A Comparative Analysis of the European Recovery and Resilience Facility and Cohesion Policy: Lessons Learned and the Way Forward

di Marine Cecchi[1]

Table of content

[1] Menzione speciale per l'economia del Premio Jo Cox 2023.
L'elaborato è la tesi di Laurea magistrale in Economics and Management of Government and International Organizations presso l'Università Bocconi.

ISSN 2038-1662

Introduction

The objective of this research is to compare two European policies, namelyCohesion policy and the Recovery and Resilience Facility, which were established to contribute to the economic development and territorialcohesion of the European Union.

Cohesion policy is a well-settled instrument, targeted primarily at the poorest regions of Europe with the aim of boosting growth in these laggingareas and allowing them to catch up with the more developed ones. The Recovery and Resilience Facility (RRF) is a newly born instrument, developed to allow the EU Member States to quickly recover from the socio- economic consequences of the Covid-19 pandemic and build more resilienteconomies against future shocks. It finances investment projects andreforms to be implemented until 2026 and is mostly focused on the more economically fragile countries of the EU.

The two policies both contribute to the socio-economic development of theEuropean Union and therefore have similar objectives and principles.Likewise, both are investment instruments that direct a greater amount ofresources to the economically disadvantaged areas of Europe, with particular attention to addressing European priorities such as digitalization,the fight against climate change, and indeed territorial cohesion.

However, unlike Cohesion policy, the RRF is also focused on promoting andimplementing structural reforms. In most cases, these reforms are arranged at the beginning of the RRF implementation and constitute a sortof "condition" for receiving further funds for investments. The RRF can hence be considered a performance-based instrument, whereby disbursement of funds is conditional on the achievement of pre-defined "milestones" and "targets". Further differentiating the two instruments ona broader scale, the bodies in charge of managing the EU funds and planning investments are both regional and national authorities under Cohesion policy, while they are national authorities under the RRF.

The characteristic features of both Cohesion policy and the RRF are the product of long-standing debates in the field of economic development policies, whereby elements such as the quality of institutions or the strictness and type of conditionality imposed for the disbursement of funds have been extensively analyzed as determinants of economic developmentpolicies' success. As widely acknowledged, Cohesion has provided mixed and heterogenous results across regions and several researchers have triedto understand the reasons why this has been the case. On the other hand,the RRF is an unprecedented exercise in EU fiscal policy and an innovative transnational instrument to finance sustainable recovery and economic growth, on which great expectations are placed.

Drawing on the analysis of the distinctive elements of the two policies, I willhereby attempt to

understand the lessons learned from Cohesion policy across the years and the aspects – if any – that could make the RRF a moresuccessful EU instrument for the implementation of reforms and investments in line with European priorities and for the Union's territorial economic development. Further to the above, I will also try to understand whether the Facility's innovative features could give us precious indicationson how to improve Cohesion policy, its results, and its broader impact (withthe caveat that lessons should be effectively drawn from the RRF only if thelatter turns out to be a successful policy, i.e. only if the EU manages to address the challenges and risks posed by the implementation phase of theRRF, something which remains to be seen).
As a tool to better investigate the differences between Cohesion policy andthe RRF, I will frequently make reference to the case of the Italianimplementation of the two instruments. The more prominent reasonsbehind this choice are i) the fact that Italy is one of the biggest recipients of EU funds both under Cohesion policy – the funds from which are mostlydirected to its southern regions – and under the RRF; and ii) the fact that while the effects of Cohesion have been quite disappointing in the country, having often brought to negative unintended consequences, a lot of hope isplaced on the potential of the Recovery Fund to be the motor of overdue structural reforms and long-term investments. The structure of the thesis is as follows. The first chapter introduces the effects of the Covid-19 crisis on the European Union, along with itsheterogeneous impact both on economic sectors and regions of Europe, whereby Southern and Central-Eastern areas have been the most affected.It subsequently introduces the differences in the European responses to the2010 economic and financial crisis and the present pandemic crisis, where solidarity has replaced austerity and has been put at the forefront thanks to the historic agreement for the creation of the Next Generation EU (NGEU)package, which establishes an instrument that disburses EU funds inproportion to the severity of impact and the fragility of the economy of each Member State, without direct limitations connected to government debt.
The second chapter presents the main features of Cohesion policy and the Recovery and Resilience Facility through a literature review. The former being, as said, a long-established investment instrument targeting laggingregions and boosting the territorial cohesion in the EU, and the latter beingthe centerpiece of the new NGEU, also targeted to a greater extent towards weaker economies, and aimed at fostering the economic recovery and resiliency of Member States from the current pandemic crisis also by meansof structural reforms.
Having similar objectives and targets, the third chapter will be aimed at a comparative analysis of the two EU policies. More specifically, some of the key components to be investigated are the contribution to EU priorities, thedirection of funds, and typology of measures financed (i.e.

reforms and investments), as well as the institutional arrangements in place. This comparison will allow us to investigate the innovative elements of the RRF with respect to Cohesion, and therefore the lessons that the EU seems to have learned from the latter for the design and implementation of the Recovery Fund.

Drawing from the results of the third chapter's analysis, a fourth and final chapter will be dedicated to discussing these elements based on experts' interviews. As Cohesion policy has in fact provided heterogeneous and oftendisappointing results in less developed European regions across the years, the interviews will provide further insights into the key elements that could instead determine the greater success of the RRF, together with thechallenges and opportunities at stake. In addition, if the RRF was to be a success in its implementation, the interviewees discuss the possibility thatCohesion policy be at least partly reformed to reflect the potential lessons learned from the RRF.

Lastly, on the basis of this comprehensive analysis, conclusions are drawn,highlighting the findings from the previous chapters and what the EuropeanUnion should be particularly attentive to: the lessons learned from Cohesionpolicy, the fundamental elements of the RRF that could trigger a greater positive impact and better contribute to EU-wide cohesion, and what couldbe learned from its implementation to reform Cohesion towards more successful results.

1. The Covid-19 crisis and the need for a collective European response

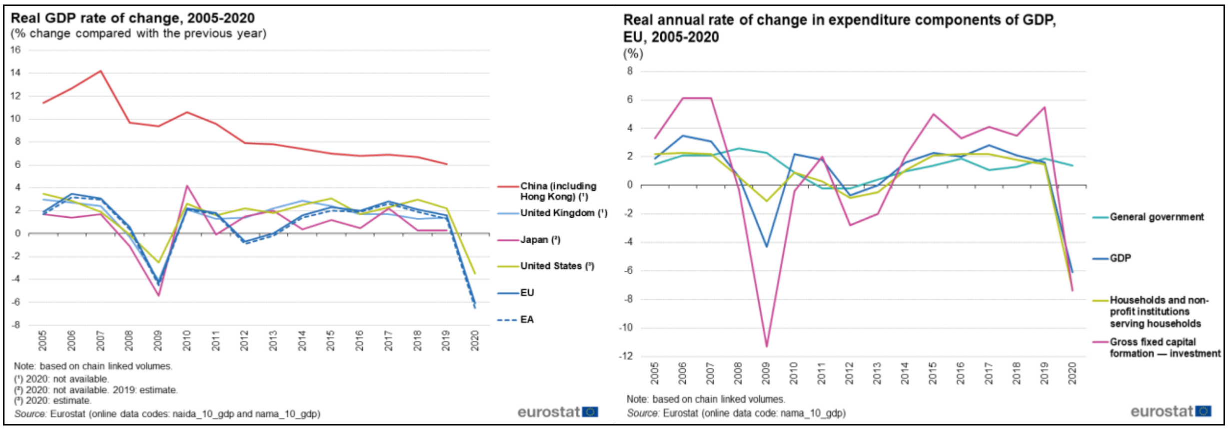
1.1. The impact of the crisis on European economies and societies

At the beginning of 2020, the world was hit with great impact by the crisesgenerated as a result of the Covid-19 pandemic. In addition to the generalhealth crisis in fact, Covid-19 had a disruptive effect also on the regular social and economic functioning of countries and societies at large.

Having presumably originated from China, the virus spread at a seeminglyincredible pace throughout the world. The speed of contagiousness, however, could have hardly been different, considering the peculiarities of the Covid-19 virus and the level of interconnection of the globalized world we live in today. This turned out to be all the more true in the context of the European Union, the inhabitants of which make up the second-most densely populated continent after Asia and are part of an economic union where people and products can move freely and easily between Member States – an extremely fertile soil for the pandemic to grow rapidly. No singleregion and/or economic sector of the European Union has remained unscathed following the impact of Covid-19, the repercussions of which arelong to be felt in the coming years.

In 2020, the EU's Gross Domestic Product (GDP) shrunk by about 6 percent,a substantially larger decline than the one faced by the EU in 2009 during the global financial and economic crisis (Eurostat). The severe reduction inhousehold consumption and the decrease in gross fixed capital formation were the results of the measures taken to "flatten the curve" (i.e. to slow down the rate of contagion and avoid flooding hospitals with Covid-19 patients), namely national lockdowns that forced businesses to operate at reduced capacity or stop abruptly the delivery of products and services.

Figure 1.



Trade in terms of exports and imports was also severely impacted startingMarch 2020 due to the closure of national borders and the restriction of freemovement of people and goods and has meanwhile been steadily returningto pre-pandemic levels since the end of 2020. To address the above havoc,government expenditures in the European Union have skyrocketed trying to keep up aggregate demand, while also massively increasing investmentsin healthcare and providing subsidies and tax reliefs to address the broadersocial crisis. EU unemployment levels reached a peak of 7.8% in August 2020, compared to 6.4% in March, and have only returned to pre-Covid levels in the last quarter of 2021 (Eurostat).

