs in our sample, such as Portugal, Spain, Croatia, or Slovakia, the plan does not stand out in this respect.

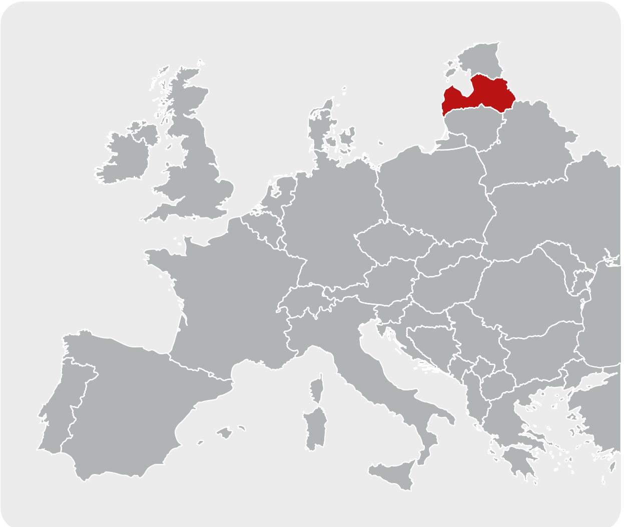
3. DRAFTING THE NRRPS: BETWEEN NATIONAL GOVERNMENTS, DOMESTIC STAKEHOLDERS AND THE EUROPEAN COMMISSION

3.1.7 ESTONIA



With an initial size of €1 billion (later reduced to €0.9 billion), equivalent to 3.2% of GDP, the Estonian plan is also relatively small. Estonia did not request any loans, as the country is a significant relative beneficiary of cohesion policy funding, and its debt-to-GDP ratio of 17.6% is the lowest in the EU. The plan comprises 25 investments and 16 reforms, devoting 37% of total expenditure to social commitments, of which 90% is for health and long-term care and 10% is for employment and skills. One third of total expenditure in the originally approved plan was devoted to the construction of a new modern hospital in the capital city, Tallinn (replaced in the revised plan, currently under review, by the construction of a smaller and less expensive hospital in a different town because of high cost inflation and vulnerability to potential Russian aggression in the wake of the invasion of Ukraine). The main social investment funded by the RRP concerned labour market measures to reduce youth unemployment, notably a wage subsidy and a training allowance. Government officials initially did not understand and were extremely reluctant to accept that reforms addressing social CSRs and vulnerabilities had to be included in the plan, even if these involved future budget commitments not fundable through the RRF. In response to Commission pressures, a number of significant social reforms were included in the plan, the ambition of which exceeds that of neighbouring Latvia, notably measures addressing long-term care (requiring local authorities to improve long-term services, especially for children with high care needs), healthcare (comprehensive system reorganisation, including a hospital development plan, measures to address staff shortages, revision of staff reimbursement schemes and increasing support for general practitioners, especially in remote areas), the social safety net (extending the duration of unemployment insurance benefits) and the gender pay gap (the development of strategic objectives for reducing gender inequalities and a digital tool for employers to monitor gender wage disparities). By all accounts, the level of domestic ownership of the plan is limited: major infrastructure projects, including Tallinn hospital, have had to be dropped or scaled back drastically because of rising costs; while support for social reforms funded from the state budget remains relatively low, outside the Ministry of Social Affairs. As in Latvia, this stance reflects the long-standing liberal orientation of governments and the electorate, as well as uncertainties about current and future coalition politics. At the same time, however, Estonian policymakers are more "reform oriented" than their Latvian counterparts and more willing to improve the country's social and economic systems in response to challenges identified by external interlocutors, such as the Commission (EU2, EE-GOV3).

3.1.8 LATVIA



While the initial size of the Latvian plan of €2 billion in grants (decreased to €1.8 billion) is also relatively small, it is higher as a share of GDP (5.6%) than that of Estonia or Belgium. Like the other Central and Eastern European MSs in our study, Latvia did not request loans from the RRF, as it is a high relative beneficiary of the cohesion policy funds and has a debt-to-GDP ratio of 43.6%, among the lowest in the EU. The Latvian plan consists of 60 investments and 25 reforms; 34% of expenditure is devoted to social commitments, mostly focused on health and long-term care, especially expansion of hospital facilities (40%); education and childcare (38%); and employment and skills (19%), but only 3% for social protection and inclusion policies (RRF Scoreboard). As in Estonia, initial government proposals focused exclusively on infrastructural investments, ignoring reforms; it was "basically a cohesion plan".[54] Latvian authorities took a long time to accept that it was necessary to include reforms in the plan and tie them to milestones and targets. Until very late in the drafting process, Latvian officials ignored the social CSRs and Scoreboard ratings, which, in some areas (e.g. healthcare), were among the worst in the EU (Annex 1, Table 4). They proposed to address "tackling inequality" (20% of total plan expenditures) mainly through regional infrastructural investments (road repairs and industrial parks) aimed at promoting job creation. Only at the insistence of the Commission was Latvia persuaded to include key social reforms, notably price indexation of the guaranteed minimum income (GMI) and improvements in the adequacy, quality, and financing of healthcare services, which involve current expenditure that cannot be funded through the RRF, but must instead be funded by the government; see Section 3.3). There is a consensus among domestic experts that the plan falls short of promising next-level change and instead focuses on marginal improvements, in line with established policy directions; both unions and employers are very critical of the plan, albeit for different reasons. The limited domestic ownership of social investments and reforms, apart from officials of the Ministry of Welfare, reflects the long-standing liberal orientation of Latvian governments – and the domestic electorate more broadly – prioritising economic growth, job creation and labour mobility over reduction of inequalities through tax-funded redistribution.

3.1.9 COMPARATIVE PATTERNS

Comparing these eight MSs, a number of clear patterns emerge. Firstly, the combination of large relative RRF grants relative to GDP with high fiscal debt constraint encourages ambitious social investment and reform plans (Portugal, Spain and Italy; Croatia and Belgium to a lesser extent). This pattern is intensified in countries that had suffered from austerity and reductions in social and labour rights during the decade following the euro crisis, and which had new or recently re-elected left-wing government coalitions (Portugal, Spain). A similar pro-active pattern of social activism can also be observed in less heavily fiscally constrained countries with new governments anxious to break with past policies and establish a reform-oriented profile (Croatia, Slovakia). Conversely, a lower relative size of grants, coupled with low fiscal constraints, high relative availability of cohesion policy funding, and economically liberal governments and electorates leads to socially unambitious plans with weak domestic ownership, especially where reform measures demand ongoing current expenditures from the national budget, which cannot be financed from the RRF (Latvia, Estonia).

> "The combination of large relative RRF grants relative to GDP with high fiscal debt constraint encourages ambitious social investment and reform plans."

These comparative patterns and the explanatory factors underlying them are reinforced when we consider three contrasting "shadow" cases from Northern Europe: Austria, Germany and the Netherlands. In all three of these countries, the relative size of the initial RRF grants is smaller: Austria, €3.5 billion, equivalent to 0.86% of GDP; Germany, €25.6 billion, equivalent to 0.72% of GDP; and the Netherlands, €6 billion, equivalent to 0.55% of GDP. All three of these countries also have moderate to low ratios of debt to GDP: Austria, 83%; Germany, 68.6%; the Netherlands, 52.4%. As a consequence, their NRRPs include a low total number of investments and reforms: Austria, 57; Germany, 80; the Netherlands, 49. The plans of these countries likewise include a low proportion of expenditure for social commitments, with very little for improvements in social protection: Austria, 19.6% (mostly devoted to education and childcare, employment and skills, and health and long-term care); Germany, 25.9% (mostly devoted to health and long-term care, and education and childcare); and the Netherlands 13.2% (mostly devoted to education and childcare, health and long-term care, and employment and skills). In all three countries, the additionality of social investments was very low, ranging from 31% for new projects in Austria, 14% in Germany, and 0% in the Netherlands.[55]

In all three MSs, moreover the NRRPs devote limited attention to the social CSRs and vulnerabilities signalled in the Social Scoreboard, which are, however, fewer than in Southern and Eastern European MSs.[56] Thus, the Austrian plan does not address low participation in early childhood education and care, the gender employment gap, rising (regional) inequalities and low integration of vulnerable people in the labour market. It further ignores CSRs on sustainability of health and long-term care, as well as on shifting taxes away from labour.[57] The German plan ignores nine out of 12 social sub-CSRs, including the sustainability of pensions, disincentives to work, taxes on labour and opening up of regulated professions, while reforms included in the plan, like guaranteed minimum resources (and the digitalisation of the pension system), were already adopted before 2021. In the Netherlands, the key CSR on reducing fiscal incentives on mortgages more quickly was not addressed, while major reforms promised, for example, a revision of the pension system or the introduction of new mandatory disability insurance and measures to reduce bogus self-employment, had already been agreed in principle before the adoption of the RRP, although they still have to pass through parliament.

NRRPs in these countries were based mainly or exclusively on national recovery plans already adopted and introduced before the RRF, with a substantial proportion of spending backdated to 2020, as permitted by the RRF regulation.[58] There was thus little perceived need for RRF funding to carry out projects included in the national plans, especially in the social field. In Austria, one government official interviewed declared that "The RRF is not a social instrument to us. We have the resources to cover both capital and current social expenditure", while, in Germany, another observed that "the national budget was enough to cover the national social needs, that is why the social initiatives were (partially) set aside in the RRP".[59] In the Netherlands, the government decided early on that only existing projects that had already been fully covered by national funds could be replaced by RRF funding. Hence, government officials in these countries were reluctant to have their projects included in the NRRPs, because doing so involved additional reporting and monitoring requirements, while the money for them had already been budgeted.[60]

These contrasting "shadow" cases confirm the broader comparative pattern observable across the eight MSs on which our study focuses. A small relative size of RRF grant funding, combined with weak fiscal constraints, leads to unambitious plans with limited national ownership, as in Latvia and Estonia, although ideological issues around growth strategies and social policy do not appear to play the same role in Austria, Germany and the Netherlands. It is worth noting, however, that, although the RRF grants to these three countries amounted to only a small proportion of their GDP (less than 1% in each case), taken together they accounted for a large share of the grant allocation from the EU to MSs: 10.4% of the initial total; and 10.8% of the final corrected total. In return for this very substantial collective funding, the EU might legitimately have expected more ambitious reforms and more additional investments from these MSs, rather than *de minimis* plans that embodied a retrogressive logic of *juste retour*.

3.2 INVOLVEMENT OF DOMESTIC STAKEHOLDERS

How far were other domestic stakeholders, such as social partners and local and regional authorities, involved in the drafting of the NRRPs, and what influence, if any, did this have on their content?

3.2.1 THE RRF REGULATION AND COMMISSION GUIDANCE

Both the RRF regulation and the Commission's guidance on the drafting of the NRRPs are very clear about the need to consult local and regional authorities, social partners, civil society organisations and other domestic stakeholders in the drafting of the plans. As the Commission's guidance explains,

> *Both in preparatory work and implementation, consultations should be conducted in accordance with the national legal framework and involve as relevant local and regional authorities, social partners, civil society organisations, youth organisations and other relevant stakeholders (e.g. national fiscal boards, national productivity boards and other national advisory bodies, depending on the country-specific decision-making process and institutional setup).*[61]

Hence, the NRRPs must include

> *a summary of the consultation process, conducted in accordance with the national legal framework, of local and regional authorities, social partners, civil society organisations, youth organisations and other relevant stakeholders, and how the input of the stakeholders is reflected in the recovery and resilience plan.*[62]

Despite these formal expressions of good intentions, there were serious structural obstacles to deep consultation of domestic stakeholders in the drafting of the NRRPs. One obstacle was time: the plans had to be drafted in a great hurry; no more than a few months in many MSs. Another was centralisation: plans had to be centrally coordinated by national governments; and negotiated with the Commission, down to the operationalisation of milestones, targets and verification documents for each investment and reform.

3.2.2 EU-LEVEL ASSESSMENTS

In its 2022 review of the implementation of the NRRPs, the Commission paints a remarkably rosy picture of the involvement of these domestic stakeholders in their drafting and implementation:

> *The success of the RRF also depends on the close involvement of social partners, civil society organisations, local and regional authorities, NGOs and other stakeholders, who have contributed to the design of the plans and are now playing a key role in their implementation.*[63]

Unfortunately, however, there is virtually no support from other EU-level assessments for this conclusion about the close involvement of local and regional authorities and other domestic stakeholders in the drafting of the NRRPs. Thus, for example, the European Parliament

> *Regrets that in all member states, local and regional authorities, civil society organisations, social partners, academia or other relevant stakeholders were not sufficiently involved, in the design and the implementation of the NRRPs, in accordance with the national legal framework, and calls for their involvement based on clear and transparent principles, in the implementation of the NRRPs to the maximum extent possible under the national legislation.*[64]

Opinions and reports by the Committee of the Regions, the EU Employment and Social Protection Committees, Eurofound, and the European Economic and Social Committee (EESC) confirm this pessimistic assessment in considerable detail, as regards local and regional authorities, social partners, and civil society organisations.[65]

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There is wide variation across the eight MSs covered in our sample, in terms of levels and forms of participation by civil society, social partners, and local and regional authorities.

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3.2.3 CROSS-NATIONAL VARIATIONS

As can be seen from the country case studies, there is wide variation across the eight MSs covered in our sample, in terms of levels and forms of participation by civil society, social partners, and local and regional authorities. It should be noted, however, that our findings about the latter are based primarily on interviews with national and Commission officials, as well as secondary documentation, not interviews with local and regional authorities themselves; these may thus overstate the extent of the latter's participation in the NRRP drafting process relative to their own subjective assessments.

3.2.3.1 PORTUGAL

As mentioned earlier, the Portuguese RRP was largely based on an earlier national recovery and development plan, which itself involved extensive public consultation with a broad range of civil society representatives.[66] Compared to other MSs, the deliberation over the Portuguese plan has been widely recognised for its broad involvement of social partners, civil society and municipalities.[67] According to several contacts, the second public discussion resulted in two additional RRP components "culture" and "sea" being added to the plan, focusing on the development of tourism and coastal economies, respectively (EU7; PT-GOV2).

3.2.3.2 SPAIN

In Spain, the design of the recovery plan was described as a "choral" exercise by national officials. The lead team asked line ministries to submit project proposals and was then in charge of deciding whether and how to include them in the final plan. Thereafter, a series of consultations with regions and social partners took place, and the government opened a platform for receiving inputs on the projects to be financed with the RRF in some areas, including digitalisation. Unlike Italy, the process in Spain was more "bottom-up", with an attempt to enlarge the ownership with multiple actors, especially at the regional level. Regional authorities had to be consulted through the established system of sectoral conferences, because of their broad competences for policy fields covered by the plan (as in Belgium), but some regions nonetheless complained that they did not feel sufficiently involved in the process on certain key issues, such as childcare. By contrast, the involvement of civil society appears to have been weaker.[68]

3.2.3.3 BELGIUM

As already mentioned, the Belgian NRRP began with the preparation of separate recovery plans by the three regional governments. Where in other MSs steering occurred primarily from the Ministry of Finance and the PM's office, in Belgium, the task of federal coordination was entrusted to the State Secretary for Strategic Investments and Recovery. The regions themselves came forward with investment priorities and the federal level focused on reforms, regional coherence coordination and communication with the Commission. Consultations were conducted at both the regional and federal levels and built upon the strong framework of involvement of social partners in the Semester. Belgium was considered in the Eurofound study as one of three MSs (along with Spain and Finland) where social partners were broadly satisfied with the mechanisms for their involvement in the drafting of the NRRP;[69] the same was less true of civil society, according to the results of the EESC[70] consultation and the ICNL[71] studies.

3.2.3.4 CROATIA

The Croatian RRP was drafted and negotiated by a central coordination team, with the PM's office and the Ministry of Finance in the driving seat. Especially in the drafting of the plans, the quality of consultation left social partners both on the trade union and employer sides disappointed (HR-SOCPART1, HR-SOCPART2). Social partners only received the final draft of the plan and had only a few days to assess the many hundreds of pages, which resulted in shallow involvement, even if the Croatian RRP itself mentions "more than 15 significant meetings from December 2020 to May 2021". This was made up for in the implementation phase, as argued in section 4.2 below. Regions and municipalities were consulted on both the deadlines and the drafting of the milestones. While ministries bear the primary responsibility, the milestones specify the role of the regions and municipalities in precise terms and include a few milestones dedicated to strengthening interinstitutional coordination. Involvement of local and regional actors was therefore assessed quite positively by the Committee of the Regions.[72]

Two cases qualify this broadly positive picture. The first is the reform of water services management, where regional authorities were consulted in official consultations about plans to restructure 200 existing water service companies into 40, but their critical comments and those of municipalities were not fully taken on board in setting the RRP targets. The second concerned labour market reform. There, the decision to include social partners only in the final drafting stage was based on time pressure. The reasoning in the ministry was that the plans were based on strategic documents on which the social partners had already been consulted, but in interviews it was also admitted that it would have been better to include them from the start (HR-GOV3). Social partners were also surprised about some of the elements in the plans, which they had not anticipated. In its assessment of the Croatian plan, the Commission explicitly refers to the need to better include social partners in its implementation.

3.2.3.5 SLOVAKIA

The Slovak plan is overseen by a highly centralised coordination team (NIKA), which drafted and negotiated the RRP. Slovakia organised widespread stakeholder consultation on the content of the plan, with roundtable discussions and possibilities for written comments. A dedicated website was set up to engage with the public. At the same time, the quality of the consultation can also be questioned. In parliament, information sessions were organised, but there was little substantive debate on the priorities and possibilities for involvement in the preparations, which was primarily a process driven by the government (SK-GOV4). Trade unionists have mostly been disappointed with the quality of consultation and feel their input was ignored. According to a senior trade unionist, they had initially been left out of the relevant committees and were only allowed a seat at the table once the plans were already approved and most of the work finished (SK-SOCPART1). One of the elements that trade unions would have liked to see included in the plan is lifelong learning, which is indeed mostly absent from the plan, despite being flagged as a weakness in the Social Scoreboard (Annex 1, Table 4). On the side of other social partners, Oellerich and Simons (forthcoming) note that stakeholders, also on the side of employers, saw little space for substantive input and were primarily presented with a *fait accompli*.

3.2.3.6 ITALY

Under the Conte government, the leading role in plan negotiations was taken by the Ministry of European Affairs, which, together with the Ministry of Finance, created an interinstitutional committee. The line ministers were asked in August 2020 to provide a list of financeable investment projects, which had to be sent to this committee by early September of the same year. The interinstitutional committee submitted the first draft of the Italian RRP in December 2020 to the Council of Ministers. The plan was never approved, as the Draghi government took over in February 2021. This change was also reflected in the governance of the RRF, which was centralised at the Ministry of Economy and Finance. As mentioned above, Decree Law 77/2021 also created a Steering Committee (*Cabina di Regia*, chaired by the PM). In terms of the involvement of subnational authorities, the interactions were more intensive with the representatives of local administrations and metropolitan cities than the regions, but came only at the end of the preparation of the program. The lack of a structured involvement by these subnational actors is perceived as a limitation by the national authorities, but an unavoidable consequence of the very short time available for the plan's preparation, which came on top of the novelty of the instrument itself. This in turn prevented a real engagement with these actors who are nonetheless responsible for the implementation of 35% (municipalities, metropolitan cities and other local authorities) and 15% (regions) of the entire RRF envelope. Social partners were also consulted only in the very last phase of the plan's preparation. There was also some consultation of civil society through a variety of channels, but with no visible input into the content of the plan.[73]

3.2.3.7 ESTONIA

According to officials at the Ministry of Finance, the Estonian RRP was largely formulated in a "top-down" fashion (EE-GOV1, EE-GOV2), while incorporating key elements of "Estonia 2035", a national development strategy discussed with social partners and other stakeholders before the COVID-19 crisis.[74] The first RRP drafts were mostly debated between the Commission and the government between October and December 2020, while a public consultation took place when the draft was at a relatively advanced stage.[75]

3.2.3.8 LATVIA

The main contours of the Latvian RRP emerged from political agreements between the government ministries, whereas the social partners first saw the draft plan only after it was sent to the Commission in early 2021. The first consultation with social partners was held only in December 2020, when the social partners requested that a discussion of the RRP be included in the agenda of the National Tripartite Cooperation Council (NTSP), the main platform for tripartite agreement.[76] However, after various social actors complained about the lack of meaningful involvement in the RRF drafting process, including writing to the Commission Representation in Brussels and the EESC, the government conducted public consultations until the spring of 2021. The social partners have remained highly critical of the RRP, where employers mostly lament its focus on public spending, while the unions criticise the lack of coherence and insufficient focus on human capital, quality jobs and social measures. These social partner pressures led only to marginal adjustments of the plan, while most of the requests, particularly, from the unions, remained unaddressed.[77]

3.2.3.9 COMPARATIVE ANALYSIS

The case studies show a clear division between three groups of MSs.

Firstly, we see a **group of countries in which the NRRP emerged from a broad national or regional consultative process**, involving social partners, local and regional authorities, and civil society: Portugal; Spain (weaker involvement of civil society); and Belgium (region-led, strong involvement of social partners, weaker participation by civil society).

In a second group of countries, there was **limited consultation and involvement of domestic stakeholders**: Croatia (better for regions and municipalities than social partners and civil society); Slovakia (broad but late consultation and weak incorporation of input from social partners into the plan); and Italy (intensive but unstructured interactions with representatives of municipalities and metropolitan cities, but only at the end of the process; weaker engagement with regions; social partners consulted only in last phase of preparation; civil society organisations consulted through a variety of channels, but with no visible input into the plan).

In the third group of countries, there was **barely any meaningful involvement of non-state actors in drafting of the NRRP**. Thus, in Estonia, public consultation occurred only when the draft plan was at a relatively advanced stage, though more deliberation with social partners and other stakeholders had already taken place on the prior Estonia 2035 national development strategy. In Latvia, social partners were consulted only at a late stage, while broader public consultations were only triggered by complaints to Commission and the EESC, leading only to marginal adjustments. It is noteworthy too that these cross-country variations in stakeholder involvement in drafting the plans appear to have been linked more to the strategy and ambition of national governments than to historic patterns of interest representation and corporatist policy concertation (apart from Belgium).

3.3 ROLE OF THE COMMISSION

3.3.1 COMMISSION RESPONSIBILITIES IN THE DRAFTING AND ASSESSMENT OF NRRPS

What responsibilities did the RRF regulation and other legal texts assign to the Commission in the drafting and assessment of the NRRPs? Annex V of the RRF regulation charged the Commission with two main sets of tasks: **to ensure the relevance; effectiveness; efficiency; and coherence of the plan, while fully respecting national ownershi**p. More specifically, the Commission was responsible for ensuring that NRRPs met the key objectives and requirements of the RRF, namely, that the plan represented a comprehensive and adequately balanced response to the economic and social situation of the MS, while contributing to all six pillars of the RRF; that it effectively addressed all or a significant subset of challenges identified in the CSRs, taking into account the financial allocation provided to the MS and the scope and scale of country-specific challenges; that it devoted a minimum share of expenditure to the green transition (37%) and digital transformation (20%); that it contained measures to strengthen social cohesion and social protection systems, contributing to the implementation of the principles of the EPSR, improving the levels of the indicators of the Social Scoreboard and mitigating the economic and social impacts of the COVID-19 crisis; and that no measures included in the plan did significant harm to the EU's environmental objectives. The Commission is likewise responsible for ensuring the coherence and ability to implement the NRRPs, meaning that investments and reforms should complement and reinforce one another; that MSs should put in place effective arrangements for monitoring and implementation of the plan, as well as to prevent, detect and correct corruption and fraud; and that the estimated total costs of the plan are reasonable and proportionate to measures' expected impact and do not involve double funding from other EU programs. Based on these criteria, the Commission is responsible for assessing the NRRPs, proposing a draft Council Implementing Decision (CID), including a detailed timetable, milestones and targets, as well as agreeing operating arrangements with MSs for the implementation of the plan, including specific indicators for verification of milestones and targets to be used in approving periodic payment requests. Note that while MSs were obliged to explain how they had consulted domestic stakeholders in the drafting of their plans (a provision inserted in the Regulation at the insistence of the European Parliament), this did not form part of the criteria for the Commission's assessment.

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The Commission was responsible for ensuring that NRRPs met the key objectives and requirements of the RRF, and the coherence and ability to implement the NRRPs.

"

3.3.2 FROM THEORY TO PRACTICE: COMPARATIVE EXPERIENCE ACROSS MEMBER STATES

3.3.2.1 PORTUGAL

In Portugal, negotiations between the Commission and the national government were very wide ranging and labour intensive, discussing every component multiple times. But compared to other MSs in our sample, they were also relatively smooth, because of the ambition, coherence, and broad political and public consensus behind the plan, which addressed nearly all CSRs (apart from one on investment in transport and energy infrastructure, which is now being financed through other European sources, including potentially REPowerEU). The Commission was very happy with the Portuguese plan, which they considered excellent from the beginning, especially in the social sphere. From their perspective, the socialist government was very open and receptive, and they did not need to insist on anything, especially in the social sphere (EU6, EU7).