Sectoral impact and exacerbation of social inequalities

The demand and supply shock caused by the pandemic has had a dramatically heterogeneous impact across economic sectors in Europe. Economic activity in contact-intensive sectors was disproportionally affectedby the containment measures taken to respond to the surging Covid-19 cases, falling by 25% compared to pre-pandemic levels in Q2 of 2020 (European Commission).

As a result of the epidemic waves that have followed since early 2020 and the restrictions on gatherings and international travel, the service sector, including tourism, transport, arts and entertainment, and retail, has had ahard time recovering and continued to show significantly lower levels of activity. On the contrary, less- or no- contact sectors, either between workers or with customers, were more moderately impacted. A number of sectors that were not directly targeted by lockdown measures, like construction and manufacturing, suffered indirectly from the disruptions inglobal value chains, but are by now close to regaining their pre-pandemic levels. Others such as ICT, finance, and real estate activities, only reducedby about 5% and have been recovering quite quickly (European Commission). On the other hand, the sector of digital industries experiencedthe smallest decline in added value – about -4.8% – in comparison to the previous year and to other sectors, while e-commerce volumes reached record highs, thanks to the massive transition to digital shopping (de Vet etal. 2021).

The different impact of the pandemic across economic sectors has resulted in uneven consequences on different segments of the working population, hitting harder the most vulnerable and disadvantaged workers. According to Fana et al. (2020), young workers and low-skilled ones have been the most negatively affected by the crisis, as their already fragile labour marketposition worsened due to redundancies and job losses. Such categories areindeed more likely to work in contact-intensive and less "teleworkable" sectors such as hospitality and retail, as well as to have jobs regulated under temporary contracts.

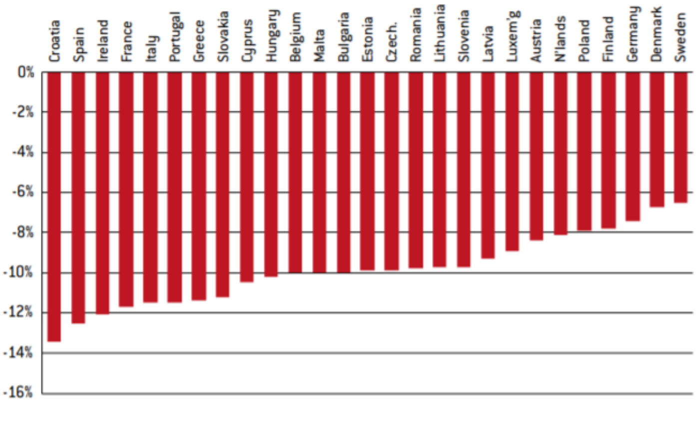
Likewise, female workers and women, in general, have been greatly more affected by the pandemic, as many of them are part of the vulnerable segment of the workforce. Women are in fact generally overrepresented ineconomic activities that are most at risk of being disrupted and less transposable to teleworking modality, thus facing an increased probability of falling into poverty (Profeta et al., 2021). At the onset of the health crisis,they disproportionally lost their occupations, but also faced greater hurdlesto re-join the workforce in between the pandemic waves. On top of this, theuneven distribution of unpaid care labour asymmetrically affected once again women during forced lockdowns, with potential consequences on their working performance and future career prospects (European Commission).

Country and Regional-level Impact

The Covid-19 pandemic has also had asymmetric economic impacts on European countries and regions.

At the country level, several factors have been identified as contributing tothis disparity and explaining why some economies are more likely to be impacted than others. Sapir (2020) has found that a prominent role has been played by the strictness of containment measures, the quality of governance, and the composition of the economy mainly in terms of shareof the tourism sector.

Figure 2. GDP shock 2020



Source: Bruegel based on European Commission (2020a,b).

The rigidity of lockdowns was mainly dependent on the higher infection rates that hit different countries with different intensities during the variouspandemic waves.

On the contrary, the weakest quality of institution and GDP composition (interms of the prevalence of economic activities subject to Covid-19 disruptions) are generally connotations of Southern European countries. These findings help explain why southern economies such as those of Italy, Spain, Greece, and Croatia have been suffering greater GDP shocks and consequences on society.

We can however find heterogeneous impacts also within each Member Stateat the regional level and thus similar considerations can be made for European regions.

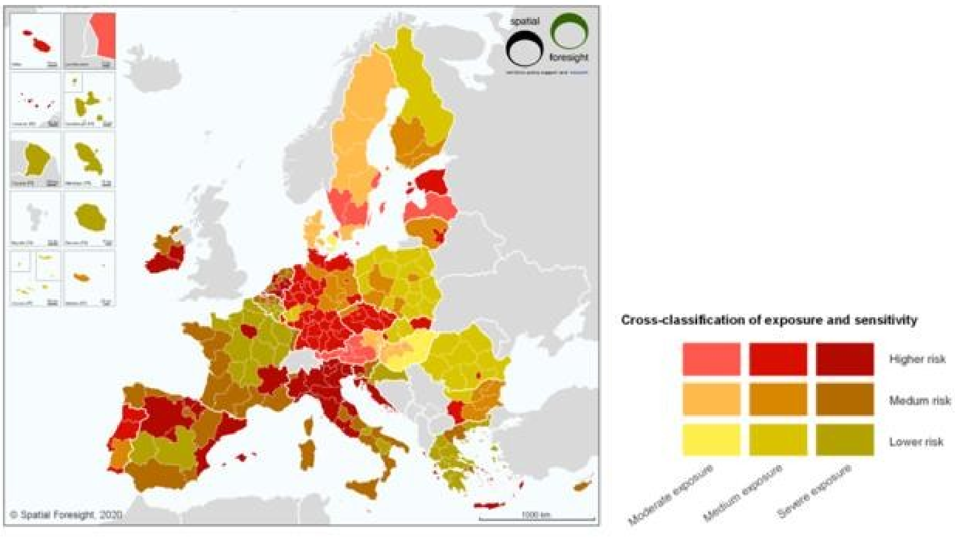
Box 1: The European NUTS classification system

By European regions we mean the subdivision of Member States territories into territorial units, which mainly correspond to the countries'administrative structure. European Union's territory is divided into threehierarchical levels of regions according to the so-called NUTS classification: NUTS-1, NUTS-2, and NUTS-3 levels of territorial units cover larger to smaller areas. This division in smaller territorial units wasdevised for the purpose of collecting and comparing regional statistics EU-wide, to identify disparities not only among Member States but also withintheir own territories (Eurostat). Looking at EU regional statistics helps usto better highlight and understand the disparities in output losses and ingeneral socio-economic consequences of the pandemic on Member States.

Indeed, the Covid-19 crisis seems to have had a strong territorial dimension. First of all, from a health perspective, outbreaks have often hitspecific places – hotspots with high infections intensity – while other areasremained almost untouched[1]. As a consequence, the policy responses to thecrisis also have had a territorial dimension (Böhme & Besana, 2020). Further exacerbating this trend, despite decision making is often centralizedat the national level, the consequences of the containment measures havehad more acute repercussions in some regions than others. This is becausethe socio-economic divergences that exist among European countries are largely a consequence of the asymmetries in regional socio-economiccharacteristics.

In their analysis for Spatial Foresight, Böhme and Besana (2020) have produced an interesting classification of European regions at the NUTS-2 level based on the *exposure* and *sensitivity* of regions to the economic crisis induced by Covid-19. Sensitivity was calculated combining employment persector and related risk, and comparative reliance on the tourism sector. Exposure was calculated by combining the rigidity of restriction measures and estimated effects on GDP for 2020. As the map shows (Figure 3.), theregions with the higher exposure and risk are concentrated in countries likeItaly, Spain, Croatia, and Ireland.

Figure 3. Cross-classification of exposure and sensitivity



Source: Spatial Foresight based on Eurostat data and JRC and EU Commission studies

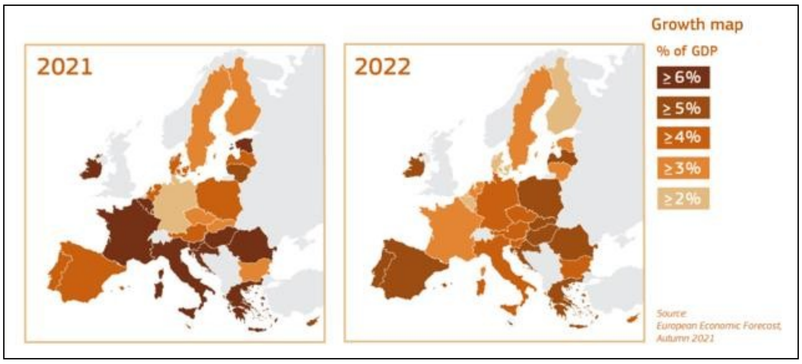
[1] This is valid for at least the first pandemic waves of 2020, and before the spread of theDelta and Omicron variants, where the tracing became almost impossible for any country.

Besides those taken into account for this map, however, other factors mightbe relevant for explaining these differences. For instance, the concentrationof SMEs and self-employed persons in the regional economy, which are a vulnerable category in the pandemic, the share of people at risk of povertyin a region, i.e. the social fragmentation hastened by the crisis, as well as the exposure of economies to global value chains, proxied by internationaltrade volumes (Böhme & Besana, 2020). Although in the short term the most affected areas by Covid-19 policy responses seem to be large cities and those relying to a greater extent on tourist activities (OECD, 2020), large urban areas are also generally richer, thus with a greater capacity torecover quickly from the economic shock. Peripheral and rural areas, often with an extensive concentration of lower-income and lower-educated people, with less access to trade, are expected to suffer the effects of the pandemic to a greater extent and for a longer period of time. In addition to all these elements, and similarly to the country level, the quality of regional institutions is a good indicator of the capacity to respondto crises and a good predictor of GDP growth and regional resilience. As subnational institutions are at the frontline of the crisis response and will be key to the recovery effort, a differentiated territorial approach to governance and policy responses is needed (OECD, 2020).

Positive Trends of Recovery

Notwithstanding the unprecedented economic recession and social andhealth crisis we are witnessing since 2020, every cloud has a silver lining. First, the European Union economy is rebounding from the crisis faster thanexpected. Thanks to the invention and large-scale delivery of vaccines, wehave been able to gradually lift restrictions, re-open our economies and resume GDP growth, regaining pre-pandemic output levels by Q3 2021 andshifting from recovery to an expansion phase (European Commission). The EU Commission foresees employment to expand at a rate of 1% in 2022,exceeding pre-pandemic levels, and 0.6% in 2023; likewise, unemploymentis forecast to decline from 7.1% in 2021 to 6.7% and 6.5% in 2022 and 2023.

Figure 4. European Growth Forecast



Second, the crisis seems to have put the European Union on the path for long-term structural changes and new transitions, especially towards greener and more digital economies. Forced lockdowns, with their consequences on health awareness, biodiversity regeneration, and teleworking, have shed a renewed light upon the fight against climate change and the digital divide. The pandemic has therefore had the 'merit' so far of acting as a booster for digitalisation and sustainability transformations, alongside changes in global value chains (European Commission, 2021).

These "silver linings" were especially possible thanks to the exceptional and coordinated response that the European Union was able to put in place in an extremely short time to protect economic activities and employment andbuild resilience against future shocks. This reaction was deployed first in the form of safety nets, emergency purchase programs, and a general easing of fiscal rules. Subsequently – and most importantly – it resulted inthe creation of the Next Generation EU package through an extra-ordinaryagreement among Member States. From an unprecedented crisis, anunprecedented, EU-wide cooperation effort was born.

1.2. Early crisis response and the creation of the Next GenerationEU

In February 2020, a European Council meeting took place to negotiate thenew Multiannual Financial Framework (MFF) for the years 2021-2027. As Member States could not agree on an additional €15 billion to the budget, the meeting resulted in a deadlock. One month later, Covid-19 was ravagingacross Europe, pressing EU ministers to find compromises on exceptional policies to react to this common shock.

Although the EU budget envisages some flexible mechanisms to handle unforeseen events, these are generally insufficient to face major adversities. The size of the budget usually amounts to about 1% of the EU'sgross national income (GNI) per year, the one for the 2021-2027 period being slightly higher to compensate for the withdrawal of the UK from the European Union. This limited level of annual commitments[2] is the reason why during the 2008 financial crisis and 2010 sovereign debt crisis solutionswere found outside the MFF, through instruments such as bilateral loans, the European Stability Mechanism (ESM), and the European FinancialStability Facility (EFSF) (Bisciari et al., 2021). At the time, the crisis was considered an endogenous shock, the consequences of accumulated imbalances in the financial sector, and by many seen as the result of reckless behaviours (Buti, 2021). This moral hazard narrative resulted in stringent conditions imposed by creditors to rescue the EU from the crisis, mostly at the expense of the southern, more fragile economies. There wastherefore little space for a political narrative of cooperation and solidarity, especially on part of the so-called “Frugal countries”[3].

Similarly to the financial crisis response, the emergency instruments devised to face this pandemic crisis are mostly off-budget. However, sincethis time the moral hazard argument could not hold due to the exogenous nature of the shock, the political narrative was different, and coordination and solidarity became the key words for a common response to a common threat.

In the short term, some immediate responses were agreed upon, taking advantage of the flexibilities allowed in the EU budget, coupled with measures for liquidity provision, such as the creation of three new safety nets: the temporary Support to mitigate Unemployment Risks in an Emergency (SURE), the pan-European guarantee fund of the European Investment Bank (EIB) and the European Stability Mechanism (ESM)Pandemic Crisis Support. More specifically, under SURE, the Commission provides loans to national governments to help finance the expenditures related to short-time work schemes to preserve jobs. The EIB on the otherhand significantly increased its lending capacity to protect firms andbusinesses, while the ESM provided up to 2% of a country’s GDP to financetheir direct and indirect healthcare costs. In addition, monetary policies and state aid rules were strongly relaxed andthe general escape clause[4] of the Stability and Growth Pact activated, easing the budgetary constraints and allowing countries to use expansive fiscal policies.

---

2 The maximum ceilings by categories (“headings”) of expenditure in the EU budget determined over a period of seven years in the MFF.

3 The so-called “frugal” states or “Frugal Four” are: The Netherlands, Austria, Sweden andDenmark. The name indicates an informal alliance based on common fiscally conservativestances.

4 Under severe EU-wide economic downturn, the General Escape Clause under the Stabilityand Growth Pact provides that Member States can temporarily depart from their path towards the medium-term budgetary objective (preventive arm) and can postpone the correction of excessive deficit by one year (corrective arm).

At the same time, the European Central Bank (ECB) reacted quickly and massively to counter the shock. It launched the new, temporary PandemicEmergency Purchase Programme for the purchase of assets with a total envelope of €1350 billion and greater flexibility with respect to previous asset purchase programs (Boeckx et al., 2020). By purchasing assets, the ECB ensures that borrowing costs are kept low and EU countries get advantageous financing conditions. This instrument has also allowed to effectively mitigate the pressure on countries such as Italy and Spain, so that their higher public debt would not further contribute to accentuating the negative consequences of Covid-19 (Sapir, 2020).

Figure 5. European Response to the Covid crisis

		Fiscal	Liquidity
EU	SURE, ESM, EIB		540bn
	NG – EU	390+bn	360bn
ECB	PEPP		1850bn

Source : Buti (2021)

As a longer-term reaction, EU Member States finally agreed in July 2020 onan exceptional additional budgetary response and the largest stimulus package ever approved: the Next Generation EU.

At the end of April, the European Council communicated the need for an EUrecovery fund that could direct help to those areas and sectors that were suffering the most from the pandemic (D'Alfonso, 2020). A few weeks later,German Chancellor Merkel and French President Macron jointly proposed the establishment of a €500 billion temporary instrument for recovery, targeted to the most impacted Member States and financed throughcommon long-term debt issuance (Bisciari et al., 2021). After a firstproposal by the EU Commission and four final days of strenuous negotiations among EU leaders, the Recovery Fund was born on 21st July 2020, with an endowment of €750 billion debt-financed, to sustain EU-wideeconomic recovery until 2026. Corresponding to an additional 0.75% of GNIin commitment, the NGEU brings the overall EU spending to over 3% of theEU's GNI for the years 2021-2022, and to about €1.8 trillion for the 2021- 2027 period if combined with the MFF (European Commission). According to the final deal, €750 billion would comprehend a loan component of €360billion and a grant component of €390 billion.

A few elements make this instrument really stand out from the previous EUcrises' responses. First, the grant component of the NGEU is an element ofEU solidarity, which had not been used during the previous economic and financial crisis. Notwithstanding some resistance from Frugal countries, which requested an overall lower size of the Fund and of grants, the negotiation process was dictated by unprecedented circumstances. The main reason why the agreement was successful lay in the fact that this shock was exogenous, hardly exposing countries to potential moral hazard logic. In addition to this, despite the differences in the impact, the EU SingleMarket and euro area faced a very hard test as a whole, as its smooth operation was widely disrupted. Secondly, for the first time, the NGEU allows the Commission to borrow up to €750 billion[5] on financial markets under favourable conditions[6], hence making the EU a key player on the market. The EU will have to repay these loans in a period of 30 years from2028 to 2058. The €360 billion in loans disbursed under the NGEU will haveto be repaid by Member States, while the €390 in grants will be raised through additional new own resources[7]. The introduction of these new ownresources is currently under discussion, but they should be generated by the carbon border adjustment mechanism (CBAM), a revised Emission Trading System (ETS), and a tax on residual profits of multinationalcompanies.

The announcement and implementation of the NGEU has already had a remarkable impact, both on the capital markets, and on the social and economic stance of Member States. Estimates say that the Recovery Plan has the potential to raise EU GDP by around 1.2 to 1.5 percentage points compared to a baseline scenario where the NGEU is not in place (Pfeiffer etal., 2021). The mere announcement of the agreement on this instrument has allowed to keep interest rates low for many EU states and allowed to keep up the investment levels that are needed to effectively overcome theCovid-19 crisis. The first issuance of common bonds on the market, on the other hand, has been welcomed more than favourably on financial markets, with oversubscriptions[8] up to over 11 times (European Commission).

---

5 In 2018 prices.

6 The European Commission is rated AAA on the financial markets.

7 Traditional own resources are customs duties, agricultural levies, and sugar levies – fromwhich compensation to Member States for collecting costs is subtracted. To these, nationalcontributions on non-recycled plastic waste were added from 1st January 2021.

8 The oversubscription of the Commission’s issuance of EU bonds means that the demandhas been greater than the bonds’ offer.

2. The new and the old: RRF and Cohesion policy as Europeaneconomic instruments for cohesion

This chapter will give an overview of both the Recovery and Resilience Facility, the new European instrument for economic recovery and growth, and Cohesion policy, the well-established and main investment policy of theUnion. It will dive into the constitutive elements of the two instruments, providing insights on their policy priorities and objectives, funding strategy,and governance.