The Commission strongly pushed for the plan's most controversial reform – the liberalisation of regulated professions – which had been part of the conditionality under the EAP during the euro crisis, but which was never implemented. The RRF provided another window of opportunity for the Commission to leverage the provision of funds in exchange for the promise to carry out this stalled reform. But this conditionality was embraced by the socialist coalition government, as a lever to push through a measure aligned with its own political preferences in the face of tough opposition from vested interests, following a "*vincolo esterno*" strategy of using external constraints to advance its own domestic reform agenda. According to one national official:

> *The government wants to do the reform, and the RRF is an additional carrot. The [law] order must change, the (law) orders have too much power – they are acting like unions. So, the government is using the EU conditionality to push through the reform. (PT-GOV1)*

Where the Commission's preferences did clash with those of the national authorities, however, the latter seem to have prevailed – for better or for worse. The most significant case regards the construction of the Pisão Dam, a large-scale project dating back to the Salazar era. The Commission was unhappy about using the RRF money for this purpose, which they considered an outdated approach to water management. During the negotiations, the Commission aligned with non-governmental organisations (NGOs) opposed to the project on environmental grounds, invoking its potential violation of the RRF's DNSH principle. But due to the complexity of the project, and its own lack of detailed local knowledge and technical expertise in this area, the Commission was not able to block the inclusion of this project in the RRP. At the same time, however, safeguards were included in the Council Implementing Decision aimed at ensuring respect for the DNSH principle.

Beyond the negotiation of specific investments and reforms, the Commission's main role was to help the Portuguese drafters improve the ability to implement the planned measures, for example, by making their timeline more realistic and encouraging the government to "calm their horses" to ensure that they could be achieved. Despite these efforts at simplification, however, the milestones and targets set by the Portuguese plan are extremely demanding compared to those of other MSs (EU6, EU7).

3.3.2.2 SPAIN

As in Portugal, the Commission's role in the drafting of the Spanish RRP reflects the plan's broad scope, high ambition and strong commitment to its objectives on the part of the national government and other domestic stakeholders. Interactions between the Commission and the Spanish authorities were very intensive, with more than 80 meetings; in some cases, these involved direct meetings between the Economics Minister and European Commissioners. In terms of the content of the plan, the discussion with the Commission was largely focused on technical elements for investments and became more political on reforms. With respect to investments the discussions mainly revolved around the compliance with the RRF regulation and especially the DNSH principle and the non-eligibility of current expenditure. The content of the investment projects themselves was, in most cases, not the focus of the dialogue with the Commission, as long as there was broad compliance with the RRF objectives.

With regards to reforms, the discussion largely focused on compliance with the CSRs. The main points of discussion revolved around the labour market and pension reforms. This discussion took more than five months, not only on the technical issues but also because of the divergent positions at the national level. To leave scope for social dialogue to determine the final content of these controversial reforms, some of their provisions were left open in the RRP and the CID, while specifying their objectives and the direction of the measures to be taken.[78] In relation to the labour market reform, the Spanish government could constructively cooperate with the Commission and use this opportunity to gain leverage in the internal debate. More specifically, the second-largest political party in the Spanish coalition government, Podemos, aimed to completely abrogate the 2012 labour market reform introduced by the conservative

Rajoy government. The Economics Ministry wanted a reform that could reduce the dualisation of the Spanish labour market by reducing temporary employment, without modifying aspects such as the existing flexibility and maintaining existing mobility, which was also the preference of the European Commission. The final result was thus a balancing exercise between decreasing temporary employment and maintaining mobility within the labour market, as requested by the CSR, rather than completely abrogating the 2012 reform. Commissioner Gentiloni himself intervened in the Spanish public debate on this point, arguing that

> *the labour and pension reforms should comply with what has been agreed [...] [T]he European Commission is clear on the objectives of the labour reforms; it asks for job instability to be reduced, for collective bargaining to be improved, and above all it asks that any changes do not reduce the flexibility introduced by the 2012 reforms.*[79]

Concerning the pension reform, the main point of contention was the government's decision to index benefits to the consumer price index and to decouple their initial level from life expectancy, while compensating for the resulting cost increases by introducing a series of offsetting measures to increase the effective retirement age. Here the discussion was on how to find a balance between the relevant CSR, which urged Spain to ensure the financial sustainability of its pension system, and removal of the not-yet-applied link between the initial benefit level and life expectancy to accommodate the socialist-led government's concern that it would result in sharp falls in pension adequacy. On this point, the Commission agreed with the Spanish government that the underlying objectives of the CSR could be addressed through the adoption of complementary active ageing measures aimed at raising employment rates of older workers and increasing contributions, while aligning them with effective incomes, which would contain the costs of the reform.[80]

The fact that milestones and targets are not modifiable was also a key object of discussion and especially careful attention by the national authorities to commit to credible objectives. With respect to the milestones and targets, the Commission negotiated with the Spanish government those included in the plan. Since the milestones and targets were considered unnecessarily numerous, they were streamlined in consultation with the Commission to reduce the number of intermediate milestones involved.

3.3.2.3 CROATIA

The Commission's role in shaping the Croatian RRP was greater than in Portugal and Spain, in light of the larger relative size of the RRF grant allocation. In the months leading up to the submission of the initial draft in April 2021, more than 85 meetings were held with Commission officials at both technical and political levels. Some of these meetings were attended by more than 100 Croatian officials. The Commission played an intensive role in advising Croatia on how to ensure the coherence and implementation of the plan, including the need to couple investments with reforms, as well as to set realistic milestones and targets, resulting in significant revisions during the negotiation process.

Croatian officials consider that the Commission pushed rather strongly on the level of ambition in the plan. Given the size of the RRF allocation, the Commission considered it important that all CSRs be addressed, where initial versions of the plan were falling short in this respect.[81] The Commission was able to push on issues of substance, such as the focus on vulnerable groups and poorer regions in active labour market policy (ALMP), where it made clear from the start that it wanted to see greater attention devoted in the plan.

But Croatia also argued that certain elements of CSR implementation, such as pension reform, would need to take better account of the domestic context. Hence, for example, the CSR on linking retirement age to life expectancy could not be pursued at that stage because that proposal had been rejected in a referendum two years prior. Here, Croatian officials consider the sessions with the Commission as genuine negotiations, where, as in the Spanish case, the Croatian authorities had to show which measures they would take to boost the effective retirement age to compensate for the refusal to link the statutory pensionable age to longevity. In the plan, Croatia increases incentives for older workers who remain active longer and makes it more attractive for business to retain them, but the outcome is much less ambitious than that requested by the relevant CSR.

However, even if Commission pressure on Croatia was experienced as strong, it should be noted that the government itself had full intentions to pursue further pension reforms and the outcome is seen as a reflection of domestic priorities that started taking shape after the referendum (HR-GOV4, HR-GOV1). The pressure from the Commission was mostly welcomed: "It's okay to push us in terms of the adequate level of ambition of certain reforms" (HR-GOV1).

3.3.2.4 SLOVAKIA

In the Slovak case, negotiations with the Commission consisted of a short period of around three months of intense daily calls and exchanges, prior to the official submission of the plan. The negotiations were mostly focused on ensuring adequate detail and procedural requirements in the plan; interviewees do not recall having much debate on the level of ambition or content when it comes to linking investments to reforms. Negotiations focused more on getting the costing element of investments and the drafting of milestones and targets right and cutting down the number of projects to key priorities than on the substance of reform for which there was already alignment of views. With Slovakia putting many of the coalition agreement's reforms in the RRP, the Commission was mostly satisfied on this matter (EU8, EU9).

3.3.2.5 ITALY

In Italy, interactions with the Commission on drafting were strongly affected by the change of government from that led by Conte to Draghi in February 2021, increasing sharply in frequency and intensity under the latter as the submission deadline for the draft plan approached. As in other MSs, these interactions differed significantly between investments and reforms.

Negotiations over investments were conducted mostly at a technical level, involving both the Italian coordinators and the ministries competent for the specific projects, which they had been asked by the Conte government to propose in the autumn of 2021. These discussions focused largely on compliance with the RRF regulation criteria, in particular, the green and digital coefficients, the DNSH principle and, above all, the setting of the milestones and targets. With respect to the latter, the Commission was particularly keen to make sure that the proposed milestones and targets were clear and ambitious, but realistic, and the proposed indicators relevant, acceptable and robust. Similarly, in line with the RRF regulation, the Commission sought to ensure the credibility and effectiveness of the overall arrangements proposed for the coordination and implementation of reforms and investments, especially given Italy's longstanding challenges concerning administrative capacity, which have impaired the absorption of the structural funds and the proper implementation of reforms.

With regard to the investment projects themselves, the discussion focused on milestones, targets and implementation arrangements, whereas the Commission said relatively little about their objectives, as long as these were broadly in line with those of the RRF, and contributed to addressing Italy's structural challenges, including those flagged in the CSRs. While national officials appreciated the Commission's deference to their investment choices, the disconnection of the milestone and targets from the projects' substantive objectives produced considerable frustration on the part of the administrators concerned. As one Italian official involved in these discussions observed: "they only asked for huge Excel files. But nobody asked you about the content of the project or an explanation of the budget".[82]

In the case of reforms, the discussion with the Commission was more political, clearly linked to the CSRs, and was conducted by the president of the Council of Ministers and his team. Here, the Commission was rather critical of the limited connection between investments and reforms in the original proposals by the Conte government.[83] In the negotiations, the Commission pushed the Italian administration not just to present a list of investments, but also to explain the strategy behind their investment choices and how they fitted with the plan's overarching strategy.[84]

After the change of government, the number of reforms in the Italian plan nearly doubled,[85] and the level of detail included in some of them greatly increased, for example, in relation to the far-reaching reforms proposed in public administration and the justice system. In contrast to the investments, the content of the reforms was the object of a more substantive bilateral discussion between national and European authorities. Here too, however, there was no imposition from the Commission, and the reforms were largely proposed by the government. In contrast to other MSs with comparable or lower relative allocation of RRF funding, such as Croatia, Latvia and Estonia, the Commission did not insist that Italy include reform measures directed towards the full set of CSRs, despite the fact that a critical social vulnerability on poverty reduction and the impact of social transfers flagged in the Social Scoreboard remained unaddressed.[86] On the reform of the taxation system, which was the subject of a CSR, the Commission accepted the government's argument that such an important measure required a prior political and social debate, and hence, was included in the narrative of the RRP, but not associated with milestones or targets.[87] To ensure that the objective of the relevant CSR to strengthen the sustainability of the public finances was pursued appropriately, a number of additional fiscal-structural measures were included in the RRP (in the areas of tax administration, spending review and fiscal federalism).

As in other MSs, like Portugal, Spain, Croatia and Slovakia, the Italian authorities used the RRF as an opportunity to include a number of long-discussed but never implemented reform measures. In addition to the reforms of the public administration and justice systems, other examples include administrative simplification of the rules on public procurement, and strengthening of competition, improving sectoral regulation and antitrust enforcement. Here, both sides report a very positive and collaborative dialogue between the national government and the Commission in the drafting of these reforms, as driven by the shared ambition for a strong post-pandemic recovery.

3.3.2.6 BELGIUM

In the negotiations between the Commission and the federal government over the drafting of the Belgian RRP, the central issue was its coherence as a national plan. The Commission tried to ensure ambition in negotiations at the federal level, but, as we have seen, the targets and priorities in the NRRP primarily represent the aggregation of a bottom-up process. While the Belgian structure has the advantage of strong regional ownership, the disadvantage is a lack of coherence, for which the country received a "B" score in the Commission's assessment, unlike most MSs. The Commission thus pushed, even if not explicitly, for Belgium to behave as a unitary actor. As such, this development went somewhat in the opposite direction of the increased regionalisation of economic governance in Belgium, as seen in recent Semester cycles, where regions presented their own reform plans as annexes to the national plan.

Negotiations with the Commission focused primarily on the coherence of the plan and the proposed reforms. The latter's role in negotiations was also to streamline the document, as initially Belgium had come forward with a long list of measures, where, according to Belgian officials, the Commission considered some as "nice to have" and others as "need to have". Measures related to financial sustainability, such as spending reviews and pensions, were clearly indicated by the Commission as "need to have". In the area of spending reviews, this ensured that all regions would have to deliver on this point. For pensions, the drafting of the milestone was simply copied and pasted from the coalition agreement that had been concluded a few months prior. While writing the coalition agreement, the Belgian government was already aware of the fact that it would have to draft an integrated investment and reform plan for the RRF, so the agreement was written with the CSRs and their operationalisation in the NRRP in mind.

As we have seen, the Commission remained very critical of the social ambitions and specification of the Belgian NRRP, noting in particular that some key measures, such as the pension reform, were described only in very general terms; others, like promotion of labour market inclusion of vulnerable groups and strengthening participation in lifelong learning, were not based on a holistic, integrated strategy; still others, like educational investments and reforms, were insufficiently targeted; or were not included as commitments at all, like proposals to reduce the tax burden on labour. In these cases, it is striking that the Commission did not succeed in pushing the Belgian government to address these issues to its satisfaction in the final approved draft of the plan – perhaps because of the relatively low relative funding allocation provided by the RRF, the anchoring of reforms in the recently agreed coalition agreement and the constitutionally entrenched competences of the regions.

3.3.2.7 ESTONIA

Compared to the other countries in our sample, with the exception of Latvia, negotiations between Estonia and the Commission over the drafting of the RRP were much more contentious. The key issue in these negotiations was the national government's reluctance to accept the need for social reforms to address the CSRs. As in the case of Latvia, the Commission has long been critical of Estonia's social policies and performance, lamenting in the 2019-2020 CSRs the country's slow progress in addressing social issues such as unemployment, long-term care, social insurance and the gender pay gap, despite its exceptional record of fiscal discipline and abundant fiscal space. Estonia's original proposals for the RRP focused almost entirely on major investments, notably a large new hospital in the capital, while neglecting reforms, including in the healthcare sector. The Commission considered that it was important to accompany major investments with reforms, and explicitly made it clear that that no plan would be accepted that did not include labour market and social services reforms (EU2). Thus, the Commission's soft steering of social policy through the regular Semester procedures changed during the RRP negotiations into a harder approach of "something must be done" (EE-GOV8).

Regarding social reforms, the main controversy regarded measures that went beyond RRF funding, and instead had to be funded from the national budget. According to an official at the Ministry of Social Affairs:

> *The Commission did not say it, and we did not understand initially that we were putting down milestones and targets that are not funded by the instrument. It has always been that if we say that we do something, then the project also gets financed. That was a very difficult thing to accept. (EE-GOV2)*

Due to the ruling coalition's unwillingness to commit to additional social spending from the main budget, social reforms were "the most difficult and controversial part of the discussions", and according to national officials, the Commission's social demands clearly "ignored the difficulties of democratic decision-making process" (EE-GOV3, EE-GOV8). Meanwhile, for the Commission, the exchange between RRF grants for infrastructural investments and social reforms financed from the regular national budget was part of the "deal" (EU2).

On the national side, the plan was significantly shaped by domestic political priorities and "waiting lists" of various pet projects, most prominently, the Tallinn hospital. The Commission was not enthusiastic about building such a massive infrastructure project in the capital, costing around one third of the plan (though including a significant self-financing component). After long and tough discussions, involving top-level officials at the Commission and the government, where each of the parties "waited each other out", the Estonian government was able to keep the hospital in the plan, but with less RRF funding than initially planned. The government argued that the hospital project was an opportunity to reorganise the healthcare infrastructure in the north of Estonia, a long-standing objective since the 2000s, and thus, address the "health" CSR, regarding improving accessibility to frontline medical services (EE-GOV3).

The approved plan struck a delicate balance between infrastructural investments preferred by the government and the social reforms preferred by the Commission. The national officials involved in the process note that this compromise reached the limits of what was possible domestically. As we have seen, the plan included significant reforms of health, long-term care, unemployment insurance and policies to reduce the gender pay gap, financed from the national budget. Estonian officials recognised the validity of the CSR criticisms of the national social system and acknowledged the positive effects of the Commission's social advocacy on both agenda setting and implementation, while remaining wary of its strategy of leveraging the RRF to increase long-term commitments to tax-financed social reform, given the uncertainties of domestic politics (EE-GOV2, EE-GOV3).

3.3.2.8 LATVIA

Negotiations between the national government and the Commission over the drafting of the Latvian plan were even more difficult than in Estonia, for similar reasons. As in Estonia, the government's first proposals for the Latvian RRP consisted of a long wish list of infrastructural investments, resulting from tough interministerial bargaining, and national authorities took a long time to accept that reforms were an essential component of the RRF. Accustomed to the cost-based approach of the EU cohesion policy funds, the Latvian authorities also took a long time to understand the RRF's "performance-based financing" approach, in which funds are only disbursed after the achievement of milestones and targets.

Substantively, as in Estonia, the key disputed issues concerned social policy. With some of the worst indicators of inequality, social exclusion and poverty in the EU, Latvia has been subject to long-standing criticisms by the Commission, dating back to the 2008 Balance of Payments programme. While showing extreme prudence in fiscal policy, often exceeding the Commission's expectations, Latvia – more than the other economically liberal Baltics – has systematically resisted the Commission's various socially minded pressures.[88] The RRF thus provided an opening for the Commission to enforce upgrading of the national social welfare system.

The Commission's stance was mostly informed by the long-standing "social" CSRs, concerning, most prominently, the social safety net and healthcare. Based on these CSRs, the Commission drafted a two-page list of possible reforms. However, after initial discussion with the government, it soon became clear that there was no overlap whatsoever between the Commission's list and the government's plans. It was only just before the submission deadline, when the Commission made clear that there would be no funds without reforms, that the national authorities – mostly lower-level officials at the ministries – came up with reform proposals for discussion (EU5).

These intense debates over social policy were situated in a broader context of the goal of tackling inequality, to which 20% of the plan funds were allocated. The government and the Commission held strikingly different views, not only on whether "inequality" should be interpreted in individual or regional terms, but also regarding specific policy measures for either. The government focused on infrastructural investments in the regions, such as road repairs and industrial parks, which were supposed to reduce regional inequalities through job creation, reflecting the well-established pro-business stance of the centre-right coalition. In contrast, the Commission preferred an emphasis on social measures to reduce inequality, where significant investments would be balanced with ambitious reforms. On the one hand, the Commission objected that the planned investments did not sufficiently focus on social objectives (LV-GOV2). On the other hand, and, even more importantly, they insisted on permanent improvements in the social situation through reforms. According to one Commission official, the main problem was that the plan contained little about reforms. Most of the agreed reforms came very late in the process, so that there was a question whether it would be submitted at all.

By leveraging the RRF funds, the Commission was able to secure in the plan one social and several health reforms, but with mixed ambition and degree of binding. The only reform in social policy concerned indexation of the GMI, addressing the long-standing CSRs on decreasing poverty and social exclusion. In healthcare, the most important reform concerned a possible (but not determined) increase of health spending from the main budget, in line with long-standing CSRs. The RRP also included several health investments. By pushing for these progressive social and health reforms, the Commission modestly empowered the previously marginalised Ministries of Welfare and Health.

As in Estonia, much of the controversy revolved around the Commission's insistence that the social reforms in question could not be financed by the RRF. By far, the most controversial reform concerned the GMI, a central point of contestation since Latvia's Balance of Payments programme.[89] The Commission's core requirement was that the GMI would no longer be set through political negotiations between the government and municipalities, but by applying a systematic calculation methodology, which would allow for automatic annual revisions of the threshold set to at least 20% of the median income. Faced with the Commission's threat that the plan would otherwise not be accepted, the national authorities included milestones and targets for the GMI reform, which provided that the "plan for improvement of the minimum income support system for 2022-2024" must be adopted by parliament before the end of 2022, and the legislative amendments of the GMI system must enter into force in 2023.

In a similar vein, the Commission used RRF funding to try to secure promises to address key vulnerabilities in the healthcare sector, where the underlying problem was Latvia's extremely low health spending as percent of GDP (one of the lowest in the EU). The RRP's "health" component explicitly supported the 2020 CSR to "strengthen the resilience and accessibility of the health system including by providing additional human and financial resources" and the 2019 CSR to "increase the accessibility, quality and cost-effectiveness of the healthcare system". According to an official at the Ministry of Health, during the RRF negotiations, the Commission wanted increases in the health budget to be fixed in various planning documents, so that the Ministry of Health could subsequently use them in domestic political discussions. Also, the milestones and targets aimed to "establish a systemic change mechanism for state-paid services" through developing and mainstreaming several pilot projects of healthcare services, which then could be used to request additional spending from the state budget.

Even more than in Estonia, these modest victories for the Commission's efforts to use RRF funding, and the milestones and targets associated with its performance-based financing system, came at the expense of broad national ownership and support for the plan's objectives, while amplifying the leverage of domestic social policy advocates within and beyond government, including the trade unions and the Ministries of Health and Social Welfare.

3.3.2.9 CONTRASTING CASES: GERMANY AND THE NETHERLANDS

Even for Germany, there is some evidence that interactions with the Commission influenced the content of the RRP. The German plan includes reforms to reduce barriers to public investment, especially at the local level, in line with previous CSRs. Interviewees claim that "We would not have implemented this reform if there was not a pressure from the RRF".[90] In the Netherlands, there were many rounds of negotiations, involving at least 50 meetings, despite the fact that all RRF projects in the Dutch plan replaced previously budgeted expenses, which the Commission could not do anything about because this was permitted by the RRF regulation. The Commission was perceived as "hard but fair" in the negotiations, which covered thematic requirements of the RRF: reforms; DNSH; cost justification; and drafting of milestones, on which the Commission sometimes made useful suggestions. One Dutch official claimed that every MS got one "joker" from the Commission, an area of CSR implementation on which they were allowed to push back – in the Dutch case, this seems to have been accelerated phasing out of the mortgage interest tax deduction, for which the Commission had long advocated (NL-GOV1[91]).

3.3.2.10 COMPARATIVE CONCLUSIONS

For the most part, the Commission's role in the drafting of the NRRPs in the eight MSs covered in our sample (plus Germany and the Netherlands) seems to have been closely aligned with the responsibilities assigned to it in the RRF regulation, especially the criteria for assessment and approval of the NRRPs. In relation to the overall design of the NRRPs and the approval of specific expenditure components, the Commission appears to have played the role of gatekeeper,[92] focused on ensuring respect for the requirements of the RRF regulation: notably, the overall coherence of the plan, including the balance and complementarity between investments and reforms – difficult at least initially in some MSs (Latvia and Estonia, but also Croatia and Italy); conformity with green and digital expenditure floors and respect for the DNSH principle (very difficult and laborious for many administrations); operationalisation of milestones, targets, verification indicators and cost justifications; and the construction of robust administrative arrangements for coordination, monitoring and reporting on the implementation of investments and reforms.

> "The Commission went beyond this gatekeeper role, serving effectively as a consultant to MSs, to ensure that their plans would be effectively implemented."

In many cases, the Commission went beyond this gatekeeper role, serving effectively as a consultant to MSs, to ensure that their plans would be effectively implemented, for example, by advising national administrations to reduce and simplify the numbers of milestones and targets or to adjust the timetable for project completion (Portugal, Spain, Croatia and Italy). The more ambitious the national plans, and the weaker the administrative capacities of the MS in question, the greater was the Commission's consultancy role.

With regard to investments, the Commission seems to have been prepared to defer to MS preferences in the name of promoting national ownership, as long as these conformed to the RRF requirements, even where it was critical of the specific choices involved (e.g. the Portuguese dam project and the Tallinn hospital in Estonia), pushing, at most, for marginal shifts in the allocation of funds within and between projects. Other examples included limited shifts in spending on reducing inequality in Latvia from roads and industrial parks to improving social services, and greater attention to vulnerable regions and groups in Croatian ALMP projects.

Concerning reforms, the Commission's role in shaping and steering the drafting of NRRPs was stronger than in the case of investments, both in pressing for a balance between reforms and investments where this was initially missing in some national plans (e.g. Italy, Croatia and Latvia), and in pressing for reform measures to address key CSRs, especially where major social vulnerabilities were identified in the EPSR Social Scoreboard. The most contentious interactions concerned MSs that combined longstanding resistance to implementing social CSRs with poor performance on Social Scoreboard indicators (Estonia and Latvia). There the Commission insisted on inclusion of reforms addressing these issues in the NRRPs as a condition of their approval, despite the fact that the measures in question required ongoing expenditures from the national budget which could not be financed from the RRF. In other cases, notably the Spanish labour market reform, the Commission intervened in the domestic political debate to argue that the proposed reform should be balanced in relation to the objectives of the CSRs, in this instance, reducing dualism and promoting a transition from temporary to permanent contracts on one hand, without reducing flexibility and job mobility on the other. In so doing, the Commission strengthened the hand of the Socialist Party against its coalition partner Podemos, which was demanding a full abrogation of the 2012 reforms introduced by the conservative Rajoy government during the euro crisis.[93]

> The more ambitious the national plans, and the weaker the administrative capacities of the MS in question, the greater was the Commission's consultancy role.

In most cases, however, the Commission was prepared to defer to domestic policy choices and negotiating timetables to enhance national ownership of reforms, while ensuring that the specific measures proposed would not run contrary to specific recommendations of the CSRs and that their underlying objective would be addressed by a different route. Thus, the Commission and Spain agreed not to define the precise content of the proposed labour market and pension reforms in its RRP milestones, to leave room for a genuine process of negotiation with social partners. In relation to pension reforms more generally, the Commission agreed that the Spanish and Croatian RRPs could deviate from its longstanding recommendation to index the statutory pensionable age to longevity (addressed repeatedly to MSs under the European Semester since 2012),[94] since these MSs committed to introducing active ageing measures aimed at raising the effective age of retirement and improving the contributory capacity of the system. Only in rare cases, notably that of the Latvian GMI, did the Commission insist on the inclusion of a specific measure in the NRRPs (aimed here at ensuring, through a regular revision procedure, that the minimum income threshold not be allowed to fall below 20% of the median income), as opposed to leaving it to the MS to propose its own means of addressing the CSR in question.

The most significant disparities between the role played by the Commission in shaping and steering the drafting of the NRRPs across MSs concerned the extent to which it pressed for them to address the full set of CSRs. To recall, the RRF regulation stipulates that NRRPs should contribute "to effectively addressing all or a significant subset of challenges identified in the CSRs, taking into account the financial allocation provided to MS, and the scope and scale of country-specific challenges". In practice, this has meant that the Commission started negotiations with the ambition to see all CSRs addressed as far as possible, but for countries that receive a smaller amount the leverage to achieve this has been much smaller. And, indeed, as we have seen, MSs like Germany, the Netherlands, Belgium and, to some extent Austria, whose RRF grant allocations ranged between 0.55% and 1.12% of GDP, were permitted by the Commission to leave a substantial subset of their CSRs, in the social and other policy spheres, unaddressed. Thus, the German plan leaves a number of CSRs, such as sustainability of pensions, tax measures on avoiding disincentives to work, the tax wedge on labour and reform of regulated professions mostly unaddressed. But even among countries that did receive very substantial grant allocations from the RRF, there were considerable variations in the extent to which the Commission insisted that they address the full set of CSR challenges in their NRRP. For a country like Croatia, the Commission expected it to address all CSRs. Croatian officials also considered it legitimate for the Commission to push them in terms of the adequate level of reform (HR-GOV1). In Estonia and Latvia, too, as our interviewees on both sides observed, Commission officials likewise insisted that social challenges identified in the CSRs be addressed in the RRPs as a condition of their approval, despite their lower relative level of RRF funding (3.2% for Estonia and 5.6% for Latvia). By contrast, in the case of Italy (10.8% of GDP), we did not find evidence that the Commission tried to push the government to raise its ambition beyond the minimal requirement of addressing a significant subset of CSRs, despite the substantial coverage gaps in the plan documented in section 3.3.2.5 above.[95]

While our interviews do not specifically address the question of how to explain these disparities in the treatment of MSs with similar levels of RRF funding and social challenges identified in the CSRs and Social Scoreboard, it is difficult to avoid the conclusion that country size and other political considerations may have played a role.

3. DRAFTING THE NRRPS: BETWEEN NATIONAL GOVERNMENTS, DOMESTIC STAKEHOLDERS AND THE EUROPEAN COMMISSION

TABLE 1. Drafting the NRRPs: A Cross-National Comparison

MEMBER STATE	OWNERSHIP AND AMBITION	INVOLVEMENT OF DOMESTIC STAKEHOLDERS	NEGOTIATIONS WITH THE COMMISSION
BELGIUM	• Multiple CSRs unaddressed • Lack of detail • Level of ambition low • Ownership comparatively high	• NRRP based on regional plans • Strong social partnership arrangements • Stakeholder involvement high	• Centred on coherence of regional plans and ensuring focus on priorities • Commission also steered plan's substantive direction, e.g. childcare in Wallonia
CROATIA	• One of the biggest recipients of RRF funding in relative terms • High level of ambition, covering almost all CSRs • Ambitious social investment agenda • High domestic ownership	• Formal stakeholder consultations, but low involvement in plan drafting • Strong criticism by opposition parties of lack of information sharing and substantive parliamentary involvement	• Substantial Commission influence on plan ambition and coherence • Croatia maintained certain red lines, rejecting an increase in the statutory pension age, but had to show how it would boost the effective retirement age
ESTONIA	• Initial version of the RRP centered on major investment in a new hospital in the capital, later dropped because of cost inflation • National ownership low because of limited domestic political support for social reforms requested by the Commission	• RRP formulated top-down, while incorporating key elements of the national development strategy • Limited consultation of social partners	• Commission accepted the government's determination to build the Tallinn hospital • Commission pushed for significant social reforms to be financed from the national budget, principally long-term care and social insurance
ITALY	• NRRP is largest in EU in absolute terms, including national resources • Seen as a "now or never" opportunity to implement blocked investments and reforms • Plan includes substantial social investments, but does not address all CSRs • Draghi government doubled the number of reforms, especially in public administration, justice, and competition	• Drafting of plan highly centralized • Some consultation of regions, municipalities, social partners, and civil society, but substantive involvement and impact very limited	• Commission pressed the administration to enhance strategic coherence, justify investment choices, and increase number and detail of reforms • Did not insist that Italy address the full set of CSRs, e.g. on taxation and social safety net
LATVIA	• Plan focuses on marginal improvements in line with established policy directions • Low domestic ownership due to weak support for social and health reforms requested by the Commission	• Due to low involvement in final drafting stages, social partners remain very critical of the plan	• Commission was able to secure one social and several health reforms as a condition of plan approval • By pushing for these measures, the Commision has modestly empowered the relevant ministries

MEMBER STATE	OWNERSHIP AND AMBITION	INVOLVEMENT OF DOMESTIC STAKEHOLDERS	NEGOTIATIONS WITH THE COMMISSION
PORTUGAL	• A particularly ambitious plan, with almost half of expenditure devoted to social commitments • Plan ownership is very high, due to an inclusive drafting process and focus on reversing social damages of austerity and public underinvestment	• Based on an earlier national plan, the RRP was formulated with relatively high involvement of social actors, who were repeatedly consulted on draft measures	• Negotiations were rather smooth, due to overlapping priorities between the Socialist government and the Commission • The main conflict regarded the investment in constructing the Pisão Dam, opposed by the Commission and environmental NGOs
SLOVAKIA	• New government sought to make maximum use of the RRP by including a wide array of investments and reforms • Plan is seen as contributing significantly to economic growth, employment creation, and CSR implementation	• Slovakia organized an online consultation and roundtables on the plan • But social partners mostly disappointed with the quality of their involvement • Little substantive debate on plan priorities in Parliament	• Given the plan's high level of ambition, Commission focused primarily on ensuring adequate detail of proposals and focus on priorities
SPAIN	• Very high level of ownership and ambition • Plan seen as a historic opportunity to compensate for social damages of austerity and public underinvestment • Plan addresses all social CSRs, and includes major labour market and pension reforms	• Plan design was a "choral exercise" within the government • Regions and social partners were consulted, though some regions did not feel sufficiently involved on issues such as childcare	• Commission allowed Spain to leave open provisions of key reforms to facilitate social dialogue • Commission pressed Spain to adopt a balanced labour market reform, as requested by the CSR, rather than completely abrogating the previous Conservative government's reform • Commission accepted indexation of pension benefits to prices and decoupling of their initial level from life expectancy, alongside a package of active ageing measures aimed at increasing employment of older workers • Commission encouraged the Spanish authorities to reduce the number of milestones and targets to enhance plan implementability.

4. IMPLEMENTATION AND MONITORING OF THE NRRPS

4.1 CENTRALISATION OF AUTHORITY AND DECISION

The most visible and widespread effect of the NRRPs, common across all MSs covered in our study, was to reinforce the centralisation of authority and decision-making within national governments. Such centralisation is a natural consequence of the RRF's requirements for MSs to establish effective domestic arrangements for implementing and monitoring NRRP commitments (reforms, investments, milestones, targets, timetables), and to maintain a single national point of contact for verifying the fulfilment of the relevant milestones and targets in support of scheduled payment requests. Their effectiveness formed a crucial criterion for the Commission's assessment of the NRRPs, which were further elaborated and given binding effect in the CIDs and the bilateral operational arrangement agreements between the Commission and MSs.[96]

While the countries covered in our study varied in the extent to which they created new bodies to perform the coordination, monitoring, reporting and auditing functions required for NRRP implementation or assigned them to existing administrative units, in all cases, the result of these arrangements has been to concentrate authority in the hands of PM's offices and Ministries of Finance and reinforce the centralisation of decision-making at the national level.

The only partial exceptions to this broad centralising trend associated with the NRRPs, as one would expect from our account of their drafting in the previous section, are Spain, Portugal and Belgium. In **Spain**, involvement of the autonomous regional communities through sectoral conferences in the implementation of the RRP has been more intense than in the preceding drafting phase, with numerous regular meetings of the sectoral conferences and their working groups. In **Portugal**, representatives of the social partners and key civil society figures sit on a national commission to monitor the plan, although, as in **Italy**, the involvement of municipalities in the implementation process is focused primarily on contracting with central authorities to serve as "intermediary" or "final beneficiaries" in carrying out specific investment projects. It remains unclear what practical role this national commission plays in the implementation of the RRP. In **Belgium**, where the RRF did not allow for separate regional plans, the domestic arrangements for implementation and monitoring have been designed to minimise interdependence between the regions in the fulfilment of targets and submission of payment requests. Every target has a specific entity in control, and all the subtargets align with regional competences. In terms of monitoring, the federal government communicates with the Commission on aggregate national targets, while an internal structure monitors regional targets. This arrangement has been established to try to prevent a situation where some regions might suffer delay or denial of payment because another region is not delivering on its commitments. Meanwhile, the Commission, also for reasons of time pressure and efficiency, works with a single point of contact in negotiations and monitoring, which is the cabinet of the federal state secretary. As noted in the previous section, this pushes Belgium to behave more as a unitary actor than the regional governments would like.

"The most visible and widespread effect of the NRRPs, common across all MSs covered in our study, was to reinforce the centralisation of authority and decision-making within national governments."

4.2 LEVERAGING MILESTONES AND TARGETS

As anticipated in the previous section, a major attraction of the RRF's performance-based financing model for national governments is the enhanced leverage for overcoming domestic opposition to controversial reforms and streamlining the delivery of investments created by the tight linkage between the fulfilment of milestones and targets, on one hand, and the approval of payment requests on the other. In a number of cases, as we have seen, national governments included key elements of their political programmes in the NRRPs in an explicit strategy of "hand tying" or "*vincolo esterno*" aimed at using the external constraint of commitment to the EU as a critical resource in pushing them through the policy process.[97]

> "A major attraction of the RRF's performance-based financing model for national governments is the enhanced leverage for overcoming domestic opposition to controversial reforms and streamlining the delivery of investments."

Perhaps the most striking example of this strategy was the liberalisation of closed professions in **Portugal**, where the socialist government, encouraged by the Commission, used the designation of this measure as a milestone in the RRP as a lever to push through this measure in the face of ferocious opposition from the professional "orders", which had defeated previous reform measures. EU officials observed that the government used the RRP to carry through reforms which might have been difficult for them otherwise by telling opponents of their implementation that if the country doesn't keep its promises to the Commission, it won't get the RRF money (EU6).

In **Croatia**, the government likewise used its RRP commitments as a deliberate strategy to push through reform measures and accelerate the delivery of policy outcomes, both within and beyond government. The Commission and the PM's office coordinated closely to leverage the instrument by making sure that each part of the administration would deliver on the RRP commitments and using them to put extra pressure on actors who may not otherwise have seen the big picture.[98] As one domestic official confirmed,

> *When you have that kind of pressure, nobody wants to be the last one, because if you're not fulfilling your indicator, we cannot request the payment […] Then the other ministries will say, 'look, I'm implementing my reforms and you are not. I'm going to be punished because you are slow'. (HR-GOV1)*

Croatian interviewees, moreover, often refer to the transparency of commitments created by the RRF's performance-based management system not only as a source of political leverage for the government but also as an accountability mechanism. The fact that what will have to be delivered according to which timetable is transparent for all involved creates not only internal pressure but also pressure from the public and parliament (HR-GOV4).

In **Slovakia**, similarly, national authorities see the RRP as a crucial power resource for pushing through promised reforms. According to one central government official,

> *If it weren't for the RRF, many things wouldn't happen in Slovakia […] The clarity of the milestones and targets, the pressure, the constant communication with the Commission, we are using that, we are putting pressure on the politicians, and it is helping. We are leveraging this instrument. (SK-GOV1)*

A key case in point is pension reform, which was passed by parliament at the end of 2022 under serious pressure from the RRF. According to interviewees, politicians, economists and technocratic institutions all referred to the RRF and the need to fulfil the milestone during the legislative process. As one interviewee observed: "without having this strong tool, this RRF, based on my experience in this area, we would have never passed this law in parliament" (SK-GOV2). Interviewees confirmed that the pressure from the RRF created potential reputational damage to anyone who would oppose it. The reform was approved two days before the first official payment request was submitted to the Commission.

4. IMPLEMENTATION AND MONITORING OF THE NRRPS

As in Croatia, some Slovak interviewees consider the performance-based management system of the RRF not merely as a source of leverage but also as an accountability mechanism for ensuring that political commitments are made concrete and visible to the public and media with clear deadlines to deliver: "The RRP is completely different, promises are now being strictly followed and closely watched, this is the biggest advantage. Perhaps for other countries it is negative that they have this external pressure, but for us it is very useful" (SK-GOV3).

In **Italy**, too, central government officials consciously use RRP commitments to push forward implementation of investment projects through the bureaucracy: "we are able to tell them to realise the selected project because we are committed to it. This performance-based approach is something that is helping us to overcome resistance".[99] More generally, a top official observed that

> *milestones and targets are a novel tool but they can be useful in the management of of other national investment policies as well[…] They are a big opportunity for modernisation of public administration in general…With RRF asking for deadlines to be met in order to make the disbursements, we have a relevant lever to make sure all actors get there, even when it comes to other levels of government. Milestones and targets require more ex-ante control, which is what our public administration needs to work better.*

At the same time, however, this interviewee emphasised that no less important than effective monitoring of milestones and targets is to ensure that local units have the capacity to implement agreed commitments:

> *In a country like ours, which is unequal in terms of administrative capacity, one issue is how to make sure all local authorities have the legs to get things done in time. This opens up other considerations, for example, whether the plan should also have allowed for expenditure for technical assistance. (IT-GOV1)*

While top government officials in **Spain** support the performance-based financing system of the RRF as a commitment device, they place less emphasis on the leverage provided by such external constraints than on the national ownership created by the RRP process itself in supplying traction for the passage of ambitious reforms.

> *This new approach of national ownership has implied that we are finding in a country with a politically […] fragmented government, we have managed to approve and pass many reforms […] that otherwise could have been a bit more difficult. Strong emphasis has been put on social dialogue and consensus with social partners. But it has been a challenge too. Having the deadline for approving the reforms set in stone in the CID doesn't cope well with the dynamics of social dialogue. (ES-GOV1)*

Conversely, where national ownership of plan commitments is absent, the pressure on public officials to deliver on milestones and targets is correspondingly weaker. Thus, for example, in **Germany**,

> *The main problem of the implementation system is that there no sanctioning system if the other ministries don't implement the measures they promise to implement. They know we have the financial resources to cover the costs. The problem in this case is for the Ministry of Finance that will have to report the unmet milestones and targets.[100]*

While the external constraints resulting from tying the timely fulfilment of milestones and targets to approval of RRF payments have undoubtedly provided national governments with added leverage to push controversial reforms through the political process, overcoming resistance from domestic veto players, as argued by the political economy literature discussed in Section 2, as well as to put pressure on administrative actors at both national and local levels to deliver on agreed commitments, such leverage can also be seen as a double-edged sword.

The dependency of RRF payment requests on the timely completion of specific milestones and targets can also create opportunities for holdup and side-payment demands by domestic veto players with lower commitment to the plan's objectives. Thus, for example, in **Slovakia**, the high value that the government attaches to the implementation of plan commitments on schedule also gives leverage to its opponents. Precisely because politicians are aware that issues linked to milestones need to be passed on time to obtain the next tranche of funding, this allows them to demand deals on unrelated issues in exchange for political support, as was the case in justice reforms. According to interviewees, this reform took longer than initially foreseen, precisely because it was linked to the RRF, and therefore, susceptible to political holdup (SK-GOV3). Since December 2022, when the governing coalition in Slovakia lost its majority, several large reforms have been delayed or blocked by parliament, whereas their timely implementation is a requirement to obtain the next tranche of funding, thus increasing political tension.

In other cases, governments may overestimate the feasibility of getting promised reforms through the political process, resulting in unanticipated reversals of commitments that can threaten the approval of RRF payment requests. Thus, for example, in **Lithuania**, a MS not covered in our study, the Commission recently proposed to reduce the amount of support to be paid out to the MS under the latest payment request, because of the country's failure to fulfil two milestones concerning the adoption of a wide-ranging tax reform, which the government no longer feels able to push through parliament. According to the partial payment provisions of the RRF regulation (article 24.6), under which the Commission's actions were taken, Lithuania now has six months to complete the outstanding milestones before losing the associated funds altogether.[101]

Similarly, in the **Netherlands**, where parliamentarians are largely unaware that half of the plans in the coalition agreement have been included as RRF milestones, the results of recent provincial elections reduce the coalition parties' seats in the senate, where the government already lacked a majority, thereby threatening the enactment of a major pension reform promised in the RRP, the passage of which was already overdue.[102]

Fearing precisely such political contingencies and reverse leverage, governments in some countries resisted including certain reform commitments as milestones in their NRRPs. In Estonia, for example, as one official from the Ministry of Social Affairs argued:

> *The Commission would say: this is how democracy works, other countries are doing the same thing, taking commitments in the RRF that are part of the CSRs and benefit the society as a whole, yes, you are good to sign up on those. But our government would say: yes, but there are specific details that we haven't agreed on, even within this government. We cannot take commitments for the next generations to come. How can you promise anything, if you don't know whether it will be approved by the parliament? (EE-GOV2)*

In the longer term, there is a serious risk that, as governments change and national ownership of plan objectives declines, the *vincolo esterno* strategy of tying reform commitments to external constraints will start to yield diminishing or even negative returns, as occurred in the past in Italy, where the strategy originated during preparations for euro membership during the 1990s.[103] As one top Italian official told us:

> Over time, it is illusory to think [...] that we will be able to use the performance plan to overcome the drawbacks of the European Semester, in particular as concerns the adoption of structural reforms. As governments change over time and during the implementation of the plan, it could be difficult to "force" reforms. This time there was a great level of ambition in Italy and there was a national will. There was a commonality of purpose, but how sustainable is it when it comes to enforcing CSRs which might not be acknowledged by a member state? The approach must be balanced way or it will sooner or later be a breaking element instead of a cohesive element between countries. (IT-GOV1)

"In the longer term, there is a serious risk that, as governments change and national ownership of plan objectives declines, the *vincolo esterno* strategy of tying reform commitments to external constraints will start to yield diminishing or even negative returns."

4.3 STAKEHOLDER EXCLUSION AS A SOURCE OF IMPLEMENTATION PROBLEMS

In most MSs, as we saw in the previous section, involvement of domestic stakeholders, such as social partners and local and regional authorities, in the drafting of NRRP objectives, milestones and targets was extremely limited. A recent Eurofound study has found no significant improvement in the involvement of the social partners in the implementation process.[104] To what extent has such limited stakeholder involvement in the upstream drafting of the plans proved to be a source of practical difficulties in the downstream implementation of reforms and investments?

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In most MSs, involvement of domestic stakeholders, such as social partners and local and regional authorities, in the drafting of NRRP objectives, milestones and targets was extremely limited.

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In some cases, key stakeholders, such as trade unions, have been prepared to go along with the implementation of major reforms on whose initial design they had not been properly consulted, provided that they support the underlying objectives involved. Thus, for example, in **Croatia** social partners were included only in the final stages of drafting a far-reaching package of labour reforms for reasons of time pressure. Ministerial officials reasoned that the plans were based on strategic documents on which the social partners had already been consulted, but the latter were surprised about some elements of the proposed measures, which they had not anticipated. In the implementation phase, social partners were fully engaged in an intense set of negotiations involving some 60 meetings over 18 months, pushed forward by an impending milestone which imposed further intense time pressure on the process. Here, as on other major reforms, the government used the RRF’s performance-based financing system to ensure a result, arguing that "if we don’t do this reform, nobody will give us the money, all the milestones need to be achieved for this" (HR-GOV3). Such pressure in this case, as one representative explained, was welcomed by the unions for strategic reasons:

> *In general, requiring the government to have a deadline is a bad thing […] But in this process, we did not have a negative experience, because it has been going on for a long time. We all wanted to finish quickly and have a decision; all of our positions were known. (HR-GOV4)*

Employers’ organisations too were mostly satisfied with the reform, although they would have liked to see greater attention to support for private investment in the RRP more generally (HR-SOCPART2).[105]

In other cases, however, failure to ensure advance political buy-in from domestic stakeholders has created more serious problems in the implementation of promised reforms. Here again **Croatia** offers a striking example. The country has 200 local water services, mostly controlled by municipalities, which the government considers inefficient, as local authorities have a lot of discretion over finances and hiring policies. Previous reform efforts failed in the face of opposition from local authorities. To overcome such opposition, the government included a major reform in the RRP, setting a specific target for reducing the number of service providers to 40. This arbitrary target means that small islands with a self-sufficient water supply are now obliged to merge with bigger islands. Regional authorities were included in official consultations, leading to over 200 comments on the reform, but the law was adopted by the government before responding to any of the comments, so that it is unclear what became of their input. Local actors felt there was no discussion possible about the target and who should merge with whom as a result, as it was already fixed in the RRP, and thus, binding. "They told the municipalities we have to do this fast because of the RRF, so you cannot question this" (HR-EXP1). Research into the case finds that, while many municipalities support the goal of the reform, they disagreed with the process, where the RRF performance-based management system was used as a straitjacket.[106] Regional authorities went to the Constitutional Court in response, an unusual step in Croatia. In early February 2023, the Constitutional Court ruled in favour of the municipalities, arguing that the process of consultation and access to information had been inadequate and that the adoption process of the law must be redone all over again.[107][108]

In the case of investments, unlike that of reforms, the central problem created by inadequate involvement of domestic stakeholders in the drafting process is less that of opposition from dissatisfied parties than of reduced implementability of the projects themselves. In **Italy**, for example, local authorities, as we have seen, were not involved in the design of plans to expand the infrastructure for the provision of early child education and care (ECEC) services, one of the major social investments included in the RRP. The tight deadline to complete these investments by the end of 2026, coupled with the strict rules governing the allocation of RRF funding, pushed the Italian authorities to rely heavily on open public tenders, which, especially in the case of social service investments, is a complex and competitive allocation approach that impedes territorial units with lower administrative capacity from presenting fundable projects. In the case of ECEC services, even though the tender process was reopened three times in 2022 to allow more local authorities to participate, especially from the south, the ranking of approved projects starkly shows that a large number of municipalities with little or no existing supply of childcare places chose not to participate, or preferred to concentrate – especially in the south – on kindergartens rather than nurseries, contrary to the purpose of the initiative, which is aimed at boosting women's labour force participation, as well as improving the cognitive and educational development of children themselves. An additional reason for municipalities not submitting projects is linked to the difficulties they foresee in coping with infrastructure maintenance and recurrent costs for personnel, which cannot be covered by RRF funds. This combination of public procurement delays, difficulties of financing recurrent costs and the lack of valid projects submitted by local authorities, especially in southern regions, risks undermining the objectives of the measure. In the meantime, the national government decided to allow derogations from the initial regional cap on the number of places and to allow municipalities to use resources to create new preschool places, thus undermining two of the investment's key objectives, to ensure a balanced distribution of projects across regions and to focus resources on care services for the youngest children.[109]

In **Spain**, too, despite the system of sectoral conferences with the autonomous regional communities, the latter were not deeply involved in the design some of the key investment projects for whose implementation they are mainly responsible. In childcare services, for example, whereas in Italy the RRP envisages the creation of a large number of new places, some regions have complained about the distribution criteria of the funds that do not account for the actual balance of public and private providers, with the risk of leaving some money unspent due to the incapacity to "reinvent", in a very short period of time, a publicly provided service in areas where it is currently provided by the private sector. While, unlike in Italy, the RRF envelope for childcare services in Spain does cover current expenditure on a temporary transitional basis for two thirds of the envisaged places, there is nonetheless a similar risk that some municipalities will renounce the creation of these places in the coming years due to a lack of funds for future maintenance costs.[110]

4.4 MONITORING MILESTONES AND TARGETS: BETWEEN PRECISION AND PURPOSE

4.4.1 THE COMMISSION AS ASSESSOR AND ADVISOR

The Commission's role in the monitoring and assessment of the fulfilment of milestones and targets is, if anything, greater than in the drafting and approval of the NRRPs themselves. For every payment request submitted by MSs, the Commission must verify the fulfilment of the relevant milestones and targets included in the CID, based on detailed indicators and documentation specified in the bilateral operational arrangements agreed with national governments. Much of the work of preparing for the assessment of national payment requests, therefore, took place upfront, during the drafting of the NRRPs and operational arrangements themselves, where MSs were required to commit not only to milestones and targets for each investment and reform, but also to the provision of specific documentary evidence for the verification of their fulfilment. These were the "huge Excel tables" to which the Italian official quoted in the previous section referred.