2.1. The Recovery and Resilience Facility

The Recovery and Resilience Facility is the centerpiece of the Next Generation EU. Out of the total €750 billion of the NGEU, €672.5 fall underthe RRF instrument[9], which comprehends the totality of the €360 billion inloans, and €312.5 billion in grants made available to Member States[10] withthe aim of mitigating and recovering from the pandemic's impact, while building more resilient economies and societies (European Commission). Aspart of the NGEU funding strategy, the RRF funds are raised on capital markets by the Union collectively, obtaining more favorable interest rates than would otherwise be obtained by Member States individually.

The distribution of RRF funds is governed by the EU Regulation establishingthe RRF[11] and reflects in part the significant differences among countries inthe severity of the impact of Covid-19 and the capacity of each country to absorb and recover from the shock. More specifically, 70% of the grants areallocated for the period 2021-2022 and are distributed according to three criteria: the size of a Member State's population, the inverse of its GDP percapita, and the average unemployment rate in the years 2015–2019. For the remaining 30% allocated for 2023, the unemployment criterion is replaced by the change in real GDP observed over 2020 and by the aggregated change in real GDP over the years 2020-2021 (Regulation EU 2021/241).

Because of these allocation keys, the amounts that will be transferred to Member States might 'slightly' change over time. However, based on these criteria, Southern and Central-Eastern Member States are certainly receiving higher shares of grants relative to their GNI and compared to Nordic countries (Bisciari et al., 2021).

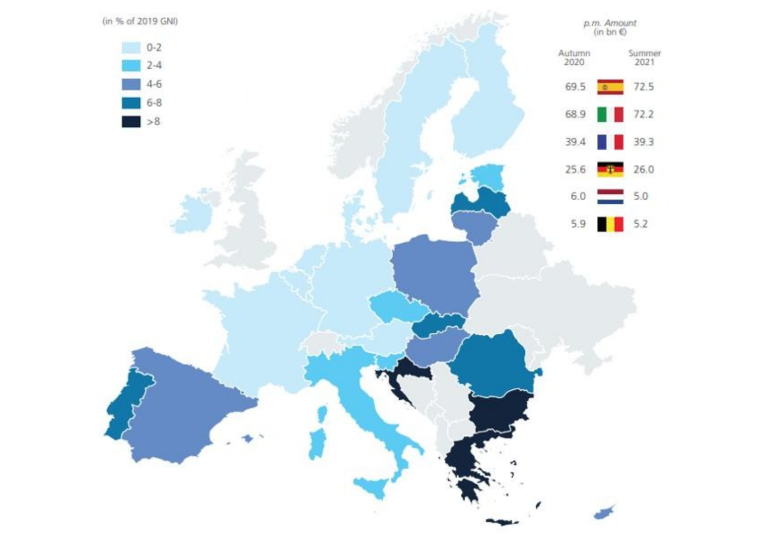
---

9 The remaining amount in € billion is allocated to: Horizon Europe (€5.0); Invest EU (€5.6); React EU (€47.5); RescEU (€1.9); CAP (€7.5); Just Transition Fund (€10.0); Security and Defence (€1.9).

10 All figures are expressed in 2018 constant prices.

11 Regulation (EU) 2021/241 of 12th February 2021.

Figure 6. Share of RRF grants expected in relation to GNI



Source : Bisciari et al. (2021) based on EC autumn 2020 and summer 2021 forecasts

All Member States have requested the disbursement of grants to the Commission, but only some of them have in addition requested loans, to bereimbursed with relatively low interest rates after 2028. In order to receivethe RRF funds, each EU country must submit a National Recovery and Resilience Plan (NRRP), outlining how they intend to spend the RRF money, in terms of investment and reforms to recover and build resiliency.

The Regulation delineates the conditions that Member States must complywith when designing their national plans. More specifically, *Article 3* sets out the EU priority policy areas that the Facility should address, structured around six pillars: (a) green transition; (b) digital transformation; (c) smart,sustainable and inclusive growth, including economic cohesion, jobs, productivity, competitiveness, research, development and innovation, and a well-functioning internal market with strong SMEs; (d) social and territorial cohesion; (e) health, and economic, social and institutionalresilience, with the aim of, inter alia, increasing crisis preparedness and crisis response capacity; (f) policies for the next generation, children and the youth, such as education and skills. The second condition is that MemberStates use the RRF funds to address a substantial part of the Country Specific Recommendations (CSRs) formulated by the Council during the European Semester[12] of 2019 and 2020.

12 "The European Semester is the framework for integrated surveillance and coordination of economic and employment policies across the European Union. It is a well-established forum for discussing EU countries' fiscal, economic and employment policy challenges under a common annual timeline" (EU Commission).

Lastly, a significant part of the investments decided in the plans must be directed to fostering the twin transitions: green and digital.

In particular, at least 37% of the funds in each plan must be allocated to measures that contribute to the green transition, while at least 20% to the digital one. Green and digital investments are tagged in the plan according to the methodology defined under Annex VI and VII of the RRF Regulation, allowing to account for the climate-related and digital-related spending in every country's plan.

The plans have been negotiated with the Commission, which requested adjustments each time when there was no compliance with the conditions laid out in the Regulation. Once assessed by the Commission, the plans passunder the scrutiny of the EU finance ministers in the Council to be approvedby qualified majority. With the final approval, Member States receive about13% of the total allocated amount in the form of pre-financing to start implementing the first pre-defined measures. Further disbursements are divided into instalments, which are received upon the achievement of objectives.

The NRRPs are in fact structured as a set of so-called Milestones and Targets, which are the qualitative and quantitative steps – respectively – necessary to the realization of reforms and investments. To each instalment, therefore, corresponds a certain amount of these milestones and targets, the achievement of which is a pre-condition to the disbursement of further RRF money from the Commission to the Member States.

This system makes the RRF a performance-based instrument, whereby thedisbursement of further EU funds is contingent on the satisfactory fulfillment of the investments' and reforms' objectives in the national plans.The European Union is therefore imposing a specific and new form of conditionality on Member States for receiving payments.

According to the Facility, national governments are primarily responsible forthe design and implementation of the plans, and thus for the overall RRFspending. They can however request to be supported at all levels under the Technical Support Instrument, established to provide EU national authorities with expertise on a broad range of policy areas, supporting thepreparation, amending, and implementation of the national recovery and resilience plans. The instrument will finance, upon request by a MemberState, activities related to policy advisory, structural reforms, capacity building, data and statistics, digitalization, etc. (Regulation EU 2020/241). The implementation of the RRF has started more or less in September 2021.As part of the broader NGEU instrument, it has certainly helped keep up theinvestment levels across Europe, while maintaining interest rates low andaccelerating

GDP growth. Its design has also allowed to plan ahead for long-term investments and long-needed structural reforms, while better incentivizing countries to address Country Specific Recommendations. However, the implementation phase will be the determinant of the successor (partial) failure of the RRF and will most certainly raise several challenges.

2.2. The European Cohesion policy

Cohesion policy is the core investment policy of the European Union. It aims at boosting territorial cohesion and closing the GDP divergence between European regions by encouraging economic growth, job creation, competitiveness, and sustainable development, while simultaneously addressing the European policy priorities (European Commission). The EU objective of Economic, Social and Territorial Cohesion is *de jure* establishedunder articles 174 and 178 of the TFEU[13]. This pivotal regional developmentpolicy is composed of and delivered through diverse and targeted funds: the European Regional Development Fund (ERDF), Cohesion Fund (CF), European Social Fund Plus (ESF+), and Just Transition Fund (JTF)[14]. Excluding the latter, the other three funds form a significant part of the well-known European Structural and Investment Funds (or ESI funds), i.e.the five European funds[15] with the objective of supporting economic development across all EU Member States (European Commission).

The budget allocated to Cohesion policy corresponds to about one-third of the total EU MFF, resulting in €392 billion for the programming period 2021-2027. The instrument is financed through the MFF, meaning that resourcesmainly come from direct contributions from Member States. The principle of EU solidarity governs the allocation of cohesion funds. The two main funds, the ERDF and CF, are mainly targeted to the less developed regionsand countries of the Union, and the eligibility is determined by two criteria,being the GDP per capita of regions and the GNI below 90% of EU average,respectively.

13 Treaty on the Functioning of the European Union.

14 The ERDF finances investments for a smarter, greener and more connected and social Europe. The CF supports countries in environmental and transport investments. The ESF invests in employment, education and social inclusion. The JTF is a new instrument to alleviate the social and economic costs arising by the climate transition.

15 The other two funds are: European Agricultural Fund for Rural Development (EAFRD) and the European Maritime and Fisheries Fund (EMFF).

For the purpose of regional policy, the Commission considers the EU regions under the NUTS-2 categorization, and distinguishes between *more developed*, *transition,* and *less developed* regions.

The former are those with a GDP per capita of over 100% of the EU average, transition regions have it between 75% and 100%, while the less developed ones have a GDP per capita lower than 75% of the EU average. The latter are therefore eligible for a significantly greater amount of funds than the former two, resulting overall in a redistribution of EU funds from Northern to Southern European regions (European Commission).

Box 2: The creation of Cohesion policy

Regional Policy was first created in 1957 with the Treaty of Rome establishing the European Economic Community but significantly evolved over time. It was only with the enlargement of 1988 - to adjustto Portugal, Greece, and Spain joining the European Union - that the bases for the Cohesion policy we know today were laid down. Some fundamental principles were introduced: the target on poorest regions,multi-annual programming for strategic investments, and the involvement of local authorities and stakeholders, which became key responsible actors when the Maastricht Treaty introduced the principle of subsidiarity. In the late 90s, the amount of structural and cohesion funds was increased to equal one-third of the total EU budget.