4. IMPLEMENTATION AND MONITORING OF THE NRRPS

At the same time, however, as our interviewees on both sides emphasised, the Commission is not the final decisionmaker for the approval of NRRP payment requests. As laid down in the RRF regulation, the Commission's preliminary assessment of the satisfactory fulfilment of the milestones and targets underlying these payment requests is subject to review by the Economic and Financial Committee (EFC), an advisory body to the Council composed of high-level officials from national finance and economics ministries. The Commission must take account of the EFC's opinion in its final implementing decision on each payment request, which must, in turn, be approved by a comitology committee of MS representatives. If one or more MSs disagree with a positive opinion by the EFC, considering that "there are serious deviations from the satisfactory fulfilment of the relevant milestones and targets", they may escalate the issue to the European Council for further discussion, until which time (normally a maximum of three months), the decision is suspended. This is the so-called "emergency brake", which has so far never been activated, inserted in the RRF arrangements at the insistence of the Netherlands during negotiations in the European Council over the NextGenEU package.[111]

In addition, the European Court of Auditors (ECA) has tasked itself with reviewing the Commission's control system for managing the implementation of the RRF, auditing its handling of specific payment requests, and making a series of detailed recommendations for tightening up and formalising the procedures for verifying the satisfactory fulfilment of milestones and targets.[112]

Given the multistage structure of the payment approval process, the Commission thus plays a dual role in the monitoring and review of milestones and targets, advising MSs on what they need to deliver, both substantively and in terms of documentation, to get their disbursement requests through the EFC and the Council, while, at the same time, serving as the primary assessor of satisfactory fulfilment of these commitments itself.[113]

In all the MSs covered in our study, national officials responsible for coordinating the RRP meet both formally and informally on an extremely frequent basis – in some cases, once per week – with Commission representatives at different levels to review the implementation status of milestones and targets. In these informal discussions, as one **Portuguese** official explained,

> *we address – what seems to be the most important concern of the Commission – that the evidence we present for the completion of milestones and targets [is adequate]. It allows us to anticipate issues with implementing reforms and investments, in understanding any possible differences in interpretation. (PT-GOV3)*

In some countries, such as **Italy** and **Croatia**, the Commission has even been given an opportunity to review and comment on draft legislation before it has been submitted to the parliament; in others, such as **Spain** (and **Croatia**), the Commission could give its input once draft legislation entered the public consultation process.[114]

4.4.2 INFORMATION ASYMMETRY AND INTERPRETIVE INFLEXIBILITY

A key challenge in monitoring and evaluating the fulfilment of milestones and targets is the structural asymmetry of information between the Commission and the MSs. The Commission has reinforced its capacity for monitoring the implementation process by expanding the country teams led by SG RECOVER and DG ECFIN, drawing on expertise from the European Semester officers and the other sectoral DGs. But as its officials freely acknowledge, even if their numbers have increased to cope with the new tasks of RRF implementation monitoring, the Commission will always be more limited in terms of staff and analytical capacity compared to MSs themselves (EU7).

"A key challenge in monitoring and evaluating the fulfilment of milestones and targets is the structural asymmetry of information between the Commission and the MSs."

In some cases, the gaming behaviour enabled by this informational asymmetry manifested already itself in the NRRP drafting phase, as national administrations, anticipating that they would be held financially accountable for the fulfilment of reform and investment commitments, deliberately set ambiguous or unambitious milestones and targets that they felt certain of being able to meet – sometimes because they had already done so before the plan was submitted. **Croatia**, for example, consciously set a target of reducing the share of temporary contracts to 17%, simply based on a national pre-existing target of reducing such contracts from 18% in 2019 to 15% by 2030 and without negotiating it with social partners. Improved labour market conditions had meanwhile pushed down the share of temporary contracts to 15.2% in 2020 and 13.5% in 2021 when the plan was approved, making the target irrelevant.[115] In the **Netherlands**, similarly, the targets for the number of pig farmers to be bought out to reduce ammonia emissions, odour nuisance and nitrogen deposits on Natura 2000 sites were set just below those achieved at the time the RRP was submitted; had the original national targets for this investment programme been included in the plan, they would have been missed by more than one third.[116] In **Latvia**, the Ministry of Health, building on its long experience in managing EU cohesion policy funds, deliberately set its RRP targets in an open way that allowed accommodation of unanticipated developments, such as price increases. As one senior official explained, "we said that we would support ten institutions to improve the epidemiological situation […] but we did not specify the scope. I can do half of the hospital or one fourth" (LV-GOV5).

In other cases, conversely, the limited monitoring capacities of the Commission and division of labour laid down in the RRF regulation inhibited MSs from setting more granular targets, even where they might have been willing to do so. Thus, for example, both **Italy** and **Spain** set aggregate national targets for investments in ALMP and childcare services, which do not take account low uptake by local authorities in disadvantaged regions in monitoring and assessing their fulfilment. While national governments are solely responsible for plan implementation and monitoring, according to the RRF regulation, this failure to specify regionally disaggregated targets for key social investments is also linked to the Commission's limited capacity to review national measures at lower administrative levels, due to its lack of detailed local knowledge and insufficient personnel.[117]

Another striking example of the role of information asymmetry in the assessment of national milestones and targets concerns the Pisão Dam, the most controversial project in the Portuguese RRP. Here, the Commission's lack of detailed local knowledge and technical expertise left it dependent on an independent environmental impact assessment, the findings of which have been harshly criticised by domestic NGOs (EU7).

In some MSs, a high level of information sharing between national administrations and the Commission on progress in implementing agreed commitments has made the latter more willing to accept deviations from milestones and targets inscribed in the NRRPs. In **Croatia**, for example, the government had committed to its milestone for the reform of the minimum wage to set mandatory levels for overtime, nightwork, Sundays and public holidays. In the negotiations with social partners, the trade unions pushed back on this issue, demanding more space for collective bargaining. Croatia thus deviated from its promised milestone, but still delivered on the underlying goal to ensure increases in pay for overtime, while leaving the precise amount negotiable. Since the law recognises the right for extra pay, the Commission considers the milestone satisfactorily fulfilled and sees leaving the quantification of the amount open to bargaining as a good solution.[118] This flexibility is seen as an important condition for effective RRF governance (HR-GOV3). But Croatia did have to send proof of 58 collective agreements to show that they contained provisions quantifying minimum wage increases for non-standard working time. Also, the government agreed to a safety trigger: if in two years no real improvement is achieved, the law will be reopened.

In other MSs, such as **Estonia** and **Latvia**, where the drafting of the RRPs was more contentious and adversarial, modification of milestones and targets – by slightly changing the content or the timetable of a promised reform to accommodate unforeseen political developments – are difficult and sometimes impossible to achieve (EE-GOV6, EE-GOV7). In **Latvia**, according to a senior official at the Ministry of Finance: "Out of nine initial milestones, at least two […] led to intense and heated discussions with the Commission, to prove that a small deviation from the initially set milestone, does not essentially change its scope, goal and added value" (LV-GOV1). One case concerned the public procurement law, whose scope was wider and deeper than initially approved, while the measure was not set to become immediately effective after approval as agreed. The other concerned the reform of remote teaching at schools, where the implementation date was changed after consultations with municipalities and unions, which had not been properly consulted previously. In the end, after intense negotiations, a mutually acceptable agreement was reached, because as our interviewee put it, "the Commission officials, at the operational level, are very interested to solve such situations, they understand that otherwise the instrument would not work" (LV-GOV1).

Part of the problem here is the Commission's need to be able to respond convincingly to concerns raised by suspicious MSs in the EFC. As the same Latvian official explained:

> *We were present when the Commission had to present at the ECOFIN (sic) and defend their assessment of our first payment request (regarding the nine milestones), and the approach by some of the frugal member states – such as the Netherlands, Germany, Sweden, etc. – they really put effort there, they really read, check and scrutinise each milestone, ask questions to the Commission, as to why it has assessed positively Latvia's or other member states' payment requests […] So we understand the Commission, it is not their whim to scrutinise everything in that detailed fashion and so literally. Every payment request has to be approved not only by the Commission, but also by the […] auditors, and also all member states. (LV-GOV1)*

By common agreement among our interviewees, this problem of interpretive inflexibility in assessing minor deviations from the literal text of the milestones and targets has become much worse due to the interventions of the ECA. In its 2021 Annual Report, the ECA criticised the Commission's approval of the first Spanish payment (the only one that had been submitted at that time). The ECA objected that neither the documentation provided by the Spanish authorities nor the Commission's assessment had addressed whether the medium-term objective of one of the milestones, namely, to ensure a minimum 15% corporate tax rate, had actually been achieved by the time of the payment request, although the regulatory modifications specified in the milestone had, in fact, entered into force by the promised date.[119] The Commission argued in its reply to the ECA that the descriptions of the reform measures to be undertaken represent a separate part of the CID, which are not "always relevant to the assessment of the satisfactory fulfilment of the milestones and targets."[120]

The Commission disagrees fundamentally with the ECA's assessment of this milestone.[121] But in response to the ECA's public criticism, the Commission itself appears to have adopted an increasingly literal-minded and inflexible approach to the assessment of milestones and targets. In **Spain**, for example, a top official observed that

> what we are finding is that the Commission is increasingly being more stringent and more rigid in their assessment and asking and requiring more evidence that goes far beyond what was signed in the operational arrangement verification mechanism document and the reason for this, as the Commission puts it is that the European Court of Auditors is in their neck […] This is imposing rigidity that goes against the true spirit of the RRF, which was to have a real impact on the economy by transforming it in an expeditious manner (ES-GOV1)

In **Portugal**, a leading official involved in the RRP coordination process likewise remarked that

> *there is an increased focus of the Commission, based also on the ECA opinion […] on the very legal side of evaluating the deployment of investments and reforms […] I think we are going further away from substance and are more concerned with how the legal team looks at every line of the Council Implementing Decision, whether or not it is entirely justified, line by line. (PT-GOV3)*

In **Belgium**, similarly, both federal and regional officials complain that the Commission takes a very literal approach to both the drafting of the milestones and their description, resulting in "unbelievable Kafkaesque discussions, where it really does not make sense". Here, the Commission refers consistently to the role of the ECA and their legalistic interpretation of the RRP.

> *You can never ahead of time plan everything and every word. You just have to at some point let professional people say what is reasonable and what is fine. If you play this legalistic game and impose yourself as the Court of Auditors, we might all get in trouble. What we hear is that member states are getting into trouble. (BE-GOV1)*

Or as another official puts it: "Every word and every letter is being interpreted as legal decree […] they look at this in a very rigid way, which in my view goes against effectiveness and crushes the necessary dynamism in the process" (BE-GOV3).

In **Slovakia**, too, national officials consider the Commission's monitoring of the RRP "brutal […] not allowing for any mistakes or any deviation" (SK-GOV3). As in other MSs, this monitoring approach risks leading to a loss of ownership throughout government, as the shared commitment created in drafting the RRP has now turned into sour discussions about providing more and more evidence to support the payment requests. As one official warned,

> *This performance orientation of the RRF really led to an attitude of 'let's do this, let's get these reforms done', so it was very positive. But now, in the implementation phase, we're constantly asking everyone for more numbers, more evidence, more information. Once you lose the support of these lower levels within the ministries, the people that work on the day-to-day administration, you lose the drift, you lose momentum. (SK-GOV2)*

From the side of the Commission, it is acknowledged that, with hindsight, the milestones and targets could have been formulated differently. When they drafted the CID, they weren't aware that every word would count, nor that the ECA would check each word in the measures literally, creating painstaking work not only for the MSs but also for the Commission itself (EU6).

Sadly, the MSs that appeared to be suffering most from the Commission's rigid and literal-minded interpretation of milestones and targets were among those who had set the most ambitious goals in their NRRPs in the first place. In **Portugal**, for example, according to a senior official involved in both the drafting and implementation of the RRP,

> *Now we see that at the time [of writing] we did not have an idea of all the consequences [of agreeing on such specific milestones and targets]. At the time, our colleagues [who negotiated them] did not have an idea of the importance of this. (PT-GOV2).*

In **Croatia**, one official observes that, had they known that the monitoring would be so detail-focused they would have opted for more open draftings of the milestones and targets, something the Commission mostly argued against. As they explained: "You have to be careful what you write, because indeed they came in and said 'you wrote that you would do it like this', we should have written it a bit differently" (HR-GOV3). In **Latvia**, officials of the Ministry of Social Affairs, who welcomed the opportunity to incorporate social investment projects in the RRP, now acknowledge that "Our mistake was that we, assuming the administration would be easy, planned the milestones very optimistically […] However, the administrative requirements for RRF investments are increasing, and as a result, implementation […] is delayed, not only in our area" (LV-GOV2, LV-GOV3).

In **Belgium**, too, had officials known that the Commission and the Court of Auditors would take such a legalistic approach not only to the milestones but also to the descriptions of reform measures in the CID, they would have formulated them with many more caveats and legal precautions (BE-GOV5). A crucial case in point here is a proposed reform aimed at enhancing both the adequacy and financial sustainability of pensions, where the federal government simply copied the description of the measure from the coalition agreement without much discussion. Now, in the implementation phase, the Commission is putting pressure on the Belgian government not only to ensure the cost neutrality of the reform, which includes a number of measures to boost employment among older workers, but also to prove that it will enhance the system's financial sustainability. This pressure, in turn, has led the government to postpone the payment request involving this milestone. Interviewees argue that the Commission is pressuring Belgium on the interpretation of financial sustainability because of its high budget deficit and because it knows that hawkish countries will question this reform in the EFC (BE-GOV4). The pension reform is highly controversial within the governing coalition and national politics, where some actors, such as the liberal PM are pushing for more ambitious measures to ensure financial sustainability, while others, including the social democratic Minister of Pensions and the socialist opposition leader are arguing that the Commission should not try to dictate pension policies to MSs. Interviewees agree that the situation is potentially dangerous for the Commission, which is "playing with fire" by intervening too heavily in the domestic political debate (BE-GOV1).

Finally, while not directly attributable to performance-based financing as a governance method, the analysis above also draws attention to several additional limitations. The first concerns article 17(2) of the RRF regulation, which states that eligible projects may be backdated to 1 February 2020. While this provision is understandable, insofar as the RRF is a crisis instrument, which can be used to finance already initiated national recovery plans, it has been used by MSs to push back against the Commission when it asked for more ambitious milestones and targets, as was the case in negotiations over the Dutch plan (NL-GOV1). In a similar vein, the principle of additionality (article 9) has been defined in a rather restrictive way, merely to prevent overlap with existing funding programs of the EU. Overall, while the Commission, in negotiations with MSs, has focused on bringing the plans back to priorities and weeding out the "nice to haves, but not need to haves", the scope of the plans and number of milestones and targets is very large. Not all targets are relevant, like the buyout of Dutch pig farmers discussed above. It is important to keep these considerations in mind in anticipation of the debates on RRF effectiveness that are bound to come. Implementation rates of milestones and targets may not give a full or adequate picture of what has been achieved, since some targets have been deliberately set low and offer little additional value in terms of what was already established policy.[122]

4.4.3 REDUCING ADMINISTRATIVE BURDENS THROUGH PERFORMANCE-BASED FINANCING?

Across all MSs covered in our study, there is wide agreement that the RRF's performance-based financing model, as currently managed, has not reduced the administrative burden on either side, relative to the cost-based reimbursement system associated with the cohesion policy funds.

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RRF's performance-based financing model, as currently managed, has not reduced the administrative burden.

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In **Spain**, for example, top officials involved in the RRP coordination process acknowledge that "the initial intention to implement a performance-based instrument is proving more difficult than envisaged by the Commission at the beginning of the RRF. The RRF is indeed mutating from a performance-based instrument to incorporating core elements of cost certification programmes like the structural funds. The result, in practice, is that the RRF is becoming more complex to manage without the flexibility enshrined in the structural funds" (ES-GOV1).

In **Latvia**, a senior Ministry of Finance official explains,

> *In the RRF, there is nothing simpler or more flexible in implementation than, for instance, with the ERDF or ESF, which are generally cost-based projects, where the Commission pays for the funding spent, which is approved, properly monitored, oriented at the achievement of programme goals (while, basically, focusing on the expense receipts/cheques provided by the beneficiary and submitted and declared in Brussels). With the RRF, in a way, it is different; we don't have to submit receipts to the Commission but show that we have implemented the targets. To fulfil all the requirements of good financial management still required [in the RRF], we still have to go into our control and monitoring processes to the level of invoices, basically, looking at how every euro cent is spent. (LV-GOV1)*

In **Belgium**, too, domestic officials lament that "We were promised a tool that was not as heavy in terms of reporting as the structural funds, but we are seeing the other extreme" (BE-GOV3). Interviewees also warn that this has the adverse effect that calls for tenders are left unanswered because smaller businesses or NGOs see it as too burdensome. "It's risky for them. If they spend it in the wrong way they have to pay everything back […] so it's a problem for us to be able to spend the money" (BE-GOV5).

In **Estonia**, a top official of the Ministry of Finance was even blunter: "You have more flexibility to do everything from cohesion policy than the RRF […] [T]he result-based approach of the RRF does not work properly, it is very bad. It is restricting, there is no flexibility, and it is so bureaucratic" (EE-GOV5).

Even the Netherlands considers that the RRF involves excessively detailed information requirements. As one official put it,

> *The Commission looking at results not receipts is how we agreed that it would work in principle. This was the promise of the performance-based approach that very much appealed to us, but the reality is different, they check every cent and dime and every word or comma on paper.*

On one hand, Dutch officials say that transparency requirements are a good thing, but, on the other, they want performance-based financing to mean performance-based (NL-GOV1).

Perhaps the worst aspect of the administrative burden created by the RRF monitoring process is that it does not contribute productively to improving the implementation of the reform and investment projects themselves. In **Portugal**, as in other MSs, national interviewees praise the helpfulness of Commission officials in informal dialogues in finding solutions to problems, like

> *how to get around things, reforms that were already in a Ministry's resolution, or having things that are not entirely consistent with the text that was agreed upon in the Council Decision. On that side, we saw some flexibility and some ease of communication.*

On the other hand, however, this official emphasised that

> *Instead of spending time on implementing and coordinating, we spend time doing and justifying documents that sometimes take up to 20 iterations with the Commission, which is a clear waste of time. Because they have to internally defend their decisions and their positive assessments. Monitoring is done less in substance, and more in form. We feel it has worsened since the ECA report on the milestone of Spain. (PT-GOV3)*

Here, too, some Commission officials acknowledge these constraining features of the RRF monitoring and assessment system, which involve a heavy apparatus of internal legal consultants, the Commission Legal Services and the auditors. As a result, a large share of the time needs to be used for internal consultations rather than on the assessment itself (EU5).

The Commission is, to some extent, aware of the pushback from MSs on the rigidity and bureaucratisation of the monitoring process. But, as officials we spoke with stress, the RRF is a new instrument, which is still taking shape through learning by doing, where parties on both sides need to adjust to a changed modus operandi. Rigidity, in their view, may not always stem from the nature of the instrument itself, but instead from how monitoring requests are interpreted nationally, how administrations coordinate internally or how milestones are operationalised, whereas the Commission aims for pragmatic interpretations.

Information asymmetries, gaming by setting unambitious objectives, interpretative inflexibility, and displacement of effort and resources from fulfilment of substantive goals to documentation of compliance with agreed milestones and targets – all of these perverse effects of performance-based financing identified in the international literature reviewed in Section 2 seem to be no less endemic in the implementation and monitoring of the NRRPs.

4.4.4 REVISABILITY OF COMMITMENTS IN THE FACE OF UNCERTAINTY

Beyond these issues of interpretive rigidity and administrative burden in monitoring and assessing milestones and targets, a crucial challenge to the RRF's performance-based financing model is the scope for revising plan commitments in the face of unanticipated implementation problems and changes in external circumstances, such as the current high rates of inflation resulting from the supply-chain disruptions of the pandemic and the Russian invasion of Ukraine.

"A crucial challenge to the RRF's performance-based financing model is the scope for revising plan commitments in the face of unanticipated implementation problems and changes in external circumstances."

Here, several of our national interviewees, with long experience of managing complex investment and reform projects, raised principled doubts about the feasibility of maintaining fixed milestones and targets over a six-year period, as envisaged in the RRF governance design. As one top **Italian** official explained, echoing the literature on "contracting for innovation" discussed in Section 2,

> anyone who has planned or implement public investment plans (in the public or private sector) knows that in a multiyear timeframe the real ability is to continuously readjust. In this case, we are expecting that the policy design is perfect. This might work when it comes to traditional policies which are well-framed and already tested […] but it is difficult to make faultless assumptions when you are investing in innovative experimental things because they are the first ones on which your design is necessarily weak […]policies… When faced with obstacles, it may be necessary to find solutions to get back on track, and this could require changing the original milestones and targets. When you are actually implementing the investment you realise that although there are ways to get to the result, the initial design is not working, and the right thing to do would be to change it. This plan (the RRF) does not give you that space. (IT-GOV1)

In **Latvia**, similarly, one high Ministry of Finance official observed that

> *The regulation is based on the assumption that the preagreed plans would not be changed […] We have been working with the cohesion funds and we know how such programmes are usually implemented, and from the beginning, it was clear that it is a total utopia that it would be possible to make a plan for six years and stick closely to it. (LV-GOV1)*

And as another official from the Ministry of Welfare lamented, "We see the plan as a framework, where we can change something in it, reacting to the ongoing situation or need, but the Commission does not accept that, including regarding target groups or implementation solutions. That complicates the work" (LV-GOV4).

Understandably, the strongest push from MSs to modify their RRF commitments has come from the high rates of inflation, especially for energy and other imported raw materials, driven by the Russian invasion of Ukraine. Here, the Commission considers that any significant changes in NRRP commitments must follow the procedure laid down in Article 21 of the RRF regulation, according to which MSs may propose a new or amended plan where the existing version, "including relevant milestones and targets is no longer achievable, either partially or totally […] because of objective circumstances". The revised plan must then go through the same approval process as the original NRRP, resulting in a new Commission assessment and CID. In negotiating with MSs over the revision of their NRRPs, the Commission strongly pushes governments not to reduce the ambition of the planned investments and reforms, urging them to fill the emerging financial gap with funds from the REPowerEU programme, and other EU sources, including taking up their unused loan allocation from the RRF.

One of the first requests to modify a RRP came from **Estonia**, which has been particularly exposed to the effects of the Ukraine war, due to its heavy dependence on Russian energy and construction materials. Given the plan's emphasis on infrastructure and record inflation – up to 25%, the highest in the EU – significant portions of the planned investments became unfeasible altogether. According to an official at the Ministry of Finance, around a third of the infrastructural contracts were contracted at a higher price than initially planned in the RRP, often by a third or more. A related problem was the lack of proposals from prospective contractors. For instance, the tender for the joint terminal for Rail Baltic had to be re-run before it received a single proposal, but almost at twice the price. Due to these changing circumstances, including a reduction in the final grant allocation, the Estonian authorities have opted for significant modification of the RRP, where a central strategy has been replacing unfeasible infrastructure projects with cheaper alternatives. Facing these increased costs and an unwillingness to fund the gap by taking RRF loans, the government has reluctantly proposed to drop three RRP flagship investments – including the Tallinn hospital (where defence considerations also played a key role in the decision) – and transfer the funds to smaller alternative investments. According to estimates at the Ministry of Finance, around 40% of the RRP is in the process of being modified in response to "objective" circumstances and grant reductions, as stipulated by the RRF regulation. In parallel with the REPowerEU negotiations, these modifications are informally being discussed between the Commission and the government, and the revised plan was formally submitted in March 2023. The revision process is extremely onerous, as "For every milestone that is changed, you need to provide supporting documents showing that the procurement price was higher or other conditions have changed. General data is not enough". If Estonia wants to reopen its RRP, the Commission has stated that it must address the new CSRs from 2022, as well as the REPower EU objectives. Moreover, although the large domestically driven investments, such as the Tallinn hospital, have been dropped, the Commission has continued to insist that the social reform commitments embodied in the RRP remain in place, leading to great dissatisfaction on the part of the national authorities (EU2, EE-GOV5, EE-GOV8).

Latvia, similarly, has experienced unexpected difficulties in the implementation of planned investments, due to high inflation (24%) driven by heavy exposure to the Russian energy shock and price increases for building materials. Based on the "objective circumstances" clause of the RRF regulation, the government and the Commission have worked together on various solutions to scale down investment projects and/or extend the timeline. Like Estonia, **Latvia** has avoided taking RRF loans, but, unlike its northern neighbour, the country has not dropped any investment projects, not least because it has not yet exhausted its full grant allocation. According to both the government and the Commission, the main challenge has been demonstrating sufficient evidence supporting modification proposals. Several interviewees drew attention to the high evidentiary requirements necessary to justify modifications. One Commission official explained that for each modification they would need to write a recital in the draft implementing decision. Hence, they change only what is absolutely necessary, and decline most of the proposed modifications (LV-GOV1, LV-GOV2, LV-GOV3, LV-GOV4, EU5).

In **Portugal**, where the RRP is also infrastructure-heavy, high levels of inflation, rising prices of raw materials and labour shortages, especially of construction workers, are creating significant difficulties for the implementation of investment projects (EU6, PT-GOV1, EU7, PT-GOV3). To meet these challenges, the national authorities are exploring three strategies. The first is to reduce the target size of infrastructural investment, given the price increases. The second is to replace larger projects that are not possible to scale down with alternative ones. A final strategy, considering unplanned delays, is to postpone the target deadline. Here, the Portuguese authorities have broached a public discussion on an extension of the final 2026 deadline for the RRF, but the Commission has been reluctant to explore this possibility, which would require a revision of the regulation. However, apart from the "objective circumstances" of rising inflation and supply disruptions forcing a downscaling of some investment projects, the Commission has insisted that ambitions should not be lowered, and the promised reforms should remain intact, especially those that carry no financial costs (EU6). In the spring of 2023, Portugal announced its intention to seek up to a further 11.5bn euros in RRF loans.[123]

Based on the experiences with the first two-and-a-half years of the RRF documented in this study, there was wide agreement among our national interviewees that any future iteration of its governance model would need to incorporate lighter procedures for monitoring and assessing the fulfilment of milestones and targets, focused more on the underlying purpose of the measures concerned than on their precise description in legally binding texts. Such a revised governance model would likewise need to include more flexible processes for modifying investment and reform commitments in response not only to unanticipated changes in external circumstances, but also to lessons learned in the course of project implementation itself. To cite only two particularly explicit examples:

As a senior official of the **Latvian** Ministry of Finance observed,

> *as a result of pressure from the net contributor states, the monitoring framework of the RRF […] is extremely rigid, not flexible, and actually not implementable […] The regulation does not allow for significant modifications of the plans, only exceptionally in certain cases […] Besides lacking a possibility of modification, the implementation of milestones/goals also lacks any flexibility. With even the slightest deviations from the initial agreement, there are no good mechanisms in the regulation of how we could talk with the Commission about [them]. You have the targets, approved by the Council, you have to approve them in a very literal fashion. What the Commission itself is saying, they have the European Court of Auditors, which reads everything literally […] [In theory], this is a performance-based instrument. First, we agree on the milestones/goals, and then it is up to you, member states, how to implement them. But the moment we look deeper into this, it does not work like that […] As regards monitoring and control, you have to go as deep as with any other European [financing] project so far. This means that the system of implementation, accountability, control and audit system in each member state is as big, heavy and sizeable as with any other financial instrument with 'shared governance', for example, classic cohesion policy. Plus the RRF is more restrictive in the monitoring of goals and milestones. Everybody, all member states with whom we have talked, [is] complaining about it. This has to be improved in the future. (LV-GOV1)*

Or as a reflective **Italian** senior policymaker put it,

> *if RRF is the method that we will continue to adopt in the future for the EU budget, we need to direct these national plans to separate what is a more traditional part from innovative policies. Not that we shouldn't fund the latter, but because milestones and targets will have to be more flexible and can't be entirely predefined. Maybe some milestones should state that, within an acceptable period of time, the next milestones will be agreed upon. (IT-GOV1)*

4. IMPLEMENTATION AND MONITORING OF THE NRRPS

TABLE 2. Implementing and Monitoring the NRRPs: A Cross-National Comparison

MEMBER STATE	CENTRALISATION OF AUTHORITY	LEVERAGE	IMPLEMENTATION PROBLEMS FROM STAKEHOLDER EXCLUSION	MONITORING MILESTONES AND TARGETS	REVISABILITY OF COMMITMENTS
BELGIUM	• RRF structure pushes Belgium to behave more as a unitary than a regionalized actor	• Less evidence of leveraging milestones and targets than in other cases	• Stakeholder exclusion not a source of implementation problems	• Belgian actors see rigidity of procedure as a major problem, hampering implementation, and demotivating setting of ambitious targets in the future	• Largest relative drop in RRF funding of all MS, leading to tough internal negotiations on how to reduce the scope of investment projects, while maintaining reform ambitions • Belgium to request 1bn in RRF loans
CROATIA	• RRF has enhanced discipline within administration to ensure on time delivery of promised measures	• RRP creates strong pressure to deliver on agreed commitments for external actors (social partners, Parliament) • Seen as a public accountability mechanism	• Municipalities insufficiently involved in planning reform of water services successfully challenge reorganization before the Constitutional Court	• Less evidence of monitoring rigidity and administrative burdens than in other cases • Flexibility by Commission in assessing implementation of minimum wage reform, allowing deviation from agreed milestone to leave space for bargaining by social partners	• Despite reduction in initial grant, Croatia has maintained ambitions on both investments and reforms • Croatia to request 3.6bn in RRF loans
ESTONIA	• Centralisation of authority within the national government, especially Ministry of Finance and State Shared Service Centre	• Have used RRF conditionality to address longstanding social vulnerabilities	• No evidence of implementation problems due to stakeholder exclusion	• Estonian authorities complain about rigidity of RRF procedures, impeding implementation	• Unexpected difficulties in implementing planned investments, due to high price inflation • Challenge to demonstrate sufficient evidence requested by Commission in support of modification proposals • No RRF loans requested

MEMBER STATE	CENTRALISATION OF AUTHORITY	LEVERAGE	IMPLEMENTATION PROBLEMS FROM STAKEHOLDER EXCLUSION	MONITORING MILESTONES AND TARGETS	REVISABILITY OF COMMITMENTS
ITALY	• Coordination highly centralized in Steering Committee chaired by PM	• Central government officials use RRF commitments to push implementation of investment projects through bureaucracy • Officials see milestones and targets as a useful tool for ensuring that local authorities can get things done on time	• Low involvement of local authorities in design of plans for childcare infrastructure have led to low rates of project submission and tendering delays, especially in the South	• Commission allowed to review and comment on draft legislation • Few complaints about assessment process • Some officials report formulation of milestones and targets as disconnected from content of investments	• Italian officials emphasize difficulties of sticking to predetermined milestones and targets for complex multi-year reform plans and innovative investments • Italy to apply for additional RRF funds
LATVIA	• Authority centralized within government	• No evidence that Latvian authorities have sought to leverage RRF commitments	• Reform of remote school teaching delayed due to lack of consultation with municipalities and unions in drafting phase	• Latvian authorities complain about rigidity of procedures impeding implementation • Latvian case provides evidence that setting deliberately loose targets for health infrastructure construction can improve implementability	• Unexpected difficulties in implementing planned investments, due to high price inflation • Challenge to demonstrate sufficient evidence requested by Commission in support of modification proposals • No RRF loans requested

4. IMPLEMENTATION AND MONITORING OF THE NRRPS

MEMBER STATE	CENTRALISATION OF AUTHORITY	LEVERAGE	IMPLEMENTATION PROBLEMS FROM STAKEHOLDER EXCLUSION	MONITORING MILESTONES AND TARGETS	REVISABILITY OF COMMITMENTS
PORTUGAL	• In contrast to dominant trend elsewhere, social partners and civil society participate in RRP monitoring	• Encouraged by Commission, Socialist government used RRF conditionality to push through liberalization of regulated professions	• No evidence of implementation problems due to stakeholder exclusion	• Portuguese authorities see rigidity of procedures as a major problem, hampering implementation and demotivating ambitious target setting	• Significant difficulties in implementing infrastructural investments, due to high levels of inflation and labour shortages • Government has tried to scale down or replace projects, and has unsuccessfully requested to postpone final RRF deadline • Portugal to request additional 11.5bn in RRF loans
SLOVAKIA	• New central body created to oversee plan and overcome implementation obstacles	• Strongly enhanced leverage of government in passing reforms through Parliament • Transparency of process creates public and media pressure to deliver on milestones and targets • Leverage has diminished with fall of government, creating difficulties in passing reforms	• Trade unions excluded from design of 2022 pension reform have continued to oppose the resulting measure	• Slovak officials consider the reporting requirements and administrative load as a major obstacle in the RRF which is not productive and saps ownership throughout the administration	• Reduction of RRF grant led to long and difficult negotiations with the Commission to maintain plan's balance and ambition, resulting in implementation delays • No RRF loans requested
SPAIN	• Involvement of autonomous regional communities in plan implementation more intense than in drafting phase	• While Spanish officials support RRF performance-based financing as a commitment device, they place less emphasis on leverage from external constraints than on national ownership in passing ambitious reforms	Regions not deeply involved in design of childcare services may renounce creation of envisaged places due to lack of funds for future maintenance costs	• Spanish officials complain that Commission is becoming more rigid and bureaucratic in its assessment of milestones and targets, resulting in a mutation of the RRF from a performance-based instrument towards a cost-certification programme like the Structural Funds, without the latter's flexibility	• Spain to request an additional 84bn euros in RRF loans

5. CONCLUSIONS AND RECOMMENDATIONS

The RRF, as the empirical sections of this study have amply demonstrated, marks a major new departure in EU governance, with significant effects on domestic policy-making in the MSs, as well as on relations between national governments and EU institutions. Drawing on eight country case studies, together with a further three contrasting "shadow" cases, the study has investigated in depth how the RRF's innovative "demand-driven, performance-based" governance design has worked in practice and analysed how far it has contributed to advancing the Facility's declared goals, identifying both positive and negative effects. In this concluding section, we weigh up the strengths and weaknesses of the RRF governance design emerging from our study; propose a series of policy recommendations for redressing the observed weaknesses of the RRF's governance; and discuss to what extent the RRF should be regarded as a desirable governance model to be applied to other areas of EU policy-making, such as the reform of the fiscal framework and the cohesion policy funds.

5.1 STRENGTHS AND WEAKNESSES OF THE RRF'S GOVERNANCE DESIGN

Empirical analysis of its practical operation in the countries studied show clearly that the RRF's governance design has a number of major *strengths*, as anticipated by its architects within the Commission and discussed theoretically in Section 2. Presented synthetically, seven **key benefits** of the RRF governance design stand out:

1) It reinforces national ownership and commitment to NRRP objectives by domestic stakeholders;

2) provides direct financial and policy linkages between reforms and investments;

3) contributes to improved horizontal and vertical coordination of national policy-making;

4) Performance-based financing focuses on substantive policy outputs rather than cost-based project inputs;

5) promotes the development of more effective European and national structures for monitoring domestic policies and projects funded from EU sources;

6) enhances transparency and accountability expectations for national governments on the fulfilment of agreed commitments; and

7) increases leverage for national governments in overcoming domestic opposition to promised reforms.

At the same time, however, as our empirical analysis also amply demonstrates, the practical operation of the RRF governance design likewise displays a series of **fundamental *weaknesses***, many of which were predictable from the theoretical and comparative literature on the limits of performance-based financing discussed in Section 2. Here, five major points stand out:

1) The mechanical linkage of payments to the fulfilment of fixed milestones and targets often shifts the attention of both national authorities and the Commission away from the underlying purpose and objectives of reforms and investments to verification and documentation procedures, wasting human resources and sapping ownership at all levels of governance.These negative effects are exacerbated by bureaucratisation and juridification of the monitoring and assessment process under pressure from the ECA.

2) The inflexibility of the performance-based financing and verification system makes it difficult to adjust predetermined milestones and targets in response to unforeseen or changing circumstances and leaves little space for revising and improving projects based on learning from implementation experience. Maintaining fixed milestones and targets in managing innovative projects and complex multiyear plans is neither possible nor productive.

3) Centralisation of plan drafting under intense time pressures, coupled with the Commission's insistence on a single point of contact and external accountability, makes it difficult to involve local and regional authorities and other domestic social actors seriously in the drafting of commitments for which they are responsible for implementing, with negative consequences for both effectiveness and ownership.

4) Reinforcement of leverage for the implementation of agreed commitments by the performance-based financing system following a vincolo esterno strategy

is a double-edged sword: it can empower governments to push through their programmes in the face of domestic opposition, but can also offer opportunities for holdup by veto players and lead to the risk of political failure to deliver agreed reforms; hand-tying/vincolo esterno strategies can yield diminishing returns over time, creating risks of a domestic backlash against the EU.

5) Unclear, non-transparent procedures for ensuring that NRRPs effectively address all, or a substantial subset, of the CSRs create risks of unequal treatment across MSs.

5.2 REDESIGNING RRF GOVERNANCE

5.2.1 COMMISSION WORKAROUNDS AND THEIR LIMITS

As the preceding analysis has shown, while the governance design of the RRF has important strengths, it also displays a series of weaknesses, which raise fundamental doubts about its fitness for purpose, both now and in the future. The critical policy question, of course, is to what extent these weaknesses can be addressed while retaining the strengths of the current design. In its recent communication on "The RRF: Two years on", as well as in our own interviews, the Commission has demonstrated that it is aware of many of the problems identified in this policy study and is seeking to devise practical workarounds for them within the framework of the existing legal and administrative framework defined by the RRF regulation. Thus, for example, the Commission states explicitly that "The implementation of the RRF requires flexibility on the means to achieve the milestones and targets while remaining firm on the delivery of the measures agreed with the member state."[124] To this end, the Commission has introduced three new tools aimed at adding predictability and transparency to the implementation process, based on initial experiences with the assessment of payment requests.

The first of these tools is **a framework for assessing RRF milestones and targets**. Here, informed by the interpretative disputes with the ECA, the Commission proposes a series of criteria for assessing which elements of the description of milestones and targets in the CID should be considered as binding requirements for their fulfilment. Encouraging here is the emphasis placed by the Commission on the broader "context and purpose" of the milestones and targets in interpreting MSs' legal obligations. The Commission also announces its willingness to accept minimal deviations from the requirements of specific milestones and targets, where these involve no more than 5% of agreed amounts, do not affect progress towards the achievement of the reform or investment in question, or involve limited and proportional delays between the publication of regulatory measures and their effective entry into force.

The second new tool is a **procedure for partial or full suspension of payments to address implementation shortcomings** due to "adverse and unexpected developments". This tool allows MSs to benefit from partial payments while continuing to implement the plan and working towards completion of the missed milestone or target. This procedure includes a formula for assessing the "unit value" of a milestone or target, with coefficients for upward and downward adjustment, depending on the importance of the measure in question within the NRRP, especially with regard to major reforms. In each case, the MS in question has six months to complete the relevant milestone or target, after which time the suspended amount will be permanently deducted from the plan budget.

The third tool, which is not really new, is the **procedure for revising the NRRPs**, based on articles 18 and 21 of the RRF regulation, but applied to the opportunities to add REPowerEU chapters and access extra funding, which provides an occasion for a more substantial, one-off revision of the plans to address implementation bottlenecks in existing measures. Here, the Commission has also strengthened public consultation requirements for the drafting of the REPowerEU chapters, obliging MSs not only to provide information on the stakeholders consulted, but also "a description of how their input has been reflected in the design of REPowerEU measures". The Commission further urges MSs to ensure that social partners and local and regional authorities "remain closely involved in the implementation of the RRF in a timely and meaningful way", and will continue to organise joint annual events with national authorities and domestic stakeholders to discuss the progress and state of play of the NRRPs in each country.[125]

These tools, and the accompanying policy statements by the Commission, represent a welcome recognition of the need for greater flexibility in the implementation and assessment of RRF commitments, as well as for enhanced domestic stakeholder participation in the NRRPs. But are they sufficient to overcome the fundamental weaknesses of RRF governance identified above? Arguably not. While the new framework for assessing RRF milestones and targets should reduce the volume of legalistic disputes over their precise interpretation by focusing on the underlying purpose and broader context, the scope for deviating from preagreed commitments – for example, where better ways have been identified to achieve the objectives of the measure in question – remains explicitly minimal. While the possibility of submitting partial payment requests also provides some enhanced flexibility for MSs to revive measures that have fallen off track for technical or political reasons, this too is minimal, insofar as, after six months, temporary payment suspensions become permanent. And while it is possible for MSs to propose revisions to their NRRPs in the face of unanticipated adverse developments, as envisaged by article 21 of the RRF regulation, the threshold for doing so, as we have seen, is very high, since all changes must be rigorously justified in terms of changes in "objective circumstances", the level of ambition for investments and reforms should not be reduced, and the revised plan needs to go through a full new process of approval by the Commission and the Council, taking account, among other things, of the most recent set of CSRs. This is thus not a procedure into which MSs will enter frequently or lightly, and so does not provide a framework for revising and improving complex, multiyear projects based on learning from implementation experience. Finally, the Commission's new guidance on stakeholder involvement in the preparation of the REPowerEU chapters is unlikely to prove more effective than its previous guidance on the preparation of the NRRPs themselves, especially since there is little sign of improved participation by such stakeholders in the implementation process, as a recent Eurofound study confirms.[126]

5.2.2 ALTERNATIVE POLICY RECOMMENDATIONS

Ideally, these recommendations would be applied to the RRF in its present form. But if that is not practically feasible, given the short period remaining before the end date of the Facility in December 2026, we would urge for these recommendations to be incorporated into the governance design of any successor to the RRF itself, as well as to any similar EU funding instrument.

RECOMMENDATION 1:

Revise the RRF's performance-based financing system to allow greater flexibility in modifying investment and reform commitments, through a multitiered system of diagnostic monitoring.

Addressing the weaknesses of RRF governance identified in our empirical analysis, while maintaining its benefits in terms of national ownership, coordination, transparency and accountability, would thus require a more fundamental redesign of its performance-based financing system. Such a redesign would need to move away from the RRF's conception of the NRRP as a putatively complete contract, based on a commitment by MSs to implement predetermined reforms and investments, operationalised down to specific documents and verification criteria defined in legally binding texts, in exchange for support from the EU budget. Building on the Commission's own recent guidance, such a redesigned performance-based financing system would give MSs greater flexibility on the means to achieve the milestones and targets, while remaining firm on the underlying objectives and purpose of the investments and reforms they represent. Such a system, in turn, would require more flexible processes for modifying national investment and reform commitments, in response not only to unanticipated changes in external circumstances, but also to lessons learned during the course of project implementation itself.

A revised performance-based financing system of this type should likewise build on best-practice experience of "contracting for innovation" under conditions of uncertainty, as discussed in Section 2, in which the contracting parties (whether private, public or hybrid) typically set broad common goals for the project and establish a joint governance system to oversee it. In such a joint governance system, while successful completion of milestones and targets may trigger predetermined payments, their primary purpose is to serve as the basis for diagnostic monitoring of the project, assessing whether it is on track, and deliberating about what needs to be done if it is not. Where milestones are missed, representatives of both parties analyse jointly the source of the problem, discuss what remedial measures should be adopted and decide whether to continue or terminate the project. Where the two sides cannot agree, the issue is "bumped up" to a higher-level joint body of top leaders from both sides, which has the additional benefit of disincentivising and, if necessary, sanctioning uncooperative or obstructive behaviour, such as information hoarding, on the part of the lower-level actors directly responsible for the project.

The great challenge in adapting such a governance redesign to the RRF is the sheer number of plans and projects involved. The diagnostic monitoring processes involved in "contracting for innovation" typically involve, at most, a small portfolio of projects, whereas the RRF comprises 3,780 investments and 2,187 reforms spread across 27 MSs. Given the Commission's staffing and informational limits, it would be simply impossible for it to engage directly in monitoring of this type across such a wide range of projects.[127]

A more flexible and revisable performance-based financing system would thus need to rely on more robust national monitoring systems, overseen by independent domestic authorities, and subject to periodic review by the Commission, with a focus on problematic cases, which could then be "bumped up" to a higher level for bilateral resolution. Tiered multilevel oversight systems of this kind are well developed in many areas of EU regulation. A good example is food safety, where EU regulation mandates that individual food-processing businesses maintain hazard detection and mitigation plans; the effective implementation of these plans (including regular remediation of hazards detected) is overseen by independent national food safety authorities; and these national authorities are, in turn, overseen by the European Food and Veterinary Office (FVO, now Division F of DG SANTE), which assesses the adequacy of their enforcement of EU food safety standards on the basis of site visits, including to individual establishments, and makes recommendations for necessary improvements, which MSs are obliged to address, subject to the potential exclusion of their products from the EU market.[128]

The RRF regulation mandates the creation of coordination bodies within MSs to ensure effective monitoring and implementation of the NRRP, including progress towards the fulfilment of the milestones and targets, as well as a robust internal control system for preventing, detecting and correcting corruption, fraud and conflicts of interest in the use of the Facility's funds. We have seen that these dedicated national monitoring systems have already had major effects on the horizontal and vertical coordination of domestic policy-making, as well as on the implementation of the NRRPs themselves.

These national coordination bodies could be made responsible for ensuring that an internal diagnostic monitoring process is established for each reform and investment project, the purpose of which would be to oversee not only whether it is progressing towards timely fulfilment of the agreed milestones and targets, but also to assess what changes may be needed to the initial plan of the measure to take account of problems and possibilities for improvement uncovered during the implementation process. Since these national coordination bodies are, by nature, political and closely linked to PM's offices and Ministries of Finance, it would also be necessary to establish some kind of independent evaluation authority in each MS with the task of ensuring that the project monitoring system as a whole was working according to these principles, and to produce periodic assessments of completion of individual projects, which could be used as the basis for payment requests. Internal control arrangements introduced as part of the plan to protect the financial interests of the Union would remain a separate process. The Commission could then review the findings of the independent national evaluation bodies, undertaking its own investigation of specific projects in cases of concern, which could then be escalated bilaterally to negotiations with the coordination body and the government for resolution, where needed. Such a revised system of multitiered monitoring and review of the implementation of RRF commitments, it need hardly be said, can only work where the Union has legitimate confidence in the integrity of national institutions for the enforcement of EU law, and so, should not be applied to any MS whose commitment to the rule of law is in doubt.

Adopting the diagnostic monitoring reforms recommended here would formalise the collaborative aims of the RRF – aims now given expression in the extensive, informal efforts of the Commission and national officials to make the definition of goals and progress assessments truly joint endeavours, where possible. Formalisation of this collaborative intent along these proposed lines, moreover, would crucially provide the transparency and reviewability legitimately demanded by the ECA in discharging its oversight responsibilities. But the Court of Auditors, in accordance with the other reforms proposed above, would have to place greater weight on developing process norms regarding participation and searching decision-making and less on imposing bureaucratic accounting routines aimed at reducing the space for the legitimate exercise of interpretive judgement.[129]

RECOMMENDATION 2:

Make effective inclusion of key domestic stakeholders in the drafting and implementation of the NRRPs a binding assessment criterion for approval of plans and payment requests.

As the Commission's guidance on the consultation and involvement of key stakeholders – local and regional authorities, social partners, and civil society organisations – has thus-far proved ineffective, this should be made a binding assessment criterion for the approval of revised plans – including the REPowerEU chapter – and payment requests.

RECOMMENDATION 3:

Establish explicit and transparent procedures for ensuring that NRRPs address all or a significant subset of CSRs, including in MSs that receive low relative grant allocations.

As our study shows, there appear to have been significant variations across MSs in the extent to which they were expected by the Commission to address all or a significant subset of the CSRs in their NRRPs, which cannot be fully explained by objective factors, such as their relative level of grant allocation or weak performance on the EU Social Scoreboard. An explicit and transparent procedure for determining minimum levels of CSR coverage in the NRRPs should be established to avoid any appearance of unequal treatment across MSs. Even where grants to MSs represent a low relative share of GDP – as in Austria, Germany and the Netherlands, among the shadow cases covered in our study – they nonetheless represent a large proportion of RRF funds themselves, so these countries should also be expected to undertake significant reforms.[130]

RECOMMENDATION 4:

Revise the procedures for adoption of the CSRs, by reducing the voting threshold for amendments to the Commission's proposal and ensuring a greater role for multilateral peer review in assessing their implementation.

As a result of their key position in the assessment and approval of the NRRPs, the CSRs have effectively become more binding than in the past. This, in turn, means that the procedures whereby the CSRs are adopted and reviewed need careful reconsideration. Under the current voting procedures, adopted in the Lisbon Treaty, when the Council takes a decision without a Commission proposal, this must be supported by a "*reinforced* qualified majority" comprising 72% of MSs, accounting for 65% of the Union's population. This is a very high threshold, and amendments to the CSRs in the Council advisory committees (which serve as a proxy for an eventual vote in the Council itself) have become increasingly infrequent, since the new rules entered into force in 2017.[131] If the CSRs are expected to play a more binding and prescriptive role in setting domestic reform agendas than in the pre-RRF European Semester, it is important to ensure that they represent a broad epistemic and political consensus among the MSs on domestic reform agendas, reaching beyond the Commission's own institutional views. Under these circumstances, a positive qualified majority vote should be required for the adoption of the CSRs, with the country to which they are addressed being excluded from voting. It would likewise be desirable to ensure that assessments of CSR implementation for RRF purposes be based on multilateral peer review by national representatives in the Council advisory committees, including the EU Employment and Social Protection Committees (EMCO and SPC), and not just the Economic and Financial and Economic Policy Committees (EFC and EPC), which lack detailed expertise on social and employment policy issues. Nor should assessment of implementation progress be left exclusively to the Commission itself, which, as detailed research has shown, is influenced by strategic political considerations in deciding when a recommendation may be deemed to have been sufficiently fulfilled to be dropped from the next year's CSRs.[132]

5.3 RRF GOVERNANCE: A MODEL FOR OTHER EU POLICIES?

As we noted at the outset of this study, there is growing discussion within the EU institutions and the MSs about whether elements of the RRF governance approach should be applied to other EU policy domains, such as the reform of the EU fiscal framework and the cohesion policy funds. By way of conclusion, we briefly discuss the implications of our empirical findings on the practical operations of the RRF for these debates. Not surprisingly, we consider that, if elements of the RRF governance approach – such as national reform plans and performance-based financing – were to be introduced into these other policy areas, it would be crucial to take on board the alternative recommendations presented in Section 5.2 for its redesign.