To apply for receiving Cohesion funds, every EU country must first draft andsign a Partnership Agreement with the Commission outlining the investments strategies and listing both national and regional operational programs (OPs). Regional Operational Programs (ROPs) usually constitute the main part of the agreement and delineate the investment plans for thesocio-economic development of each European region. One of the main criteria for the eligibility of investments is that of contributing to the delivery of EU's objectives and Commission's priorities, notably environmental sustainability, digitalization, and fight against social inequalities, for the period 2021-2027.

While the Partnership Agreement with the programs is negotiated ultimatelyby the national authorities, the regional authorities are in charge ofelaborating the ROPs, on the basis of their regional and local stakeholders' needs. Civil society organizations, industry representatives, workers, all cancontribute to the programming and management of the investment projectsin the operational programs. As an example, for the programming period 2014-2020, a total of 20 ROPs were submitted by the 20 Italian regions, while Germany submitted 16 OPs, one for each of its Länder (European Commission).

The operational programs are a mandatory requirement in order to apply for co-funding to the European Union. Cohesion policy can hence beconsidered a co-financing instrument, whereby a variable part of theinvestment is directly paid through the regional budget, and the remaining amount is funded with EU money. The less developed regions can apply toup 85% of co-financing, compared to 60-70% for transition regions, and 40-50% for more developed ones. Once the Partnership Agreements and the single programs have been approved, the European Commission allocates the funds, so that regions can start implementing the projects, and then reimburses the certified expenditures. The budgetary commitments are made annually but are automatically decommitted if thefunds remain unused (European Commission).

For the approval of the operational plans and the disbursement of funds during the 2014-2020 period, some ex-ante conditionalities were imposed to all ESI funds, including Cohesion policy, which were mainly legal, policy,and administrative requirements. For the new programming period 2021- 2027, these were instead simplified into "enabling conditions", i.e. general frameworks to improve the effectiveness of EU spending. An example is therequirement that all cohesion programs be implemented respecting the EU Charter of Fundamental Rights. In addition, the programs' implementation can be supported through dedicated technical assistance, provided toregional authorities to enhance the capacity of public administrations and stakeholders for efficient and effective management and use of funds, by for instance giving advice on major projects' feasibility and financial viability.

Differently from the 2008 crisis, Cohesion policy has been greatly mobilizedin the framework of the European response to the pandemic crisis. As partof the instrument, the EU created two Response Investment Initiatives (CRII and CRII+) to implement crisis repair and response measures and support healthcare expenditures. In addition, a new funding for €47 billionwas devised as an additional allocation to the 2021-2027 Cohesion budget,named REACT-EU[16] (European Commission). This package is to be used solely for investments that can boost crisis response capacities, supportingthe healthcare sector, but also job creation, and small and medium enterprises (SMEs).

---

16 Recovery Assistance for Cohesion and Territories of Europe.

On the other hand, great flexibility was granted under Cohesion policy rules, allowing for yet unspent funds from Cohesion programs to be reallocated to Covid-19 related expenditures (OECD, 2020).

Heterogeneity of results from its implementation

The extensive literature on the impact of Cohesion policy is highly heterogeneous. While the Commission has emphasized its positive effect onGDP convergence and disparity reduction across European regions, the academic world cannot reach a univocal consensus and has provided mixedresults (Gagliardi & Percoco, 2016). According to Gagliardi and Percoco (2016), Cohesion policy has generated positive effects on the economic development of lagging regions, which was especially fostered thanks to theprogressive suburbanization of rural areas close to cities. Becker, Egger, and Ehrlich (2010) also find a positive causal effect of 1.6% growth in GDPper capita in the less developed regions. However, many havedemonstrated that this growth has not been sufficient and homogeneous, arguing the overall ineffectiveness of Cohesion policy. The main factors influencing the heterogeneity of the impact across regions have been widelyinvestigated: quality of institutions (Accetturo et al., 2014), expenditure intensity (Cerqua & Pellegrini, 2017), land conversion potential (Gagliardi &Percoco, 2016), and sectoral structure of the local economy (Percoco, 2017). In addition, Crescenzi and Giua (2019) have argued that theeconomic impact of Cohesion policy is extremely country-specific. Southernregions struggle in achieving growth because of national macro-institutional factors, while positive results can be found in Germany and UK. An oppositebut influential view, despite being somewhat dated, is that of Canova and Boldrin (2001) who criticized regional policies to tackle disparities at the European level for having a very mild relationship with the growth of eitherlabour or total factor productivity in the poorest regions. Others again foundsome positive effects, but with diminishing returns, meaning that as the amount of the transfers is increased, regions use them more and more inefficiently (Becker et al., 2012). In addition, a number of unwanted effects might be traced back to the implementation of Cohesion policy andits substantial flow of money, above all the increased rate of corruption andfraud – for example in administrative and procurement processes.

In this respect, the case of Italy is a widely studied example of the low effectiveness of Cohesion policy in specific regional contexts. According to the 2019 Annual Report on the implementation of the EU budget of the European Court of Auditors, Italy is the second-last country in Europe for absorption capacity of EU funds across the period 2014-2020. During this period, Italy received around €34 billion from Cohesion policy (Camera dei Deputati, 2021), which will increase to roughly €40 billion from the 2021- 2027 EU budget. Compared to an average of 40% absorption rate across Member States, Italy has used 30.7% of European structural and investment funds in 2019 (ECA, 2020). In addition, compared to the European average, European funds have produced limited effects in Italy, with a lower impact on regional growth and the highest rate of dispersion by sector (Senato della Repubblica, 2018). Quality of institutions is one of the main reasons identified to explain Italy's poor performance. Low quality of bureaucrats in local entities – especially in Southern Italy – means a weak capacity to timely elaborate the Regional Operational Programs and the calls for tender necessary to launch the planned initiatives and make the implementation effective. On top of that, fraud is also a major issue. According to a 2018 study by Banca d'Italia, EU cohesion funds in SouthernItaly resulted in a 4% average increase in yearly so-called "white-collar crimes".

3. A comparative analysis of the two instruments: common elements and substantial differences

Following the above description of the functioning of the two EU policy instruments, as well as the acknowledgment of the current unbalanced socio-economic situation of European Member States, several doubts arisewhich put in question the potential of the Recovery and Resilience Facility to be truly effective in getting the Union out of this crisis and in delivering the expected results. Especially considering the sometimes weak anddisappointing results of Cohesion policy in the areas of Europe that neededit the most, alongside the multitude of issues that such policy has encountered since its implementation, it is fair to wonder why the RRF should be more successful in efficiently investing this unprecedented amountof money and meeting all the ambitious objectives it was set up for.

On the one hand, the main issue with Cohesion policy has been the lack ofcapacity to absorb EU funds by both national governments and, even moreso, regional ones, partly due to a lack of planning and of managing capacities when faced with significantly large amounts of resources and investments to be made. The main consequence of this institutional weakness has been the low or stagnating GDP growth, especially in those EU regions that have been lagging behind for a long time, which has been a significant driver in the struggle to close the regional gaps and achieve the European objective of territorial cohesion.

On the other hand, a massive amount of EU funds has now begun to flow towards Member States for them to carry out a huge number of investmentsand reforms as outlined in their national plans, while meeting the objectivesand priorities of the European Union as a whole. As an example, Spain, Italy, and Greece, i.e. the countries receiving the largest amount of EU funds, have in their NRRPs around 300-500 milestones and targets to be achieved by 2026 (Rubio, 2022). A country like Italy, in addition, will haveto manage European resources from three different spending regimes until 2023: the 2014-2020 budget, the billions from Next Generation EU, and thenext seven years budget 2021-2027.

In light of all the above, it seems reasonable to entertain some doubts on the capacity of EU Member States to absorb these additional funds and usethem with efficiency and effectiveness to avoid wasting EU taxpayers' money. The generally low absorption rates of EU Cohesion funds and the weak administrative capacity within several countries does indeed raise the question of how and if these constraints are tackled by the new RRF instrument.

Why would the RRF be different in its results compared to Cohesion policy?Are we not too *optimistic about its desired outcomes? How would the long-standing issues of Cohesion policy implementation be solved under this newEuropean instrument?*

This third chapter will comparatively analyse the two instruments, by looking into and addressing the fundamental and structural elements that could render (or not) the RRF a substantially different EU economic policy compared to Cohesion. While doing so, the analysis will make reference to some long-standing debates which might help shed light on the importanceof these elements and on the issues that could emerge (and are already doing so) from the design and implementation of the RRF.

3.1. Two economic development policies for Europe: A common perspective

As mentioned in the previous chapter, the total EU spending for the years 2021-2027, summing together the MFF and the NGEU will reach €1.8 billion,an unprecedented package. 60% of this figure is concentrated under the "Cohesion and Values" heading of the total European budget and comprisesboth Cohesion policy and the RRF (European Commission).

The two instruments are indeed similar in their scope and objectives. First,they are both economic development policies of the European Union, primarily devolved to boosting investments in physical and human capital and innovation, therefore contributing to the economic growth of the Member States. Secondly, they are mainly targeted at those areas of the European Union that are mostly lagging behind, with the aim of contributingto the economic and territorial cohesion of Europe. Here, the two policies partly diverge, as the allocation key for Cohesion policy imposes that the less developed regions of Europe receive the most funds for the purpose ofterritorial cohesion, while the RRF is less stringent on this requisite. The RRF allocation key also favours weaker economies and those most impactedby the pandemic, but the Regulation establishing the RRF does not provideany binding instrument to ensure that funds within a country be directed tothe most fragile regions. "Ensuring territorial cohesion" is indeed one of thesix pillars of the RRF which should steer investment decisions across the EU; however, while a criterion for the Commission's assessment of the national recovery plans, this is not a binding requirement.