5.3.1 REFORMING THE EU ECONOMIC GOVERNANCE FRAMEWORK THROUGH NATIONAL FISCAL-STRUCTURAL PLANS

In November 2022, the Commission presented a communication on reforming the EU economic governance framework.[133] The Council has endorsed the broad orientation of the Commission's proposals, although important points remain controversial and no overall agreement has yet been reached.[134] The main element borrowed from the RRF governance approach in these proposals is that all MSs would be expected to submit "medium-term plans that set out country-specific fiscal trajectories as well as priority public investment and reform commitments that together ensure sustained and gradual debt reduction and sustainable and inclusive growth". These national fiscal-structural plans would be submitted in response to a country-specific debt-reduction path proposed by the Commission; MSs would be allowed to commit to a set of reforms and investments that could underpin a longer and more gradual adjustment path. Either way, all member states would be required to address the priorities identified in the CSRs issued under the European Semester. The adjustment path, reforms and investments would be discussed with the Commission and adopted by the Council. According to the Commission,

> *Multilateral discussions in the relevant committees of the Council would ensure transparency and accountability, with the Council endorsing the adequacy of the plan. This model would strengthen national ownership. Based on a better integration of the requirements of the revised common EU framework in domestic policy debates, it would strengthen multilateral fiscal surveillance.*

In case of non-implementation of the agreed reform and investment commitments by MSs, a new enforcement tool would lead to a revision of the debt-adjustment path in a stricter direction.[135]

What lessons can be learned from our study of the RRF for the likely effectiveness of these proposals? Firstly, while country-specific fiscal adjustment paths are certainly preferable to the current one-size-fits-all rules enshrined in the Stability and Growth Pact and Fiscal Compact, it should be evident that a medium-term programme of debt reduction financed from domestic resources is unlikely to evoke the same level of positive commitment and national ownership as an RRP funded by additional resources from the EU budget.[136] Hence, revising the procedures for adopting the CSRs and monitoring their implementation, to ensure that these represent a genuine epistemic and political consensus among the MSs, rather than just the Commission's institutional view, as proposed in recommendation (4) in Section 5.2.2, is even more essential in the context of reforming the EU economic governance framework (including the macroeconomic imbalance procedure (MIP) as well as the fiscal rules) than it is for the RRF itself.[137]

Secondly, the experience of the RRF clearly demonstrates that assessing the implementation of reforms and investments linked to national fiscal-structural plans would be a complex and controversial process, which would require a multitiered system of diagnostic monitoring and review, focused on overseeing not only whether projects are progressing towards timely fulfilment of the agreed milestones and targets, but also on identifying what changes may be needed to the initial plan of the measures to take account of problems and possibilities for improvement uncovered during the implementation process, as proposed in recommendation (1) in Section 5.2.2. This, in turn, means that national fiscal-structural plans – or at least their individual components – would have to remain open to regular revisions to take account of implementation experience as well as unanticipated changes in objective circumstances, in contrast to the Commission's proposal, which envisages revisions only after a period of four years – or the length of a legislature, if preferred by the MS –to ensure their credibility "as an anchor for prudent policies".[138]

5.3.2 TRANSFORMING THE COHESION POLICY FUNDS THROUGH PERFORMANCE-BASED FINANCING

"Results, not receipts" is the watchword of the RRF. Given widespread criticisms of past failures to introduce ex ante conditionalities and performance-based financing elements into the cohesion policy funds,[139] it is hardly surprising that the Commission and other EU institutions are looking to the RRF governance design as a possible model for their transformation, as a number of our interviewees also remarked. The Commission has already announced its intention to apply the RRF financing model to other programmes funded through the EU budget, including the common agricultural policy and the new social climate fund.[140]

What lessons can be learned from our study of the RRF for these proposals? Firstly, as our national interviewees repeatedly emphasised, it is simply untrue that the governance of the RRF in its current form really replaces receipts with results as the basis for payments from the EU budget. On one hand, as we have seen, the process of assessing the fulfilment of milestones and targets has become extremely heavy and bureaucratic, often focused more on documentary verification than on the underlying purpose and results of the reforms and investments themselves. On the other hand, as we have also seen, to fulfil all the requirements of good financial management embodied in the RRF, national authorities still have to go down to the level of invoices in their control and monitoring processes, to ensure that every cent has been spent properly.

Secondly, as our interviewees likewise pointed out, the governance of cohesion funds also has advantages over that of the RRF in terms of stakeholder participation and revisability. Thus, as is well known, for cohesion policy funds, MSs must observe the "partnership principle", following an EU code of conduct. According to this principle, local and regional authorities, civil society organisations, social partners, and businesses can all participate in partnership agreements for the preparation, implementation and evaluation of individual projects and programmes. In contrast to the RRF, the partnership principle thus helps to ensure that local stakeholders directly affected by EU-funded projects are also involved in their design and implementation. In terms of revisability, changes to cohesion policy projects and programmes only require assessment and approval by the Commission, not by the Council, as in the RRF. Hence, where unanticipated problems are encountered in the implementation of cohesion policy projects, or where performance indicators and cost estimates turn out to have been based on incorrect initial assumptions, it is much easier to amend them than in the case of the RRF.[141]

Thirdly, the introduction of strict performance-based financing requirements for cohesion policy funds is unlikely to enhance perceived national ownership compared to the current system, which is already based on partnership agreements negotiated between the MSs and the Commission, where local public and private stakeholders participate in the design and implementation of individual projects and programmes. Compared to the RRF, moreover, assessment of the fulfilment of milestones and targets associated with cohesion funds would be even more difficult for the Commission to conduct effectively, because many of the relevant projects and programmes operate at a local level, where, as we have seen, the Commission's informational deficit is at its greatest relative to national authorities.

What is seriously missing in the case of cohesion funds, as in that of the RRF itself, is a robust multitier system of diagnostic monitoring, which could be used by national authorities and the Commission itself to oversee whether EU-funded projects are making good progress towards their intended goals and targets, and to undertake timely corrective action, including, where necessary, revisions of the original plan, when they are not. As the ECA explains, "For cohesion policy funds, control and audit arrangements at both Commission and MS level mainly focus on the regularity of incurred expenditure", based on incurred costs, rather than on substantive monitoring of the projects and programmes themselves at either level. Such a system of diagnostic monitoring of the "smart specialisation" strategy attached to cohesion funds was already proposed to DG REGIO back in 2016, but never taken up.[142] Introducing a multitier system of diagnostic monitoring of EU-funded projects and programmes, involving national coordination and evaluation bodies overseen by the European Commission, as proposed in recommendation (1) in Section 5.2.2, could thus provide a welcome solution to the long-standing performance weaknesses of cohesion policy funding, as well as those of the RRF itself. Indeed, the monitoring systems for the RRF and cohesion policy funding could be integrated into a single overarching multilevel framework, along with those for other programmes financed by the EU budget, such as the social climate fund and the common agricultural policy, thereby creating significant economies of scale and scope in the Union's evolving budgetary governance.

ACRONYMS

ALMP	-	Active labour market policies
ARPA-E	-	Advanced Research Projects Agency-Energy
BICC	-	Budgetary instrument for convergence and competitiveness
CCI	-	Convergence and competitiveness instrument
CID	-	Council Implementing Decision
COM	-	European Commission
CSR	-	Country-specific recommendation
DG ECFIN	-	Directorate-General for Economic and Financial Affairs
DG REFORM	-	Directorate-General for Structural Reform Support
DG REGIO	-	Directorate-General for Regional and Urban Policy
DG SANTE	-	Directorate-General for Health and Food Safety
DNSH	-	Do no significant harm
EAP	-	Economic Adjustment Programme
EC	-	European Commission
ECA	-	European Court of Auditors
ECB	-	European Central Bank
ECEC	-	Early childhood education and care
EESC	-	European Economic and Social Committee
EFC	-	Economic and Financial Committee
EMCO	-	Employment Committee
EPC	-	Economic Policy Committee
EPSR	-	European Pillar of Social Rights
ERDF	-	European Regional Development Fund
ESF	-	European Social Fund
EU	-	European Union
FVO	-	European Food and Veterinary Office
GDP	-	Gross domestic product
GMI	-	Guaranteed minimum income
ICNL	-	International Centre for Non-Profit Law
IMF	-	International Monetary Fund
MFF	-	Multiannual financial framework
MS	-	Member state
NextGenEU	-	Next Generation EU
NGO	-	Non-governmental organisation
NRRP	-	National Recovery and Resilience Plan
NTSP	-	National Tripartite Cooperation Council
OECD	-	Organisation for Economic Co-operation and Development
PBF	-	Performance-based financing
PEMANDU	-	Performance Management and Delivery Unit
PM	-	Prime minister
RRF	-	Recovery and Resilience Facility
RRP	-	Recovery and Resilience Plan
RSP	-	Reform Support Programme
SPC	-	Social Protection Committee

ANNEX 1: TABLES

Table 1: Country characteristics

COUNTRY	INITIAL RRF ALLOCATION (EUR BN)[143]	CORRECTED RRF ALLOCATION (EUR BN)[144]	LOANS REQUESTED (EUR BN)[144]	% 2021 GDP INITIAL RRF ALLOCATION (GRANTS AND LOANS)[144]	2021 DEBT/GDP RATIO (%)[145]	COHESION POLICY FUNDS 2021-2027 (EUR BN)[144]
BE	5.9	4.5	-	1.17	109.2	2.7
EE	1	0.9	-	3.16	17.6	3.1
ES	69.5	77.2	-	5.77	118.3	35.4
HR	6.3	5.5	-	11.01	78.4	8.7
IT	68.9	69	122.6	10.79	150.3	42.1
LV	2	1.8	-	5.56	43.6	4.3
PT	13.9	15.6	2.7	7.86	125.5	22.5
SK	6.3	6	-	6.52	62.2	12.4

Table 2: NRRP characteristics

COUNTRY	REFORMS[146]	INVEST-MENTS[147]	MILESTONES AND TARGETS[145]	SOCIAL MILESTONES AND TARGETS[145]	% SOCIAL MILESTONES AND TARGETS	% OF RRF EXPENDITURE ON SOCIAL OBJECTIVES[145]
BE	35	105	210	40	19%	32.2%
EE	16	25	124	11	8.8%	36.8%
ES	102	109	416	81	19,5%	22.8%
HR	76	146	372	70	18.8%	22.7%
IT	58	122	527	61	11,6%	28.2%
LV	24	61	214	33	15,4%	34%
PT	32	83	341	48	14%	43.5%
SK	58	58	196	57	29%	42.2%

Table 3: Country characteristics compared to other EU Member States

COUNTRY	INITIAL RRF ALLOCATION (EUR BN)[144]	CORRECTED RRF ALLOCATION (EUR BN)[144]	LOANS REQUESTED (EUR BN)[144]	% 2021 GDP INITIAL RRF ALLOCATION (GRANTS AND LOANS)[145]	2021 DEBT/GDP RATIO (%)[146]	COHESION POLICY FUNDS 2021-2027 (EUR BN)[144]
AT	3.5	3.7	-	0.86	82.3	1.1
BE	**5.9**	**4.5**	-	**1.17**	**109.2**	**2.7**
BG	6.3	5.7	-	9.23	23.9	9.8
CY	1	0.9	0.2	5.15	101	0.9
CZ	7.1	7.6	-	2.95	42	27.4
DE	25.6	28	-	0.72	68.6	18.4
DK	1.6	1.4	-	0.46	36.6	0.5
EE	**1**	**0.9**	**-**	**3.16**	**17.6**	**3.1**
EL	17.8	17.4	12.7	16.68	194.5	20.4
ES	**69.5**	**77.2**	**-**	**5.77**	**118.3**	**35.4**
FI	2.1	1.9	-	0.83	72.4	1.7
FR	39.4	37.4	-	1.57	112.8	16.8
HR	**6.3**	**5.5**	**-**	11.01	**78.4**	**8.7**
HU	7.2	5.8	-	3.77	76.8	21.7
IE	1	0.9	-	0.23	55.4	1.2
IT	**68.9**	**69**	**122.6**	**10.79**	**150.3**	**42.1**
LT	2.2	2.1	-	4.02	43.7	6.1
LU	0.1	0.1	-	0.11	24.5	0.1
LV	**2**	**1.8**	**-**	**5.56**	**43.6**	**4.3**
MT	0.3	0.3	-	2.15	56.3	0.8
NL	6	4.7	-	0.55	52.4	1.3
PL	23.9	22.6	11.5	6.16	53.8	72.2
PT	**13.9**	**15.6**	**2.7**	**7.86**	**125.5**	**22.5**
RO	14.2	12.1	14.9	12.15	48.9	29.2
SE	3.3	3.2	-	0.61	36.3	3.1
SK	**6.3**	**6**	**-**	**6.52**	**62.2**	**12.4**
SL	1.8	1.5	0.7	4.77	74.5	3.1

Table 4: Social challenges (Social Scoreboard 2020)

SOCIAL SCOREBOARD INDICATORS	BELGIUM	CROATIA	ITALY	SPAIN
Early school leavers from education and training (% population aged 18-24)	On average	Best performers	Critical situation	Critical situation
Youth NEET (% of population aged 15-24)	On average	Weak but improving	Critical situation	To watch
Gender employment gap	Better than average	On average	Critical situation	On average
Income quintile ratio (S80/S20)	Better than average	On average	To watch	Weak but improving
At risk of poverty or social exclusion (in %)	On average	To watch	To watch	To watch
Employment rate (% of population aged 20-64)	To watch	Critical situation	Critical situation	Critical situation
Unemployment rate (% active population aged 15-74)	On average		Critical situation	Weak but improving
Long-term unemployment (% active population aged 15-74)	On average	Better than average	Critical situation	Weak but improving
GDHI per capita growth	To watch	N/N	Critical situation	To watch
Net earnings of a full-time single worker earning average wage	Better than average	To watch	On average	To watch
Impact of social transfer other than pensions on poverty reduction	To watch	To watch	Critical situation	Critical situation
Children aged less than 3 years in formal childcare	Best performers	To watch	On average	Best performers
Self-reported unmet need for medical care	On average	On average	On average	Better than average
Individuals' level of digital skills	On average	Better than average	N/N	On average

SOCIAL SCOREBOARD INDICATORS	SLOVAKIA	ESTONIA	LATVIA	PORTUGAL
Early school leavers from education and training (% population aged 18-24)	On average	To watch	On average	To watch
Youth NEET (% of population aged 15-24)	On average	To watch	Better than average	On average
Gender employment gap	On average	Better than average	Best performers	Better than average
Income quintile ratio (S80/S20)	Good but to monitor	On average	Critical situation	Better than average
At risk of poverty or social exclusion (in %)	Better than average	To watch	Critical situation	On average
Employment rate (% of population aged 20-64)	On average	Best performers	Better than average	Better than average
Unemployment rate (% active population aged 15-74)	On average	On average	On average	Better than average
Long-term unemployment (% active population aged 15-74)	On average	Better than average	On average	Better than average
GDHI per capita growth	Better than average	Better than average	Better than average	On average
Net earnings of a full-time single worker earning average wage	Critical situation	Weak but improving	Weak but improving	To watch
Impact of social transfer other than pensions on poverty reduction	Better than average	To watch	Critical situation	To watch
Children aged less than 3 years in formal childcare	Weak but improving	On average	On average	Better than average
Self-reported unmet need for medical care	On average	Critical situation	Critical situation	On average
Individuals' level of digital skills	On average	On average	Critical situation	On average

Source: Authors' own elaboration based on 2020 Country Reports

ANNEX 2: ANALYTICAL SUMMARY OF COUNTRY CASE STUDIES

BELGIUM

Ownership and ambition

- With multiple (CSRs) unaddressed and severe criticism from the Commission on a lack of detail in the plan, the level of ambition is comparatively low.
- Ownership of the plan is comparatively high, considering the strong involvement of regional actors.

Involvement of domestic stakeholders in the drafting process

- Given the federal structure of government and strong institutional arrangements for social partnership, the Belgian plan stands out in terms of stakeholder involvement.

Negotiations with the Commission

- With the plan following the federal coalition agreement, negotiations focused mostly on coherence of the regional subplans and streamlining the plan to focus on priorities.
- Some evidence that the Commission has also steered the plan's substantive direction, such as ensuring that childcare investment in Wallonia is targeted at the most disadvantaged regions.

Centralisation of authority and decision-making

- While not a major shift in governance, the (RRF) structure pushes Belgium to behave more as a unitary actor, whereas regions would prefer a tailor-made approach.

Leveraging milestones and targets

- Evidence in the Belgian case on the leveraging of milestones is weaker than in other cases, although interviewees note that the process has become more centralised and salient than the European Semester.

Stakeholder exclusion as a source of implementation problems

- The Belgian case does not show stakeholder exclusion as a source of implementation problems.

Monitoring and assessing milestones and targets

- Belgian actors see the rigidity of the procedure as a major issue, hampering implementation and demotivating the setting of ambitious targets in the future.
- Belgian actors also consider that bureaucratic overload in the procedure makes it risky for small enterprises or non-governmental organisations to respond to calls for tenders, thus hampering implementation.
- A sensitive case concerns pension reform, where the Commission has had to walk a tightrope in terms of putting pressure on Belgium to ensure financial sustainability in line with national commitments, while not intervening too forcefully, as its role is viewed with suspicion and used politically by opponents of reform.

Revisability of commitments

- Belgium has had the largest relative drop in funding of all member states, which together with inflation has led to a 24% cut in funding, leading to tough internal negotiations between the federal level and regions on how to reduce the scope of investment projects, whilst maintaining the level of ambition of the reforms.
- Belgium has announced its intention to request a further €1 billion in RRF loan support.

CROATIA

Ownership and ambition

- Croatia is one of the biggest recipients of RRF funding in relative terms. This is reflected in the level of ambition of the plan, which covers almost all CSRs and policy areas and is expected to have a lasting impact on resilience.
- The Croatian plan also has an ambitious social investment agenda.

Involvement of domestic stakeholders

- While Croatia stuck to formal requirements of stakeholder inclusion, the quality of their involvement in the drafting phase was low, as reflected in criticism in the Commission's assessment of the plan.
- Strong criticism by opposition parties of a lack of information sharing by government and substantive involvement by parliament .

Negotiations with the Commission

- The Commission's role in shaping and steering the Croatian plan has been substantial, with a strong push on its level of ambition and internal coherence.
- Croatia maintained certain red lines, such as an increase of the statutory retirement age, which had previously been rejected in a referendum; instead, the government had to show which measures it would take to boost the effective retirement age.

Centralisation of authority and decision-making

- The RRF has strongly enhanced discipline and efficiency within the administration to make sure every part of the government delivers promised measures on time and rallies around priorities.

Leveraging milestones and targets

- The RRF creates a strong level of pressure to deliver on plan commitments, also for external actors, such as parliament and social partners.
- The RRF is seen as a public accountability mechanism, making it clear to all what has to be delivered and when.

Stakeholder exclusion as a source of implementation problems

- An example of implementation problems because of stakeholder exclusion is in the reform of water services, where municipalities were not sufficiently involved in the drafting phase and protested to the Constitutional Court based on procedural inadequacies.
- In other cases, such as the labour law reform, social partners were fully involved in implementation and considered that they were able to make substantial contributions.

Monitoring milestones and targets

- Less evidence than in other country cases of administrative burdens and rigidity in monitoring as implementation obstacles.
- Instead, evidence of flexibility on the side of the Commission, for example, in assessing implementation of the minimum wage reform, where Croatia deviated from the agreed milestone to leave more space for bargaining by social partners.

Revisability of commitments

- Despite receiving a reduction in the overall grant, Croatia decided to maintain the level of ambition both for the reforms and on the investment side.
- Croatia has announced its intention to request a further €3.6 billion in RRF loans.

ANNEX 2: ANALYTICAL SUMMARY OF COUNTRY CASE STUDIES

ESTONIA

Ownership and ambition

- The initially approved version of the RRP centred on an ambitious investment in a hospital in the capital city of Tallinn, costing around one third of the plan.
- Due to cost inflation, the project has been replaced with a smaller hospital in another town and is currently under review.
- Besides the revised hospital project, national ownership is also low due to the number of far-reaching social reforms requested by the Commission, for which there is limited domestic political support.

Involvement of domestic stakeholders

- The Estonian RRP was largely formulated in a "top-down" fashion, while incorporating key elements of "Estonia 2035", a national development strategy.
- Consultation with social partners in the drafting of the plan was limited.

Role of the Commission

- While accepting the government's determination to build the Tallinn hospital (see above), the Commission pushed for a number of social reforms, financed from the national budget.
- Most prominently, these reforms concerned long-term care and social insurance.

Impact on domestic policy-making

- There has been centralisation of authority and decision-making within the national government, particularly, the Ministry of Finance and the State Shared Service Centre.

Leveraging the milestones and targets

- Although the Estonian authorities were initially reluctant to include tax-financed social reforms in the plan, they have, to some extent, used this conditionality to address long-standing reform vulnerabilities.

Stakeholder exclusion as a source of implementation problems

- There is no evidence that stakeholder exclusion has led to implementation problems.

Monitoring and assessing milestones and targets

- Estonian authorities have complained about the rigidity of the RRF procedures, which impedes implementation.

Revisability of commitments

- Estonia experienced unexpected difficulties in the implementation of planned investments, due to high price inflation of up to 25%.
- The main challenge has been to demonstrate sufficient evidence supporting modification proposals, as requested by the Commission.
- Estonia has not requested any RRF loans.

ITALY

Ownership and ambition

- The Italian plan is by far the largest in the EU in absolute terms, including both grants and loans, as well as complementary national resources.
- Italy approached the RRF as a "now or never opportunity" to implement investments and reforms that had been blocked by lack of adequate funding or political obstacles.
- The plan includes substantial social investments, but does not address all social CSRs, notably on extension of the social safety net to precarious workers.
- The Draghi government, which took over from Conte II, doubled the number of reforms, with a particular focus on public administration, justice and competition.

Involvement of domestic stakeholders in the drafting process

- Drafting of the plan was highly centralised in the Ministry of Economics and Finance and the Prime Minister's office.
- There was some consultation of social partners, civil society, municipalities and regional authorities in the drafting of the plan, but their substantive involvement and impact on its contents was very limited.

Negotiations with the Commission

- The Commission pressed the Italian administration to enhance the strategic coherence of the plan, justify their investment choices, and increase the number and detail of proposed reforms.
- The Commission did not insist that Italy address the full set of CSRs, accepting, for example, the argument that a major reform of the taxation system would require an extended prior political and social debate.

Centralisation of authority and decision-making

- Coordination of the plan's implementation is highly centralised in a Steering Committee (*Cabina di Regia*) chaired by the prime minister.

Leveraging milestones and targets

- Central government officials consciously use RRF commitments to push forward the implementation of investment projects through bureaucracy, and see milestones and targets as a useful tool for ensuring that municipalities and local authorities can get things done on time.

Stakeholder exclusion as a source of implementation problems

- Lack of involvement of local authorities in the design of plans to expand infrastructure for early child education and care services, coupled with strict public procurement rules and the inability to finance recurrent personnel costs under RRF rules, have led to low rates of project submission and tendering delays, especially among smaller municipalities in the south.

Monitoring and assessing milestones and targets

- The Commission was given the opportunity to review and comment on draft legislation before it was submitted to parliament.
- Few complaints about problems in the assessment process, though some officials saw the formulation of the milestones and targets as being disconnected from the substantive content of investment projects.

Revisability of commitments

- Italian officials emphasise the difficulty of sticking to predetermined milestones and targets for complex multiyear reform plans and innovative investments, the design of which may need to be revised during the implementation process.
- Italy has indicated its intention to apply for additional RRF loan funds.

ANNEX 2: ANALYTICAL SUMMARY OF COUNTRY CASE STUDIES

LATVIA

Ownership and ambition

- The plan falls short of promising next-level change and instead focuses on marginal improvements, in line with established policy directions.
- Due to weak support for the social and health reforms requested by the Commission, the plan has relatively low domestic ownership.

Involvement of domestic stakeholders in the drafting process

- Due to low involvement in the final stages of the drafting process, social partners have remained highly critical of the plan.

Negotiations with the Commission

- By leveraging the RRF's performance-based financing, the Commission was able to secure one social and several health reforms in the RRP, but with mixed ambition and bindingness.
- By pushing for progressive social and health measures, the Commission has modestly empowered the Ministries of Welfare and Health.

Impact on domestic policy-making

- Authority and decision-making have been centralised within the government.

Leveraging milestones and targets

- There is no evidence that the Latvian authorities have sought to leverage the milestones and targets.

Stakeholder exclusion as a source of implementation problems

- Reform of remote teaching in schools has been delayed, due to a lack of consultation with the municipalities and unions in the RRP drafting phase.

Monitoring and assessing milestones and targets

- Latvian authorities have complained about the rigidity of the procedures, which impedes implementation.
- The Latvian case provides evidence that setting deliberately loose targets in building health infrastructure can improve implementability.

Revisability of commitments

- Due to high price inflation (up to 24%) since the Russian invasion of Ukraine, Latvia has experienced unexpected difficulties in the implementation of planned investments.
- The main challenge has been to demonstrate sufficient evidence supporting modification proposals, as requested by the Commission.
- Latvia has not requested any RRF loans.

PORTUGAL

Ownership and ambition

- Portugal stands out for a particularly ambitious and socially oriented plan, with almost half of expenditure devoted to various social commitments.
- Ownership of the plan is very high, due to an inclusive drafting process and the governing coalition's focus on reversing the social damage caused by austerity and public underinvestment.

Involvement of domestic stakeholders in the drafting process

- Based on an earlier national recovery and development plan, the RRP was formulated with relatively high involvement of social actors, who were repeatedly consulted on the draft plans.

Negotiations with the Commission

- The RRP negotiations were relatively smooth, due to the overlapping priorities between the socialist government and the Commission. The main conflict in the negotiations regarded the investment in constructing the Pisão Dam.

Impact on domestic policy-making

- In contrast to the dominant trend elsewhere of centralisation of authority in the government, representatives of social partners and key civil society figures participate in the monitoring of the RRP.

Leveraging the milestones and targets

- Encouraged by the Commission, the socialist government used the RRF conditionality to effectively push through the liberalisation of regulated professions, the most controversial reform in the RRP.

Stakeholder exclusion as a source of implementation problems

- There is no evidence that stakeholder exclusion has led to implementation problems.

Monitoring and assessing milestones and targets

- Portuguese authorities see the rigidity of the procedures as a major issue, hampering implementation and demotivating the setting of ambitious targets in the future.

Revisability of commitments

- Due to high levels of inflation, rising prices of raw materials, and labour shortages, Portugal has faced significant difficulties in implementing its infrastructure-heavy RRP.
- To meet these challenges, the government has tried to scale down the projects, replace them with alternative ones and has unsuccessfully requested to postpone the target deadline.
- Portugal has announced its intention to request up to an additional €11.5 billion in RRF loans.

ANNEX 2: ANALYTICAL SUMMARY OF COUNTRY CASE STUDIES

SLOVAKIA

Ownership and ambition

- The newly elected government sought to make maximum use of the RRF, by including a wide array of investments and particularly reforms in the RRP.
- The plan is seen as contributing significantly to economic growth, employment creation and CSR implementation.

Involvement of domestic stakeholders

- Slovakia organised an online consultation and roundtables on the plan, but social partners have mostly been left disappointed with the quality of their involvement, while there has been little substantive debate in parliament on its priorities.

Negotiations with the Commission

- Given the high level of ambition in the plan, negotiations with the Commission primarily concerned ensuring adequate detail for proposals and streamlining it to focus on priorities.

Centralisation of authority and decision-making

- A new central body has been created to oversee the plan and to overcome implementation obstacles. This body sometimes even takes over tasks from other ministries, thus leading to strong centralisation tendencies.

Leveraging milestones and targets

- The RRF is considered to have strongly enhanced leverage of the government to introduce reforms. The link of a reform to the RRP is also a key argument in parliament when passing certain reforms, while transparency of the process creates pressure from media and the public for the delivery of milestones and targets.
- Leverage has diminished with the fall of the government, creating more difficulty in getting reforms passed.

Stakeholder exclusion as a source of implementation problems

- Trade unions excluded from the design of the 2022 pension reform have continued to oppose the resulting measure.

Monitoring milestones and targets

- Slovak actors consider the reporting requirements and administrative load as a major obstacle in the RRF, which is not productive and saps ownership throughout the administration.

Revisability of commitments

- The reduction of the total amount of the RRF grant led to long and difficult renegotiations with the Commission to try to maintain the balance and ambition of the plan. This renegotiation led to delays in implementation. The costs of investments rose by €2 billion, plus a reduction in the grant of €300 million.
- Slovakia has so far not requested any RRF loans.

SPAIN

Ownership and ambition

- The Spanish RRP is characterised by a very high level of national ownership and ambition. The plan was seen by the socialist-led government as an historic opportunity to compensate for the social damage caused by austerity and public underinvestment during and after the euro crisis.
- The plan addresses all social CSRs and includes major reforms of the labour market to promote transitions from temporary to permanent jobs, pensions to enhance adequacy and raise the effective age of retirement, and long-term care.

Involvement of domestic stakeholders

- The design of the plan was a "choral exercise" within government, in which line ministries were asked to submit projects for consideration by the lead team.
- Regions and social partners were consulted, though some regions did not feel sufficiently involved on certain issues, such as childcare.

Negotiations with the Commission

- The Commission allowed Spain to leave open the provisions of key reforms, such as the labour market and pensions to leave scope for social dialogue, while specifying their objectives and the direction of the measures to be taken.
- The Commission pressed Spain to balance the reduction of temporary employment with the maintenance of labour market mobility, as requested by the CSR, rather than completely abrogating the 2012 reform introduced by the previous conservative government, as preferred by Podemos, the junior partner in the government coalition.
- On pensions, the Commission accepted the indexation of benefits to prices and decoupling of their initial level from life expectancy alongside a package of active ageing measures aimed at increasing employment rates among older workers.
- The Commission encouraged the Spanish authorities to reduce and streamline the number of milestones and targets to enhance the plan's implementabilty.

Centralisation of authority and decision-making

- Involvement of the autonomous regional communities throughout has been more intense than in the drafting phase, with numerous regular meetings of sectoral conferences and working groups.

Leveraging milestones and targets

- While Spanish government officials support the performance-based financing system of the RRF as a commitment device, they place less emphasis on the leverage provided by external constraints than on the national ownership created by the plan itself in supplying traction for the passage of ambitious reforms.

Stakeholder exclusion as a source of implementation problems

- Regions that were not deeply involved in the design of key investment projects, implementation of which they are responsible, such as childcare services, may renounce the creation of envisaged places in coming years due to the lack of funds for future maintenance costs.

Monitoring milestones and targets

- Spanish officials complain that the Commission is becoming more rigid and bureaucratic in its assessments, especially since the criticism of its approval of the first Spanish payment request by the European Court of Auditors, and that, as a result, the RRF is mutating from a performance-based instrument towards a cost certification programme like the structural funds, without the flexibility of the latter.

Revisability of commitments

- Spain has announced its intention to request an additional €84 billion in RRF loans.

ANNEX 3: LIST OF INTERVIEWEES

BELGIUM			
BE-GOV1	National Government	Political official	13-12-2022
BE-GOV2	National Government	Political official	13-12-2022/17-01-2023
BE-GOV3	National Government	Regional government	05-01-2023
BE-GOV4	National Government	Ministry of Pensions and Social Integration	24-01-2023
BE-GOV5	National Government	Ministry of Pensions and Social Integration	24-01-2023
BE-GOV6	Regional Government	Regional Government	09-02-2023
CROATIA			
HR-GOV1	National Government	Ministry official	22-04-2022
HR-GOV2	National Government	Ministry of Labour and Social Affairs	22-04-2022
HR-GOV3	National Government	Ministry official	08-11-2022
HR-GOV4	National Government	Ministry official	08-12-2022
HR-SOCPART1	Social Partner	Trade Union	02-11-2022
HR-SOCPART2	Social Partner	Employer Organization	07-11-2022
HR-EXP1	Expert	Independent Expert	12-01-2023
HR-EXP2	Expert	Independent Expert	01-11-2022
ESTONIA			
EE-GOV1	National Government	Permanent Representation	14-10-2021
EE-GOV2	National Government	Ministry of Social Affairs	12-10-2021
EE-GOV3	National Government	Ministry of Finance	21-09-2022
EE-GOV4	National Government	Ministry of Finance	7-10-2021
EE-GOV5	National Government	Ministry of Finance	18-10-2022
EE-GOV6	National Government	National Support Services Centre	21-10-2022
EE-GOV7	National Government	National Support Services Centre	21-10-2022
EE-GOV8	National Government	Ministry of Social Affairs	20-12-2022

ITALY			
IT-GOV1	National government	Ministry official	01-05-2023
LATVIA			
LV-GOV1	National Government	Ministry of Finance	20-10-2022
LV-GOV2	National Government	Ministry of Welfare	6-10-2021
LV-GOV3	National Government	Ministry of Welfare	27-10-2022
LV-GOV4	National Government	Ministry of Welfare	27-10-2022
LV-GOV5	National Government	Ministry of Health	25-11-2022
NETHERLANDS			
NL-GOV1	National Government	Ministry of Finance	01-06-2022
PORTUGAL			
PT-GOV1	National government	Ministry of Finance	18-10-20222
PT-GOV2	National Government	Ministry of Finance	13-12-2022
PT-GOV3	National Government	National official	29-11-2022
SPAIN			
ES-GOV1	National Government	Ministry official	01-05-2023
SLOVAKIA			
SK-GOV1	National government	RRF Implementing Authority	25-11-2022
SK-GOV2	National government	RRF Implementing Authority	25-11-2022/17-01-2023
SK-GOV3	National government	RRF Implementing Authority	25-11-2022
SK-POL1	Politician	Member of Parliament	03-01-2023
SK-SOCPART1	Social Partner	Trade Union	16-12-2022

ANNEX 3: LIST OF INTERVIEWEES

EUROPEAN COMMISSION			
EU1	Commission	Commission	02-05-2022
EU2	Commission	Commission	31-01-2023
EU3	Commission	Commission	27-01-2023
EU4	Commission	Commission	27-01-2023
EU5	Commission	Commission	20-12-2022
EU6	Commission	Commission	20-12-2022
EU7	Commission	Commission	15-11-2022
EU8	Commission	Commission	25-01-2023
EU9	Commission	Commission	25-01-2023
EU10	Commission	Commission	20-03-2023
EU11	Commission	Commission	29-03-2023
EU12	Commission	Commission	30-05-2022
EU13	Commission	Commission	11-05-2022
EUROPEAN COMMISSION			
51 INTERVIEWS			

END NOTES

1 European Commission (2023) "Recovery and Resilience Facility: Two years on. A unique instrument at the heart of the EU's green and digital transformation". COM (2023) 99 final, 21 February, pp. 5-6. A similar governance approach underlies the social climate fund, recently agreed by the Parliament and the Council, which will co-finance temporary income support measures and long-term structural investments to support the energy transition by helping vulnerable citizens most affected by energy and transport poverty, based on national "social climate plans", and drawing on revenues from auctioning of Emissions Trading System (ETS) allowances: see European Parliament (2022) "Deal on establishing the social climate fund to support the energy transition". Press release, 18 December.

2 See, for example, the recent review by the European Court of Auditors (2023) "EU financing through cohesion policy and the Recovery and Resilience Facility: A comparative analysis" (Luxemburg: Publications Office of the European Union).

3 European Commission (2022) "Communication on orientations for a reform of the EU economic governance framework". COM (2022) 583 final, 9 November.

4 For example: Ladi, S. and D. Tsarouhas (2020) "EU economic governance and COVID-19: Policy learning and windows of opportunity", *Journal of European Integration* 8(42): 1041-1056. DOI: 10.1080/07036337.2020.1852231; Armingeon, K., C. de la Porte, E. Heins, et al. (2022) "Voices from the past: economic and political vulnerabilities in the making of next generation EU." *Comparative European Politics*, 2(20): 144-165. DOI: 10.1057/s41295-022-00277-6; Closa Montero, C., F. González de Leon and G. Hernández González (2021) "Pragmatism and the limits to the European Parliament's strategies for self-empowerment". *Politics and Governance*, 3(9): 163-174. DOI: 10.17645/pag.v9i3.4243; de la Porte, C., Jensen, M.D. (2021) "The next generation EU: An analysis of the dimensions of conflict behind the deal". *Social Policy and Administration*, 2(55): 388-402. DOI: 10.1111/spol.12709; De Witte, B. (2021) "The European Union's COVID-19 recovery plan: The legal engineering of an economic policy shift". *Common Market Law Review* 3(58): 635-682. DOI: 10.54648/cola2021046; Ferrera, M., J. Miró and S. Ronchi (2021) "Walking the road together? EU polity maintenance during the COVID-19 crisis". *West European Politics*, 5-6(44): 1329-1352. DOI: 10.1080/01402382.2021.1905328; Schramm, L. and W. Wessels (2022) "The European Council as a crisis manager and fusion driver: Assessing the EU's fiscal response to the COVID-19 pandemic". *Journal of European Integration*, 2(45): 257-273. DOI: 10.1080/07036337.2022.2111418; Truchlewski, Z., W. Schelkle and J. Ganderson (2021) "Buying time for democracies? European Union emergency politics in the time of COVID-19". *West European Politics*, 5-6(44): 1353-1375. DOI: 10.1080/01402382.2021.1916723; Vanhercke, B. and A. Verdun (2021) "From the European Semester to the RRF: Some social actors are (not) resurfacing". ETUI Working Paper 2021.13; Smeets, S. and F. Bekius (2023) "Coordination and control in European Council centered governance. The Netherlands and the COVID recovery fund". *JCMS: Journal of Common Market Studies*, 2(61): 486-502. DOI: 10.1111/jcms.13384; Smeets, S. and D. Beach (2023) "New institutional leadership goes viral: EU crisis reforms and the coming about of the COVID recovery fund". *European Journal of Political Research*, 2(62): 377-396. DOI: 10.1111/1475-6765.12508.

5 For example: Corti, F., J. Núñez Ferrer, T. Ruiz de la Ossa et al. (2021) "Comparing and assessing recovery and resilience plans: Italy, Germany, Spain, France, Portugal, and Slovakia". CEPS Recovery and Resilience Reflection Papers, no. 5, September; Corti, F., D. Gros, A. Liscai et al. (2022) *The European Added Value of the Recovery and Resilience Facility: An Assessment of the Austrian, Belgian and German Plans* (Brussels: European Parliament Economic Governance Support Unit), IPOL STU(2022)699513; Corti, F., C. Morabito, T. Ruiz et al. (2022) *The Role of the Recovery and Resilience Facility in Strengthening Childcare Policies* (Brussels: Foundation for European Progressive Studies), Recovery Watch Policy Study, July; Corti, F., A. Liscai and T. Ruiz (2022) "The Recovery and Resilience Facility: Boosting investment in social infrastructure in Europe?" *Italian Labour Law e-Journal*, 1S(15): 15-30. DOI: 10.6092/issn.1561-8048/15706; Corti & Ruiz de la Ossa (2023); Domorenek, E. and I. Guardiancich (2022) "The Italian National Recovery and Resilience Plan: Coordination and conditionality". *Contemporary Italian Politics*, 2(14): 191-206. DOI: 10.1080/23248823.2022.2046099; Guillén, A. M., M. León and E. Pavolini (2022) "Are 'carrots' better than 'sticks'? New EU conditionality and social investment policies in the aftermath of the COVID-19 pandemic in Italy and Spain". *Comparative European Politics*, 2(20): 220-237. DOI: 10.1057/s41295-022-00281-w; Hartwell, C., J. Hagemejer, A. Pechcińska et al. (2022) "The added value of the Recovery and Resilience Facility: A preliminary analysis of plans from Estonia, Hungary, Poland, and Romania". European Parliament Economic Governance Support Unit (EGOV), STU(2022)689451, March; Polverari, L. and S. Piattoni (2022) "The Italian National Recovery and Resilience Plan and administrative capacity: A real game changer?" *Rivista Italiana di Politiche Pubbliche* 2(2022): 169-190. DOI: 10.1483/104973; Rainone, S. (2022) "From deregulatory pressure to laissez faire: The (moderate) social implications of the EU recovery strategy". *Italian Labour Law e-Journal*, 1S(15): 31-52. DOI: 10.6092/issn.1561-8048/15705; Tassinari, A. (2022) "Labour market policy in Italy's recovery and resilience plan. Same old or a new departure?" *Contemporary Italian Politics*, 4(14): 441-457. DOI: 10.1080/23248823.2022.2127647; Theodoropoulou, S., M. Akgüç and J. Wall (2022) "Balancing objectives? Just Transition in National Recovery and Resilience Plans". ETUI Working Paper 2022.11. Other papers in the FEPS *Recovery Watch* series can also be found here.

6 For example: Bokhorst, D. (2023) "Steering national social reforms through the EU's recovery plan", in B. Vanhercke, S. Sabato and S. Spasova (eds), *Social Policy in the European Union: State of Play 2022, Policymaking in a Permacrisis* (Brussels: ETUI), pp. 25-41; Bokhorst, D. and F. Corti (forthcoming, 2023) "Governing Europe's Recovery and Resilience Facility: Between discipline and discretion". *Government and Opposition*; Corti, F. and P. Vesan (2023) "From austerity-conditionality towards a new investment-led growth strategy: Social Europe after the Recovery and Resilience Facility", *Social Policy and Administration*, 20 February. DOI: 10.1111/spol.12906; Oellerich, N. and J. Simons (forthcoming) "Supranational modernization or national partisanship? Explaining variation in Recovery and Resilience Plans in Central and Eastern Europe". *Journal of European Public Policy*; Schelkle, W., Miró, J., Ronchi, S. (forthcoming, 2023) "Money makes the world go round: How much difference do Recovery and Resilience Plans make to fiscal and social governance?" *JCMS:Journal of Common Market Studies*. For an extensive set of individual country studies, see the special issue (2022) on "The Next Generation EU in action: Impact on social and labour policies", *Italian Labour Law e-Journal* 1S(14); on the Italian case, see also the special issue (2021) on the NRRP of the *Rivista Italiana di Politiche Pubbliche*, 3.

7 Bokhorst, D. and F, Corti (forthcoming, 2023) "Governing Europe's Recovery and Resilience Facility: Between discipline and discretion"; Corti, F., J. Núñez Ferrer, T. Ruiz de la Ossa et al. (2021) "Comparing and assessing recovery and resilience plans: Italy, Germany, Spain, France, Portugal, and Slovakia"; Corti, F., D. Gros, A. Liscai et al. (2022) *The European Added Value of the Recovery and Resilience Facility: An Assessment of the Austrian, Belgian and German Plans*; Corti, F., A. Liscai and T. Ruiz (2022) "The Recovery and Resilience Facility: Boosting investment in social infrastructure in Europe?"; Corti, F. and P. Vesan (2023) "From austerity-conditionality towards a new investment-led growth strategy: Social Europe after the Recovery and Resilience Facility".

8 The RRF regulation establishes a key for grant allocations to MSs, based on population, the inverse of GDP per capita, and the relative unemployment rate; 30% of the total amount was revised (upwards or downwards) on 30 June 2022 based on the change in real GDP in 2020 and the aggregated change in real GDP in 2020-2021: see article 6(1) and Annexes II-III.

9 All interviews were recorded and transcribed. The study includes anonymized quotations from member state officials and stakeholders. In the case of European Commission officials, the authors were not granted permission to use direct quotations because the interviews were conducted under Chatham House rule.

10 European Commission (2023) "Recovery and Resilience Facility: Two years on. A unique instrument at the heart of the EU's green and digital transformation". p. 31. It should, of course, be noted that the RRF is a temporary recovery instrument, the aim of which is to mitigate the economic and social impact of the coronavirus pandemic and make European economies and societies more sustainable, resilient and better prepared for the challenges and opportunities of the green and digital transitions. This temporary post-COVID nature of the instrument was also key in steering the development and design of the RRF.

11 RRF regulation, recital 39, article 18.4(b). On the DNSH principle, see European Commission (2021) "Technical guidance on the application of 'do no significant harm' under the Recovery and Resilience Facility regulation". *OJ* C 58/1, 18 February.

12 European Commission (2023) "Recovery and Resilience Facility: Two years on. A unique instrument at the heart of the EU's green and digital transformation". p. 2.

13 RRF Regulation, recitals 39, 41; European Commission (2023) "Recovery and Resilience Facility: Two years on. A unique instrument at the heart of the EU's green and digital transformation". p. 2.

14 On the EAPs, see Greer, S. (2014) "Structural adjustment comes to Europe: Lessons for the eurozone from the conditionality debates". *Global Social Policy*, 1(14): 51-71. DOI: 10.1177/1468018113511473 and Jacoby, W. and J. Hopkin (2019) "From lever to club? Conditionality in the European Union during the financial crisis". *Journal of European Public Policy*, 8(27): 1157-1177. DOI: 10.1080/13501763.2019.1703791. For representative examples from the literature on the limited implementation of the CSRs, see Darvas, Z. and Á. Leandro (2015) "The limitations of policy coordination in the euro area under the European Semester". Bruegel Policy Contribution No. 2015/19 and Efstathiou, K. and G. B. Wolff (2018) "Is the European Semester effective and useful?" Bruegel Policy Contribution, Issue no. 9, June; and for a critique on both the conclusions of this literature and the assessment data on which it is based, see Bokhorst, D. (2022) "The influence of the European Semester: Case study analysis and lessons for its post-pandemic transformation", *JCMS: Journal of Common Market Studies*, 1(60): 101-117. DOI: 10.1111/jcms.13266. According to an early analysis by the ECB, based on the Commission's own assessments, these design and procedural features of the RRF can potentially "strengthen the partnership between the Commission and the member states". The process through which MSs prepared their RRPs within the framework of the RRF regulation, with guidance from the Commission and the two sides "engaged in extensive bilateral dialogue on the draft RRPs before they were submitted to address gaps and outstanding issues [...] has the potential to promote mutual trust and understanding of policy priorities and challenges at national and EU level while also ensuring national ownership of the plans" (Freier, M., C. Grynberg, M. O'Connell et al. (2022) "Next Generation EU: A euro area perspective". *ECB Economic Bulletin*, 1: 108).

15 European Commission (2023) "Recovery and Resilience Facility: Two years on. A unique instrument at the heart of the EU's green and digital transformation". p. 1.

16 RRF regulation, recitals 39, 51-52.

17 European Commission (2023) "Recovery and Resilience Facility: Two years on. A unique instrument at the heart of the EU's green and digital transformation". p. 1.

18 For a negative example of the cohesion policy funds, see Jianu, C. and B. Witkos (2022) "Incentives for performance in cohesion policy – reality or wishful thinking?" *ECA Journal*, 1: 70-76, and for the difference between the two instruments, see European Court of Auditors (2023) "EU financing through cohesion policy and the Recovery and Resilience Facility: A comparative analysis". Here, too, the preliminary analysis by the ECB emphasizes the governance design features of the RRF and their potential to overcome past failures of EU policies and instruments for promoting national reforms. "By linking disbursements of RRF grants and loans to the successful completion of reforms and investments, the RRF in principle provides stronger incentives for member states to implement reforms [...] Not only are the RRPs designed to address critical common challenges in a manner specific to each member state, the ongoing assessment of milestones and targets fosters national ownership and accountability, along with promoting continual dialogue between the member states and the Commission" (Freier, M., C. Grynberg, M. O'Connell et al. (2022) "Next Generation EU: A euro area perspective". p. 108-109).

19 European Commission (2018) "Proposal for a regulation of the European Parliament and of the Council on the establishment of the reform support programme". COM (2018) 391 final, 31 May; Council of the EU (2022) "Annex to the proposal for a Council Implementing Decision on the approval of the assessment of the recovery and resilience plan for the Netherlands". 12275/22 ADD 1, 27 September; European Commission (2019) "Proposal for a regulation of the European Parliament and the Council on a governance framework for the budgetary instrument for convergence and competitiveness for the euro area". COM (2019) 354 final, 24 July.

20 European Commission (2013) "Towards a deep and genuine EMU: The introduction of a convergence and competitiveness instrument". COM (2013) 165 final, 20 March; Steinbach, A. (2016) "Structural reforms in EU Member States: Exploring sanction-based and reward-based mechanisms". *European Journal of Legal Studies*, 1(9): 173-210.

21 European Council (2020) "Conclusions of the special meeting of the European Council (17-21 July 2020)". EUCO 10/20, point A.19; Smeets, S. and F. Bekius (2023) "Coordination and control in European Council centered governance. The Netherlands and the COVID recovery fund." But cf. Smeets, S. and D. Beach (2023) "New institutional leadership goes viral: EU crisis reforms and the coming about of the COVID recovery fund", which attributes this choice to the Commission, and refers to the driving role of France in the BICC.

22 For pointed reviews of the international literature and its implications for the euro crisis EAPs, see Greer, S. (2014) "Structural adjustment comes to Europe: Lessons for the eurozone from the conditionality debates" and Jacoby, W. and J. Hopkin (2019) "From lever to club? Conditionality in the European Union during the financial crisis"; and for an authoritative assessment of the failures of conditionality in IMF structural adjustment programmes, see Dreher, A. (2009) "IMF conditionality: Theory and evidence", *Public Choice* 1(141): 233-267. DOI: 10.1007/s11127-009-9486-z.

23 Freier, M., C. Grynberg, M. O'Connell et al. (2022) "Next Generation EU: A euro area perspective". pp. 109-110. Citing, among others, Dolls, M., C. Fuest, C. Krolage et al. (2019) "Incentivising structural reforms in Europe? A blueprint for the Commission's Reform Support Programme". EconPol Policy Brief, February, Vol. 3 and Banerji, A., B. B. Barkbu, J. A. John et al. (2015) "Building a better union: Incentivizing structural reforms in the euro area". IMF Working Paper 15/201, Freier et al. identify "two main criteria that should be met for positive incentives to exert the most influence. First, to avoid moral hazard, ex ante conditionality and transparent selection criteria need to be applied, together with a clear indication of the division of national and European responsibilities. Financial support should then be granted on a conditional basis and in accordance with a transparent set of rules [...] Second, positive incentives need to support ownership and accountability. To do so they must be sufficiently country-specific and take into account the domestic institutional set-up and administrative capacity". While the authors consider these criteria to have been largely met by the design of the RRF, they question whether "in some cases the RRPs may lack the level of detail needed to ensure transparency and clarity in the implementation", noting that "it remains to be seen how far the RRF [...] can encourage long-term structural reforms" beyond its end point of 2026.

24 According to Commission sources, there were discussions with experts from the World Bank about the design of the new performance-based financing instrument, as well as with other DGs in the Commission with experience in supporting national reform projects, such as DG REFORM and DG NEAR, but none of these discussions seem to have focused on the problems experienced in the implementation of performance-based financing documented in the literature discussed.