These six pillars of the RRF reflect the European priorities to be addressed by the RRF funds in both planned investments and reforms. They are very similar to the priorities set for Cohesion policy for the period 2021-2027, whereby the green and the digital transitions are at the core of European policy objectives. Compared to Cohesion, however, the RRF sets a binding spending requirement in the national recovery plans of 37% earmarked togreen measures and 20% to digital ones. Each measure in the NRRPs thatis considered to contribute to the green or digital transitions is in fact assigned a 40% or 100% climate or digital -contribution marker as defined under Annexes VI and VII of the RRF Regulation. Whereas in Cohesion thedirection of funds to these priorities functions as a sort of recommendationby the European Commission, in the RRF the Commission assesses the national plans based on the criteria of the Regulation and does not approvethem for funds' disbursement until the target is met.

On the same line, both instruments include as part of their scope that of addressing the Country Specific Recommendations (CSRs) received in the context of the previous European Semesters. In the RRF, this is one of the main assessment criteria for the European Commission and Council for thevalidation and official approval of the national RRPs, whereby Member States are required to address the majority of the CSRs for the years 2019and 2020. The Commission has stated its satisfaction with how each countryhas significantly included the recommendations as part of their reforms andinvestment plans. Prior to the creation of the RRF in fact, the EU has struggled to enforce these recommendations which, by their nature, are not mandatory for Member States. This was hence the case also under CohesionPolicy.
The MEP Damian Boeselager (Greens/EFA Group) and his team[17] conducteda thorough analysis on the inclusion of CSRs into the national plans acrossEurope. They looked into twenty NRRPs and showed that the majority of Member States addressed all or most of their country-specific challenges inthe plans. This is even more true for those Member States with a higher number of challenges and in need of RRF funds, while "more advanced" EUeconomies such as Germany and Belgium were those with the least numberof CSRs addressed.

Lastly, both instruments have as a constitutive element the principle of "additionality". Additionality means that the projects presented by MemberStates in the national or regional plans to request EU funds should be new,hence supplementary to the portfolio of national projects that would have been put forward by governments if these EU instruments had not been there. One reason why this principle is applied to EU development policies is to avoid economic dependence on EU funds so that policies that should respond to national "basic needs" are met through national finances.

---

[17] The author has contributed to this analysis as part of her traineeship at MEP Boeselager'sOffice of the European Parliament from September 2021 to January 2022. The analysis ispublic and can be found here: https://docs.google.com/spreadsheets/d/.

On theother hand, according to the principle of additionality, EU money should help Member States carry out those investments that are necessary to develop the economy in the longer term and in line with European priorities: this is the case for instance with green and digital investments. The additionality requirement has long been applied to Cohesion policy, but pieces of research point out that it has not been implemented thoroughly inthe Member States; rather, it has sometimes brought unintended negativeconsequences[18]. While additionality is also a requirement under the Regulation establishing the RRF[19], a first analysis by CEPS[20] (2022) highlights that this again is not the case, and Member States have been including in their plans a high number of projects that had already been scheduled or designed to be financed with national resources (Corti et al., 2022).

3.2. Key elements of divergence between the two instruments

Source of financing

As mentioned in the previous chapter, there exists a fundamental differencebetween the two economic policies from a budgetary perspective. Such difference lies in the fact that the RRF is an off-budget instrument, wherebythe necessary funds are raised through joint European debt on capital markets and through own resources. On the other hand, the EU budget forCohesion is part of the European MFF and therefore mainly raised through Member States' contributions. Cohesion's budget has been steadily growingover the last programming periods, but its increase – like that of the whole EU budget – is subject to long discussions within the European Institutions. EU countries, especially among the Frugals, are in fact often reluctant to pay increasingly larger shares of money, because they are then redistributed primarily to the less developed EU economies.

18 See Varblane (2016), EU Structural Funds in the Baltic Countries – Useful or Harmful? *Estonian Discussions on Economic Policy, 24(2).*

19 Article 5(1) of the Regulation (EU) 2021/241: *"financial support from the Facility shall not, unless for duly justified cases, substitute recurring national budgetary expenditure and shall respect the principle of additionality of the Union funding".*

20 Centre for European Policy Studies.

Cohesion's budget remains anyway significantly lower than the amount thatwas agreed in an extremely short period of time for the RRF. The reasons that made an agreement of such grandeur possible are at least twofold butoriginate in the position of the Frugal states - the main ones that needed convincing. While the emotional wave brought by the pandemic surely played a significant part, these underlying reasons are purely economic. Firstly, whereas all the markets outside and inside Europe were being frozen due to worldwide lockdowns, the RRF could provide an incredible boost to the internal market through large scale investments and subsidization of demand across EU economies. Secondly, the money through which the RRFis financed is primarily investors' money, not Member States'. The confidence obtained on the financial markets during the first issuance of common bonds for financing the RRF (whereby, as said, the oversubscription was 11 times) has been all the more reassuring to those countries that normally receive the least funds from the EU budget's redistribution and would therefore be the most skeptical towards increasing its commitments. The markets' wide interest and confidence in the EU, together with the "re-creation" of an internal market seems to have been the main drivers to ultimately convince the Frugal states, as well as to maintain high the commitment of all Member States to invest and reform their economies under the guidance of the European Institutions.

Governance

At the governance level, there is a substantial difference in the institutionallevels concerned in managing the two policies' funds. In Cohesion policy, both national and regional administrations are usually involved in the policyimplementation. A prominent role is however entrusted to regional authorities, especially under ERDF, which are in charge of planning the investments needed for their area, managing the funds disbursed, and taking care of the projects' implementation phases. This management setting is defined as "shared management", whereby the Member State orEU region and the EU Commission co-finance the investments, the former being in charge of the management and implementation of the approved programs, and the latter supervising and monitoring their realization.

This type of projects' management responds to the principle of subsidiarity[21] governing the European Union and determining that, whenever possible, governance shall always be the closest to its citizens. In the RRF instead, only national authorities are officially (i.e. as per the Regulation) involved in the planning and managing of resources. It is the national government of each Member state that designs and submits the national plan of investments and reforms and subsequently implement the EU funded projects. As opposed to Cohesion's "shared management", the RRF is defined as falling under a "direct management" type of implementation, whereby the EU Commission directly manages the EU funding and is responsible for the entire execution of the program (European Commission).

The "regional versus national" policy planning brings forward two interlinkedand long-standing debates and subjects of abundant research. The first being whether place-based policies, like Cohesion policy, are more effectivethan nation-based ones, like the RRF. Barca popularized the place-based approach, arguing that it is needed to build on local capabilities and createpath dependency (Barca et al., 2012). Others, such as Sapir (2004) and Crescenzi & Giua (2019), have argued that in order to promote EU convergence, policies should target Member States, so as to allow for betteradaptation to the needs and overarching objectives of each individual country. The second refers instead to the importance of quality of institutions in economic development policies, not only for the EU territorialcohesion but especially for the emerging economies' development. The variable has been studied by an enormous number of scholars around the world as a primary cause of the lower development levels of certain geographical areas.

Hence, this dual governance possibility for the European Union results in atrade-off between prioritizing the subsidiarity principle and proximity to citizens' and local stakeholders' needs or rather prioritizing administrative capacity and efficiency. The regional level, especially in a country like Italy and its Southern regions, is characterized by significantly lower capacity and quality of human capital in local administrations. As already explained,this has been widely found to be correlated to lower GDP growth, and therefore to be one of the main drivers for the disappointing results of Cohesion policy in these areas.

21 Article 5(3) of the Treaty on European Union (TEU) defines that: "Under the principle ofsubsidiarity, in areas which do not fall within its exclusive competence, the Union shall actonly if and in so far as the objectives of the proposed action cannot be sufficiently achievedby the Member States, either at central level or at regional and local level, but can rather,by reason of the scale or effects of the proposed action, be better achieved at Union level".

Since weak institutions represent a real issue for EU regional development and territorial cohesion, the centralization of planning at the national level in the RRF seems to be a potential solution to the problem and a positive step for the success of the RRF. The reality however is that many of the projects included in the national plans are regional and local investments and will have to be implemented on the ground by regional and local authorities. Because of this *de facto* dual governance nature of the RRF implementation, many voices have been raising their concerns pointing outto the lack of involvement of regional stakeholders in the design and strategy phases of national plans' creation and are worried that this settingmight bring about the same issues we have already seen under Cohesion'simplementation.

Performance Conditionality

There is a significant conceptual difference in the way the disbursement offunds to Member States is organized under Cohesion policy and the RRF. Cohesion policy funds are disbursed based on a "cost payment" concept. This means that the Commission pre-allocates funds to Member States andtheir regions for the investments proposed in the operational plans and the financing is based on the expenditure incurred, under a co-financing logic. Member States expenditures are then reimbursed from the EU budget once the money has been spent by the region during the projects' implementation (this includes pre-financing, interim, and final payments). If any part of these payments has not been used as of the third financial year, the Commission will de-commit the unused funds. It often happens that actual payments are lower than payment allocations because not all Member States manage to spend the available funds (Bruegel, 2020). Whatseems to be most important for the Commission is therefore that spending for the realization of investments occurs and is coherent with the agreed plans and timeline, rather than the actual results achieved thereby.

The RRF is instead constructed under a "performance payment" concept, meaning that the Commission disburses the EU funds on the basis of the achievement of Milestones and Targets defined in the national RRPs. The disbursements are organized in instalments (generally twice a year until 2026) and are conditional upon the realization of a set of reforms and investments. The primary interest of the Commission here is that the pre- defined objectives are met, with no flexibility allowed around this rule. Theperformance-based conditionality entails a stricter control on the output ofthe projects contained in the plans, with possible suspensions on further disbursements of funds and sanctions by the Commission if the targets andmilestones are not met.

The majority of targets are expressed in terms of concrete outputs to be achieved, such as "renovate 20'000 buildings" or "construct 500 kindergartens". On the contrary, under Cohesion, objectives are not the primary focus and there is no such stringent control on the output and outcomes of investments.

In practical terms, this means that the RRF imposes an *ex-post* performance-based conditionality on Member States in order to receive financial support from the European Union, while Cohesion policy does not.Cohesion imposes instead a form of Ex-Ante Conditionality (EAC) – now called "enabling conditions" for the period 2021-2027 – requiring regions toensure that they have the structural capacity and conditions to implement the projects. Examples of these are the presence of a legal framework, the administrative ability to manage the funds, and a strategic scheme to directinvestments. A negative assessment was however done by the European Court of Auditors on the EAC conditionality, showing that Member States benefit from funding irrespective of them meeting their targets and that atthe programs' adoption stage, the Commission has never suspended any payment due to non-fulfilment of conditionalities (European Court of Auditors, 2017 and 2021). A sort of performance conditionality was also added to Cohesion during the period 2014-2020, whereby a so-called "performance reserve" was established, mandating a 6% reserve on EU countries' cohesion allocation that could be released to successful projects or reallocated to other investments of the same Member State. The OECD (2017) deemed however the performance reserve to be limited in scope and questioned the rigor of its linkage to performance. It has hence been discontinued for the new programming period 2021-2027.

Based on these conceptual and structural differences, we can consider the conditionalities under Cohesion policy to be significantly softer, less results-oriented, and especially not as large-scale – i.e. not applied to every singlemilestone and target of the plans – as under the performance-based systemof the RRF.

As a side note, in addition to these conditionalities, for the first time, the Commission has introduced in the RRF a Rule of Law conditionality, which precludes the flowing of funds to the Member States[22] engaging in serious breaches of the Rule of Law, a fundamental and founding principle of the European Union.

---

22 The Rule of Law conditionality is the reason why the National Recovery and Resilience Plans of Hungary and Poland have not been approved yet by the European Commission and Council.

Structural Reforms

A last fundamental difference introduced with the RRF compared to Cohesion policy and linked to both the governance and the conditionality explained above, is the requirement to have structural reforms as part of the national recovery plans of each Member State. Compared to Cohesion policy, which is solely focused on undertaking investments, the RRF has an additional objective of contributing to the strengthening of the economic systems and administrative capacities of Member States by means of reforms. Reforms are therefore primarily needed in order to build the necessary conditions for implementing the investments decided in the NRRPs and for absorbing the huge amount of EU funds flowing to countries. To this end, the national RRPs have been mostly organized so as to have the country carrying out the set of reforms – in the form of detailed Milestones to be achieved – at the beginning of the implementation and of the instalments' distribution, and only subsequently receiving the funds for the biggest investments. Reforms have been decided and negotiated with the Commission mainly on the basis of the Country Specific Recommendations of the 2019 and 2020 European Semesters, as provided under the RRF Regulation. This is the reason why not all reforms – such as Justice or Pension reforms – seem to be directly linked to the aim of enabling the delivery of investments.

Carrying out structural reforms often bears significant social and political costs. Many Member States have included in their plans some highly politicized reforms – of which pension reform is a perfect example – which might cause long discussions and political clashes. The decisions around these reforms (as well as for investments) have in fact been taken by national governments, in most cases without the involvement of national parliaments, as there is no binding requirement in the RRF Regulation for the plans to be voted in Parliament before their submission to the Commission. National Parliaments will instead have to vote on many of these reforms now, in order to make their implementation effective. This aspect, together with the potential changes in the political landscape across European governments from now up until 2026, might represent a significant hurdle for the smooth implementation of the RRF. On the other hand, if these issues were to be effectively addressed, reforms could disproportionally benefit the least developed countries and regions of Europe in terms of management and absorption capacity, and therefore greatly contribute to the European economic and territorial cohesion.

4. Lessons learned and learning lessons: a discussion with experts on the potential of the Recovery and Resilience Facility and on reforming Cohesion policy[23]

In light of the analysis presented in the third chapter of this paper, a discussion with experts follows on the fundamental elements that make thetwo EU economic policies diverse and the features that could potentially make the RRF a more successful instrument compared to Cohesion policy. The interviewees are: Mario Nava, economist and Director-General of DG REFORM at the European Commission; Zita Herman, political advisor on theBUDG Committee for the Greens/EFA Group of the European Parliament; Giovanni Gorno Tempini, previously CEO and now Director of Cassa Depositie Prestiti[24]; and Mara Giua, professor and researcher at the Department ofEconomics of Roma Tre University. The choice of the experts stems from their different backgrounds and occupation – a decision-maker, a political actor, a bank executive, and an academic respectively – which bring different interesting perspectives and insights to the analysis.

The discussion derives from their views on the lessons learned fromCohesion policy over the years for the RRF design, and on the potential the instrument has to succeed in its implementation. In addition, the discussionwill touch upon the lessons that could be learned from a successful RRF to reform Cohesion policy towards better results in terms of investment capacity and ultimately territorial cohesion across the European Union.

4.1. Lessons Learned from Cohesion: have we designed a newsuccessful policy?

i. Governance and funds management

According to Mario Nava, the local and regional institutional level is a key challenge for every Member State in the context of the RRF. In the case ofCohesion policy, where this level is a core element of the instrument's functioning, it has sometimes represented a serious struggle – such as in the case of Italy.

[23] The views expressed in these interviews are the personal views of the speakers only and do not represent the views of their institutions in any way.

[24] CDP is the Italian Development Finance Institution.

The main challenge is constituted by the fact that the localinstitutional level is often highly heterogeneous also within one EU country,with different regions or municipalities having to face a multitude of diverseissues and challenges. This is instead generally not the case of central government bodies, where governance and administrative capacity are greater, and issues more homogeneous. In the case of the RRF, the regionallevel will still represent an important challenge, because the implementationof projects and the spending of the funds will often be in the hands of localauthorities and administrations. Along the same lines, Giovanni Gorno Tempini says that the administrative capacity of the bodies that willimplement these important interventions is the main critical point for the success of the RRF. Bringing the examples of Italy, he adds that to date, the implementation time for infrastructure works in Italy is 4.4 years on average, but it grows progressively as the economic value of the projects increases. For projects worth more than €100 million, the implementation takes around 16 years, i.e. three times the maximum time we have available under the RRF.

Mr. Nava is however confident of the success of the RRF institutional settingbecause the centralization of planning at the national level has allowed leaving to the local administrations the more operational tasks, where the European Commission can more easily step up with technical assistance instruments. The national governments have been instead assigned by the Commission the retention of the strategic planning tasks, where higher capacity is needed to design meaningful investments and reforms. In addition, this form of direct management by the Commission under the RRFis – according to Mr. Nava – an element that could determine more efficientand effective spending, as well as greater results in terms of investments' outcomes addressing European priorities and ultimately of GDP growth. Mr. Gorno Tempini agrees that one of the key elements of difference between Cohesion policy and the RRF funds, which could significantly improve the absorption capacity of the latter, is the non-requirement of national co- financing. For countries that already struggle with their public finances andin finding additional new resources, this surely facilitates the whole process.

Some different and more skeptical views on the potential success of the RRF instrument come from Zita Herman and Mara Giua. According to the former, while the allocation key for the RRF is only national, Member Statescould have still had the opportunity to compile and submit regional plans under the RRF. There is in fact nothing in the Regulation prohibiting that, itwas rather a matter of time constraint. *"It is a shame that in the RRF planning regions were not involved"*, she says. The issue according to her is that in any case, what will be implemented as part of the national RRPs,will be mostly regional and therefore regional and local authorities will have the responsibility for implementation. They could have therefore consulted regional authorities to a much greater extent. Ultimately, besides this lackof involvement and listening to local needs, there is not much difference between Cohesion and the RRF in terms of management of the funds. It istrue that under Cohesion, regional authorities prepare the Operational Plans, but then they are generally negotiated with the Commission by national authorities. However, she recognizes that the substantial involvement of national authorities in a country like Italy, which has a more "federalist" regional system, might play a role in differentiating the two instruments.

Ms. Giua agrees that, on paper, the RRF provides for the centralization of responsibilities to the national governments, and a minor role is reserved to regions; in practice, however, this is not so relevant as regions are still at the centre of the resources' allocation process.

She wishes that when discussing the design of the RRF, the European Unionhad truly engaged in a policy learning process and looked at the errors madeduring the implementation of Cohesion policy to identify the most suitable governance for this new policy program. In Cohesion, in fact, this "nationalversus regional" debate has always been at the core for determining the various levels of governance ("multilevel governance") involved. Also in thiscase, the RRF governance should have been determined by an evidence- based approach to policy making – which so far has not been at the centre of the policy debate.

This evidence-based gap – she points out – is what she and many other researchers have been trying to address by bringing empirical evidence onthe role of regions in Cohesion policy.

In her most recent paper[25], they found that where the projects' governance involved regions to a great extent, their implementation suffered increased delays. In a previousstudy[26], she had also found that the more top-down EU policies (e.g. the CAP[27]), whereby regional and local bodies were less involved, resulted in fewer implementation issues, especially in those regions with weakerinstitutional capacity. Policies such as Cohesion, which have a more bottom-up approach and require project management capacities at the lower administrative levels, have shown significant implementation issues in the least developed regions of Europe, which are also the biggest recipients ofthese funds, therefore undermining the overall policy outcome.

---

25 Crescenzi, R., Giua, M., & Sonzogno, G.V. (2021), "Mind the Covid-19 crisis: an evidence-based implementation of *Next Generation EU*", Journal of Policy Modeling.