25 Beazley, I. (2017) Incentivizing Performance in Public Investment Policies Delivered at National and Subnational Levels: Managing across Temporal and Institutional Horizons (Paris: OECD). pp. 9, 13.

26 Moynihan, D. P. and I. Beazley (2016) Toward Next-Generation Performance Budgeting: Lessons from the Experience of Seven Reforming Countries (Washington, D.C.: World Bank), p. 2.

27 Paul, E., L. Albert, B. N. Bisala et al. (2018) "Performance-based financing in low-income and middle-income countries: Isn't it time for a rethink?" *BMJ Global Health* 1(3): e000664, pp. 2-3. DOI: 10.1136/bmjgh-2017-000664; cf. also Grittner A. (2013) "Results-based financing: evidence from performance-based financing in the health sector". Deutsches Institut für Entwicklungspolitik (DIE), Discussion Paper, No. 6/2013. For a debate between proponents and critics of performance-based financing in health system reforms in developing countries, see Meessen, B., A. Soucat and C. Sekabaraga (2010) "Performance-based financing: Just a donor fad or a catalyst towards comprehensive health-care reform?" *Bulletin of the World Health Organization* 89: 153-156. DOI: 10.2471/BLT.10.077339 and Ireland, M., E. Paul and B. Dujardin (2011) "Can performance-based financing be used to reform health systems in developing countries". *Bulletin of the World Health Organizatio*, 9(89): 695-698. DOI: 10.2471/BLT.11.087379.

END NOTES

28 For overviews of this literature, see Moynihan, D. P. and I. Beazley (2016) *Toward Next-Generation Performance Budgeting: Lessons from the Experience of Seven Reforming Countries*, esp. pp. 22-23, 155-6; Moynihan, D. P., S. Fernandez, S. Kim et al. (2011) "Performance regimes amidst governance complexity". *Journal of Public Administration Research and Theory*, S1(21): i141-i155. DOI: 10.1093/jopart/muq059; Moynihan, D. P. (2008) *The Dynamics of Performance Management* (Washington, D.C.: Georgetown University Press); Moynihan, D. P. (2009) "Through a glass darkly: Understanding the effects of performance regimes", *Public Performance & Management Review*, 4(32): 592-603.

29 Sabel et al. (2009).

30 On PEMANDU, see Sabel, C. F. and L. Jordan (2015) *Doing, Learning, Being: Some Lessons Learned from Malaysia's National Transformation Program* (Washington, D.C.: World Bank); on ARPA-E, see Sabel, C. F. and D. Victor (2022) *Fixing the Climate: Strategies for an Uncertain World* (Princeton, Princeton University Press), pp. 169-76. Like "contracting for innovation" in the private sector, PEMANDU relies heavily on "bump-up" mechanisms for resolving coordination failures and disagreements among lower-level project leaders by escalating them to higher-level joint bodies with power to terminate projects and sanction uncooperative behavior. See Sabel, C. F. and L. Jordan (2015) *Doing, Learning, Being: Some Lessons Learned from Malaysia's National Transformation Program*, esp. pp. 14-16.

31 Sabel, C. F. (2016) "Diagnostic monitoring: An overview with application to smart specialization"; Sabel, C. F. (2016) "How to make smart specialization work". Smart Regions Conference, Brussels, 1-2 June; Kuznetsov, Y. and C. F. Sabel (2017) "Managing self-discovery: Diagnostic monitoring of a portfolio of projects and programs", in S. Radosevic, A. Curaj, R. Gheorghiu et al. (eds), *Advances in the Theory and Practice of Smart Specialization* (London, Academic Press), pp. 51-72.

32 Bokhorst, D. and F. Corti (forthcoming, 2023) "Governing Europe's Recovery and Resilience Facility: Between discipline and discretion"; Corti, F., J. Núñez Ferrer, T. Ruiz de la Ossa et al. (2021) "Comparing and assessing recovery and resilience plans: Italy, Germany, Spain, France, Portugal, and Slovakia"; Corti, F., D. Gros, A. Liscai et al. (2022) *The European Added Value of the Recovery and Resilience Facility: An Assessment of the Austrian, Belgian and German Plans*; Corti, F., A. Liscai and T. Ruiz (2022) "The Recovery and Resilience Facility: Boosting investment in social infrastructure in Europe?"; Corti, F. and P. Vesan (2023) "From austerity-conditionality towards a new investment-led growth strategy: Social Europe after the Recovery and Resilience Facility". p. 20.

33 Portugal has now announced its intention to seek up to €11 billion in additional loans. European Commission (2023) "Overview of member states' intentions to request RRF loan support". Note to the Council and European Parliament, 17 April.

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35 European Commission (2023) "Overview of member states' intentions to request RRF loan support".

36 Corti, F., A. Liscai and T. Ruiz (2022) "The Recovery and Resilience Facility: Boosting investment in social infrastructure in Europe?" pp. 25-26.

37 Corti, F. and P. Vesan (2023) "From austerity-conditionality towards a new investment-led growth strategy: Social Europe after the Recovery and Resilience Facility".

38 Here, too, Croatia has now requested a further €3.612 million in loans. European Commission (2023) "Overview of member states' intentions to request RRF loan support".

39 Corti, F. and P. Vesan (2023) "From austerity-conditionality towards a new investment-led growth strategy: Social Europe after the Recovery and Resilience Facility".

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41 European Commission (2021) "Analysis of the recovery and resilience plan of Slovakia". SWD(2021) 161 final, 21 June.

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48 Corti, F. and P. Vesan (2023) "From austerity-conditionality towards a new investment-led growth strategy: Social Europe after the Recovery and Resilience Facility", p. 9.

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51 Corti, F., A. Liscai and T. Ruiz (2022) "The Recovery and Resilience Facility: Boosting investment in social infrastructure in Europe?" p. 26.

52 Corti, F. and P. Vesan (2023) "From austerity-conditionality towards a new investment-led growth strategy: Social Europe after the Recovery and Resilience Facility", p. 6)

53 Ibid, pp. 9-10.

54 (COM)

55 Corti, F., A. Liscai and T. Ruiz (2022) "The Recovery and Resilience Facility: Boosting investment in social infrastructure in Europe?" p. 26; Bokhorst, D. and F. Corti (forthcoming, 2023) "Governing Europe's Recovery and Resilience Facility: Between discipline and discretion".

56 Corti, F. and P. Vesan (2023) "From austerity-conditionality towards a new investment-led growth strategy: Social Europe after the Recovery and Resilience Facility"; Bokhorst, D. and F. Corti (forthcoming, 2023) "Governing Europe's Recovery and Resilience Facility: Between discipline and discretion".

57 Corti, F. and P. Vesan (2023) "From austerity-conditionality towards a new investment-led growth strategy: Social Europe after the Recovery and Resilience Facility" p. 8.

58 Corti, F. and P. Vesan (2023) "From austerity-conditionality towards a new investment-led growth strategy: Social Europe after the Recovery and Resilience Facility"; Bokhorst, D. and F. Corti (forthcoming, 2023) "Governing Europe's Recovery and Resilience Facility: Between discipline and discretion".

59 Quoted in Corti, F. and P. Vesan (2023) "From austerity-conditionality towards a new investment-led growth strategy: Social Europe after the Recovery and Resilience Facility". p. 10.

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61 European Commission (2021) "Guidance to member states on Recovery and Resilience Plans". SWD(2021) 12 final, 22 January. p. 47.

62 RRF regulation article 18.4(q)]. This requirement was inserted by the European Parliament during the legislative process: see Vanhercke, B. and A. Verdun (2021) "From the European Semester to the RRF: Some social actors are (not) resurfacing". p. 25.

63 European Commission (2021) "Guidance to member states on Recovery and Resilience Plans". p. 4.

64 European Parliament (2022) "Report on the implementation of the Recovery and Resilience Facility". 2021/2251 (INI), 8 June, par. 87.

65 European Committee of the Regions (2022) "Opinion on the implementation of the Recovery and Resilience Facility". 2022/C 97/05, *OJ* C 97/21, 28 February, pars. 7-11; European Union Employment and Social Protection Committees (2021) "Horizontal opinion of EMCO and SPC on the 2021 cycle of the European Semester". 9147/21, 4 June, p. 14; Rodriguez Contreras, R. and P. Sanz de Miguel (2022) "Involvement of social partners in the National Recovery and Resilience Plans". Eurofound, 30 March, p. 14; EESC (2021) *Involvement of Organised Civil Society in the National Recovery and Resilience Plans – What Works and What Does Not?* (Brussels: European Economic and Social Committee). par. 5. On the social partners, see also Pochet, P. and S. Rainone (2022) *The EU Recovery Strategy: A Blueprint for a More Social Europe or a House of Cards?* (Brussels: ETUI), drawing on the European Trade Union Confederation: "Trade union involvement in the drafting and implementation of National Recovery and Resilience Plans"; Vanhercke, B. and A. Verdun (2021) "From the European Semester to the RRF: Some social actors are (not) resurfacing". pp. 4, 31.

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69 Rodriguez Contreras, R. and P. Sanz de Miguel (2022) "Involvement of social partners in the National Recovery and Resilience Plans".

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86 See Corti, F. and P. Vesan (2023) "From austerity-conditionality towards a new investment-led growth strategy: Social Europe after the Recovery and Resilience Facility". Table A5; Annex 2, Table 4, and the discussion in Section 3.1.

87 Schelkle, W., Miró, J., Ronchi, S. (forthcoming, 2023) "Money makes the world go round: How much difference do Recovery and Resilience Plans make to fiscal and social governance?"

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89 Ibid.

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95 Interviews from European Commission officials supporting this statement cannot be quoted directly because they were conducted under Chatham House rule.

96 RRF regulation, articles 18.4(p), 19.3(h), Annex V, Assessment guidelines for the Facility, article 2.8; for the texts of the operational arrangements, see the country pages on the Commission's RRF website.

97 Dyson, K. and K. Featherstone (2007) "Italy and EMU as a '*vincolo esterno*': Empowering the technocrats, transforming the state". *South European Society and Politics*, 2(1): 272-299. DOI: 10.1080/13608749608539475; Ferrera, M. and E. Gualmini (2004) *Rescued by Europe: Social and Labour Market Reforms in Italy from Maastricht to Berlusconi* (Amsterdam: Amsterdam University Press).

END NOTES

98 Bokhorst, D. and F. Corti (forthcoming, 2023) "Governing Europe's Recovery and Resilience Facility: Between discipline and discretion".

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100 Ibid.

101 "RRF: EU Commission endorses a partially positive preliminary assessment of Lithuania›s first payment request under the Recovery and Resilience Facility". Insight EU Monitoring, 28 February 2023; "Minister of Finance G. Skaistė: 'Halfway Through the Term of the Government – Strategic Work Continues'". Ministry of Finance of the Republic of Lithuania, 9 December 2022; Dobrovolskas, I. (2023) "Sinkevičius: EK negali Lietuvai išmokėti numatytų pinigų, kol nėra pateikta mokesčių reforma". Delfi, 27 January.

102 NL-GOV1; Wolzak, M. (2023) „Eerste Kamer laat zich niet opjagen bij behandeling pensioenwet". *Financiële Dagblad*, 17 January. In the event, the pension reform was passed by the outgoing senate, despite doubts about its constitutionality, though the measure's status as an RRF milestone did not figure in the public debate over its adoption. C. Pelgrim (2023), 'Senaat steunt pensioenwet na verhitte discussies over de Grondwet", NRC 30 May.

103 Compare Ferrera, M. and E. Gualmini (2004) *Rescued by Europe: Social and Labour Market Reforms in Italy from Maastricht to Berlusconi* with Bokhorst, D. (2022) "The influence of the European Semester: Case study analysis and lessons for its post-pandemic transformation" and Bokhorst, D. (2019) "Governing imbalances in the economic and monetary union: A political economy analysis of the macroeconomic imbalance procedure". PhD thesis, University of Amsterdam, ch. 5, on the diminishing effectiveness of appeals to Italy's European obligations under the CSRs in pushing through reforms such as liberalisation of closed professions in the face of domestic opposition.

104 Rodriguez Contreras, R. and P. Sanz de Miguel (2023) "Involvement of social partners in the implementation of National Recovery and Resilience Plans". Eurofound, 29 March.

105 In Slovakia, where the trade unions were also mostly excluded from the design of the pension reform passed in late 2022, they have continued to oppose the resulting measure, expressing concern about long working lives for employees in heavy industry and arguing that reforms to improve public finances should focus instead on taxation policies (SK-SOCPART1).

106 Kekez, A. and M. Munta (2022) "Compliance as a component of policy design in a suboptimal design space: An opportunity or a threat?" Unpublished paper, European University Institute.

107 "*Ustavni sud ukinuo Uredbu o uslužnim područjima, Vlada do 15. srpnja mora donijeti novu Uredbu*" Varaždinske Vijesti, 7 February 2023.

108 Croatia is now in the process of adopting a new law respecting the formal requirements in terms of consultation, as indicated by the Court. It remains to be seen whether this will result in significant changes in the legislation.

109 Corti, F., Morabito, C., Ruiz, T. and P. Luongo (2022) *The Role of the Recovery and Resilience Facility in Strengthening Childcare Policies,* Recovery Watch Policy Study, Brussels, Foundation for European Progressive Studies, July. esp. pp. 32, 38.

110 Ibid, p. 23.

111 RRF regulation, recital 52, article 24; Smeets & Bekius (2023). For a diagrammatic representation of this process, see European Court of Auditors (2022) "Annual report on the implementation of the EU budget for the 2021 financial year" (Luxemburg: Publications Office of the European Union), p. 261, figure 10.2.

112 European Court of Auditors (2022) "The Commission's assessment of national recovery and resilience plans. Overall appropriate but implementation risks remain" (Luxemburg: Publications Office of the European Union); European Court of Auditors (2022) "Annual report on the implementation of the EU budget for the 2021 financial year" (Luxemburg: Publications Office of the European Union), ch. 10; European Court of Auditors (2023) "Design of the Commission's control system for the RRF", Special report 07, Luxemburg: Publications Office of the European Union.

113 Cf. Bokhorst, D. and F. Corti (forthcoming, 2023) "Governing Europe's Recovery and Resilience Facility: Between discipline and discretion".

114 Ibid.

115 An alternative explanation may be that the Eurostat statistics used here have been revised downwards with a time backlog.

116 Council of the EU (2022) "Annex to the proposal for a Council Implementing Decision on the approval of the assessment of the recovery and resilience plan for the Netherlands". pp. 8, 22; "Bijna 300 varkensboeren stoppen door subsidie overheid: minder dan verwacht". RTLnieuws, 30 June 2021.

117 Corti, F., Morabito, C., Ruiz, T. and P. Luongo (2022) The Role of the Recovery and Resilience Facility in Strengthening Childcare Policies; Corti, F and T. Ruiz de la Ossa (2023), The RRF's Role in Strengthening Active Labour Market Policies and Public Employment Services: Italy, Spain and Croatia, Study requested by the ECON Committee of the European Parliament, IPOL STU(2023)733741.

118 (European Commission, 2022) "Positive preliminary assessment of the satisfactory fulfilment of milestones and targets related to the first payment request submitted by Croatia on 15 March 2022. Available at: https://commission.europa.eu/business-economy-euro/economic-recovery/recovery-and-resilience-facility/croatias-recovery-and-resilience-plan_en#assessment-of-the-recovery-and-resilience-plan.

119 In its special report on the Commission's earlier assessment of the NRRPs, the ECA had already critically noted that some of the milestones and targets "lacked clarity or did not cover all key stages of implementation of a measure" and recommended that the Commission should "include clear verification mechanisms in the operational arrangement for milestones and targets to allow for an unambiguous assessment of their fulfilment" European Court of Auditors (2022) "The Commission's assessment of national recovery and resilience plans. Overall appropriate but implementation risks remain", pp. 6, 34-36, 52.

120 European Court of Auditors (2022) "Annual report on the implementation of the EU budget for the 2021 financial year". pp. 269-271, 342-343.

121 In its latest report on the design of the Commission's RRF control system, the ECA reiterates its criticism of the Commission's guidance for assessing the satisfactory fulfilment of milestones and targets, the ambiguities of which "made it difficult, if not impossible, for a third person not involved in negotiating the RRP, or who had no prior knowledge of the process, to understand and follow the Commission's reasoning" about which elements contained in the description of the measure in the Council Implementing decision were relevant and which not. European Court of Auditors (2023) "Design of the Commission's control system for the RRF". Special Report 07 (Luxemburg: Publications Office of the European Union), p. 23.

122 In this sense, the RRF does not differ from the European Semester, where implementation rates (as assessed by the Commission), did not necessarily indicate effectiveness. Bokhorst, D. (2022) "The influence of the European Semester: Case study analysis and lessons for its post-pandemic transformation".

123 European Commission (2023) "Overview of member states' intentions to request RRF loan support".

124 European Commission (2023) "Recovery and Resilience Facility: Two years on. A unique instrument at the heart of the EU's green and digital transformation". p. 8.

125 Ibid, p. 7-10; European Commission (2023) "Guidance on Recovery and Resilience Plans in the Context of REPowerEU". Draft Commission Notice, 1 February.

126 Rodriguez Contreras, R. and P. Sanz de Miguel (2023) "Involvement of social partners in the implementation of National Recovery and Resilience Plans".

127 To recall, diagnostic monitoring may be defined as "ongoing supervision [...] [and] periodic review, by the stakeholders, of problems encountered in realising initial and avowedly provisional plans, with the aim of devising effective methods of implementation when that is possible or revisiting project goals when there is good reason to think it is not". Sabel, C. F. (2016) "Diagnostic monitoring: An overview with application to smart specialization". pp. 1-2. For a fuller discussion, see Section 2.

128 For a good account of the operation of the EU food safety oversight system along these lines, see Weimer, M. and E. Vos (2015) "The role of the EU in transnational regulation of food safety: extending experimentalist governance?", in J. Zeitlin (ed.), *Extending Experimentalist Governance? The European Union and Transnational Regulation* (Oxford, Oxford University Press), pp. 51-80.

129 Many thanks to Charles Sabel for suggesting this formulation.

130 For a similar recommendation, see Darvas, Z. and L. Weslau (2023) *First Lessons from the Recovery and Resilience Facility for the EU Economic Governance Framework* (Brussels: European Parliament, Economic Governance and EMU Scrutiny Unit), IPOL IDA(2023)741748, pp. 29, 32.

131 Zeitlin, J. and B. Vanhercke (2018) "Socializing the European Semester: EU social and economic policy coordination in crisis and beyond"; Vanhercke, B. and J. Zeitlin (2015) *Further Socializing the European Semester: Moving Forward for a 'Social Triple A'?* p. 16; Zeitlin, J. and B. Vanhercke (2014) "Socializing the European Semester? Economic Governance and Social Policy Coordination in Europe 2020". pp. 49-52; cf. also Tkalec, I. (2019) "The Council's amendments to the country-specific recommendations: More than just cosmetics?" *Journal of Contemporary European Research*, 2(15): 212-227. DOI: 10.30950/jcer.v15i2.1001

132 Bokhorst, D. (2022) "The influence of the European Semester: Case study analysis and lessons for its post-pandemic transformation"; Bokhorst, D. (2019) "Governing imbalances in the economic and monetary union: A political economy analysis of the macroeconomic imbalance procedure".

133 European Commission (2022) "Communication on orientations for a reform of the EU economic governance framework". The Commission's proposals also involve a parallel revision of the macroeconomic imbalance procedure (MIP), which we will not enter into here.

134 Council of the EU (2023) "Orientations for a reform of the EU economic governance framework – Revised Draft Council Conclusions". 6995/1/23 REV 1, 14 March. The Commission has now come forward with a set of legislative proposals building on this approach. European Commission (2023) "Proposal for a regulation of the European Parliament and of the Council on the effective coordination of economic policies and multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97". COM (2023) 240 final, 26 April.

135 Ibid, pp. 6-10.

136 Cf., for example, Lorenzoni, G., F. Giavazzi, V. Guerrieri et al. (2023) "New EU fiscal rules and governance challenges". VoxEU column, 2 January; Lindner, J. and N. Redeker (2023) "'It's the politics, stupid': Don't squander this golden opportunity for reforming the fiscal rules". Policy Brief, Hertie School Jacques Delors Centre, 27 March.

137 Much of the criticism of these proposals, to date, has similarly focused on the concern that they give the Commission too much discretionary power over national reform agendas: see Blanchard, O., A. Sapir and J. Zettelmeyer (2023) "The European Commission's fiscal rules proposal: A bold plan with flaws that can be fixed". Bruegel blog, 30 November; Lorenzoni, G., F. Giavazzi, V. Guerrieri et al. (2023) "New EU fiscal rules and governance challenges"; and for a rebuttal, Buti, M., J. W. Friis and R. Torre (2023) "The emerging criticisms of the Commission proposals on reforming the European fiscal framework: A response". VoxEU, 30 November.

138 European Commission (2022) "Communication on orientations for a reform of the EU economic governance framework", p. 8.

139 See, for example, Jianu, C. and B. Witkos (2022) "Incentives for performance in cohesion policy – reality or wishful thinking?"; European Court of Auditors (2021) "Performance-based financing in cohesion policy: Worthy ambitions but obstacles remained in the 2014-2020 period". Special Report 24 (Luxemburg: Publications Office of the European Union).

140 European Court of Auditors (2023) "EU financing through cohesion policy and the Recovery and Resilience Facility: A comparative analysis". p. 44; European Commission (2021) "Proposal for a regulation of the European Parliament and of the Council establishing a social climate fund". COM(2021) 568 final, 14 July; Regulation (EU) 2021/2116 on the financing, management and monitoring of the Common Agricultural Policy and repealing Regulation (EU) No. 1306/2013; EC (2018): annex 4, section 2.3.

141 European Court of Auditors (2023) "EU financing through cohesion policy and the Recovery and Resilience Facility: A comparative analysis". p. 31; European Court of Auditors (2021) "Performance-based financing in cohesion policy: Worthy ambitions but obstacles remained in the 2014-2020 period". pp. 27-37.

142 Sabel, C. F. (2016) "Diagnostic monitoring: An overview with application to smart specialization"; Sabel, C. F. (2016) "How to make smart specialization work"; Morgan, K. and S. Radosevic (2023) "Institutional capacity building: learning from smart specialization strategies to catalyse innovation partnerships", in S. Schwaag Serger, L. Soete and J. Stierna (eds), *The Square: Putting Place-Based Innovation Policy at the Centre of Policymaking* (Luxembourg: European Commission Joint Research Centre, Publications Office of the EU), p. 102.

143 Source: ECA (2023), *EU financing through cohesion policy and the Recovery and Resilience Facility*: A comparative analysis, Review 01, pp. 81-82.

144 Source: European Commission Recovery and Resilience Scoreboard

145 Source: Eurostat (SDG_17_40)

146 Source: European Commission Recovery and Resilience Facility National recovery and resilience plans dedicated section

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The Emile Vandervelde Institute is the researche centre of the Belgian Parti Socialiste and devotes itself to research concern- ing all questions of an economic, social, financial, administra- tive, political, ethical and legal nature facing the party and its organizations. The IEV carries out analytical notes and studies on social issues and topical issues for the general public, as- sociations and PS activists. The activities of the institute shall offer prospective and analyses accessible to all, thus contrib- uting to the awareness, critical knowledge and engagement of citizens and activists in the social, economic, cultural and environmental debates.

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RECOVERY WATCH

RECOVERY WATCH

This study assesses the effectiveness and legitimacy of the Recovery Resilience Facility (RRF) design, by analysing its practical functioning during the drafting, implementation and monitoring of the National Recovery and Resilience Plans (NRRPs) in eight member states (Belgium, Croatia, Estonia, Italy, Latvia, Portugal, Slovakia and Spain). More specifically, it looks at the extent to which governments took ownership of the plans, the inclusivity of their drafting and the role of the Commission in steering the process. On implementation and monitoring, the authors assess how RRF governance has affected domestic policy-making; what obstacles have arisen in the implementation process and how monitoring by the Commission works in practice, with particular attention to its interpretive flexibility and administrative load. The study is based on extensive documentary analysis and supporting interviews with key officials involved in drafting, implementing and monitoring the plans.

Whereas the Commission has assessed all plans as contributing sufficiently to addressing a significant subset of CSRs, we observe significant differences in their levels of ambition. In addition, stakeholder involvement in drafting the plans has been generally low, both on the side of local and regional authorities and in terms of social partners and civil society. The most visible and widespread effect of the RRPs, common across all member states covered in this study, has been reinforcing the centralisation of authority and decision-making within national governments, although with some national variety.

The Commission's role in the monitoring phase is perhaps even greater than during the drafting of plans, as it must assess whether milestones and targets are sufficiently fulfilled to warrant payment. At the same time, the Commission's internal assessment capacity is limited. The authors found that this has resulted in two key issues when it comes to monitoring implementation. In addition to our critical assessment of the limited realisation of the performance-based promise of the RRF in implementation practice, the authors also point to a number of principled doubts about the feasibility of maintaining fixed milestones and targets over a six-year period, as envisaged in the RRF governance design.

The conclusion identifies some strengths and weaknesses of the RRF's governance and suggests some recommendations to be incorporated into the governance design of any successor to the RRF itself, as well as to any future similar EU funding instrument.

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