26 Crescenzi, R., Giua, M. (2016), "The EU Cohesion Policy in context: Does a bottom-upapproach work in all regions?", Environment and Planning A, 52(1): 134-152.

27 CAP is the Common Agricultural Policy of the European Union.

She recognizes that the "place-based versus nation-based" policy debate isa fundamental one and upholds the importance of the "one policy does notfit all" concept and of bottom-up policy processes. However – she adds – asfar as we do not have invested in institutional capacity in terms of a better administration, these bottom-up policies can hardly be successful. By centralizing the required capacity in the RRF, we are at least eliminating one level of friction. Of course, some regions are very well equipped (sometimes even more than the national level) to do an efficient job, but others can only gain from this centralization of governance. This is even more true considering rent-seeking behaviours and corruption at the local levels, such as in the case of Italy. Again, she argues, this centralization inthe RRF does not mean that problems are being effectively solved. Most importantly, enhancing the administrative capacity cannot be reduced to aticking-boxes exercise, as it seems to be in the NRRPs, whereby the only targets are mere output results, such as "increasing the number of officialsin bureaucratic positions, (but not their quality)".

ii. Performance Conditionality

According to Mr. Nava, the shift from cost payment in Cohesion policy to aperformance payment infrastructure is a fundamental aspect of the RRF's potential success. In the definition of performance itself lays the idea that something (or someone) works better when it achieves increasing results. In this case, the RRF exists and functions **only** if results are met, while in Cohesion policy this concept is non-existent. The fact that Cohesion does not have a (strong) performance requirement for the investments made with EU funds, means that there is little incentive to spend the money efficiently and put the needed effort into obtaining the expected and desired outcomes. Moreover, while in Cohesion the allocation of resources is fairly automatic (once the Operational Plans are submitted and approved), the performance conditionality of the RRF requires a huge commitment by Member States to fulfill all the milestones and targets in order for them to receive the instalments as provided for in the national RRPs.

This RRF type of performance governance, whereby the disbursement of funds is based on the effective pursuit of pre-established objectives could be a true turning point for better absorption of funds, adds Mr. Gorno Tempini. At the same time, it could induce virtuous mechanisms in the management of national resources, especially for those countries that moreoften encounter difficulties in the implementation of structural reforms.

Ms. Herman is also confident that the system of performance-payments willdemonstrate to be more fruitful than the cost-payment one of Cohesion policy. How the RRF payments are structured represents a very different way of looking at things. Taking the example of a measure for buildings renovation – present in many national plans – there is a substantial difference between *"committing to e.g. use X euros to renovate buildings, or instead committing to a specific thing to do, e.g. renovate X square metres"*. With the RRF, we are moving towards the latter type of commitment. This means that the costing is done at the moment of designing the plans, and then countries have to deliver on the commitmentsthey have taken in terms of actions and targets to be achieved, with very little flexibility allowed. Under Cohesion instead, commitments are less concrete, and there is a lot more discretion on what regions can and will dowith the funds received.

These two different systems – she adds – also create divergences in the level of accountability required and obtained by Member States. Under Cohesion, authorities have to solely show legality in spending, and that money is spent according to the framework of the plan. However, Member States are barely accountable for the outputs, and therefore the results of the investments. The fact that EU countries receive these large amounts of money without consequences on results, has also political repercussions. She adds that this is partly the responsibility of the EU Commission that, while having the leverage to demand quality, it is too often reluctant to impose sanctions on national governments and takes everything at face value of what Member States declare. "*On paper, the goal of Cohesion is that of closing the divergence between regions, in practical terms the Commission wants to see that the money is being spent*" she explains.

Ms. Herman is, therefore, more confident that the RRF will meet itsobjectives because it requires a higher level of commitment and therefore accountability from the Member States. And this time, she sees theCommission being decisive in advancing its demands and forcing Member States to enact changes when issues arise along the whole RRF process, from the design of the plans to the current implementation. Mr. Nava agreeson this, adding that the performance aspect of the RRF and the commitment it requires from the Member States are the reasons why as of now there have been no delays in payment requests yet and the implementation has started smoothly. In the Italian case, the national government managed tocarry out reforms and achieve objectives within less than twelve months that had never been done before or in such a short time. Examples are, above all, the reforms of the Administration and the Justice system enacted in the last quarter of 2021.

More skeptical is instead Ms. Giua, who recognizes that there are two additional layers of conditionality for performance compared to Cohesion. The first one establishes that instalments are disbursed based on what is done, rather than on how much is spent, but it is designed to act majorly on the timeline of the implementation, and not on its quality. This could betherefore insufficient to address the long-standing issues we have witnessedin Cohesion policy, as the RRF framework is measuring performance mainlyon the basis of outputs, and not outcomes. There is moreover the impossibility to determine the causal economic impact of the projects, as we cannot know what would have happened if the policy had not been implemented, i.e. we do not have a counterfactual.

The second layer is that of structural reforms, in addition to investments, which could also represent an effective form of conditionality, but – she adds – we still do not have the means to see the economic impact of thesereforms and will have to wait some time.

iii. Structural Reforms and Investments

According to Mr. Nava, this additional layer of reforms that the RRF imposescompared to Cohesion is necessary to obtain significant results from the spending of EU funds. The decision to have this reform requirement is – hecontinues – one of the main reasons why EU Member States managed to reach an agreement on the RRF's €750 billion just six months after the early 2020 European Council's deadlock on the MFF. Besides the emotions causedby the Covid-19 surge and the economic shock on the EU internal market, the Frugal states abandoned their initial skepticism thanks to the introduction of mandatory structural reforms in the final agreement.

Mr. Gorno Tempini agrees that the characteristic of the RRF instrument which subordinates the use of EU funds to the implementation of structuralreforms will bring significant benefits to the Member States. On the one hand, it will allow to increase the total factors productivity, hence stimulating increasingly ambitious private investment plans and structurally modifying the growth rate in the medium to long term. On the other hand,reforms will affect the institutional quality, steadily enhancing the administrative capacity of both central and local government bodies. He adds that, as the economic literature recognizes, there is a high multiplier for public investments made in the context of high institutional quality. Thisimplies that if economic resources are not used to increase productivity in the long run and channeled into structural reform programs, the positive impact of public investment on the economy may be limited in duration, and economic growth would be driven by a temporary boost in aggregate demand with limited long-term prospects.

However, Ms. Giua points out that, while reforms are surely important, theywill be effective only if truly functional to the recovery and resilience of Member States, that is they should respect the principle of additionality. The main issue she identifies is in fact that many plans, such as the Italianone, seem to have included reforms that should have been done thirty yearsago, and are now being implemented as a mere ticking-boxes exercise for receiving EU funds.

Asked about the possible bottlenecks and challenges that including structural reforms in the plans can represent for the Member States, Ms. Herman replies that national governments are receiving RRF money to carryout reforms that they should be doing anyway – and they know it. Politiciansacross Member States are well aware of the reforms that their country needs, but what holds them back is the political capital they are willing to spend on topics that are often unpopular. Pension reforms, which are part of some national plans (e.g. Spain), are a very good example of extremelypoliticized reforms and are usually opposed by wide political and citizens' groups. On the possibility that these political debates will interfere with the RRF implementation, she says that the Commission will only partly look atthe quality of the reform but will not want to interfere with domestic politicsand their margin of manoeuvre will be limited, especially towards those reforms that require more political capital. Of course, this is all untouched territory and we will see its evolution once further money is deployed and milestones and targets implemented.

Mr. Nava is confident that significant deadlocks will not happen. He is convinced that having decided the investments and especially reforms in advance from now until 2026 is a great advantage and precaution against changing political circumstances. Having pre-agreed reforms will give economic stability to the Union, even though the political class in many EUcountries may change over the years. Reforms are in any case quite detailed, enough to make them stringent and non-easily changeable.

He adds that the idea of demanding national plans to cover years from 2021to 2026 has been an important step forward with the RRF, binding nationalgovernments to think strategically for 5 years, with a view on the long- term. This represents an important difference with Cohesion, where the Regional Operational Programs do not have proper multiannual programming, with detailed steps and objectives that are built on the previous ones. They are rather a set of investments, often not strategic, mainly aimed at spending and covering costs.

On a side note, Mr. Gorno Tempini adds that, once the necessary reforms have been implemented, he sees important opportunities for synergies between the resources coming from Cohesion policy and the RRF during thisprogramming period 2021-2027. This is because

Cohesion funds will have to be used in line with the sectoral policies of investment and reform provided under the RRF, according to a principle of complementarity and additionality of projects' spending. Hence, this complementarity between Cohesion resources and RRF funds may represent an excellent opportunityto: i) develop long-term investment plans (e.g. in infrastructure), which would help create a pipeline of credible projects and improve their bankability; ii) aggregate the demand for infrastructure. This would help mitigate investment risks and exploit economies of scale in both management and planning of interventions, thereby attracting a greater amount of private capital.

4.2. Learning lessons for reforming Cohesion

When asked about whether Cohesion policy could and/or should be reformed with some of the structural elements of the RRF and learned fromits widely expected successful implementation, all interviewees welcomed this possibility to different degrees.

Mr. Nava states that a European instrument with a regional approach is needed and will surely remain in place. The logic behind Cohesion policy – he explains – is that of concretely helping the most economically disadvantaged areas and reaching the most remote citizens of Europe, *"until the last farmer of Sicily or Andalusia"*. This also means that the instrument cannot be made much more complex than it already is, as it hasto be managed and implemented by small local councils and municipalities,with often very weak administrative capacity. While being quite critical towards the governance of Cohesion policy and its impact, he recognizes that the economic divergence among European regions would have been significantly worse without the establishment of this instrument.

There are however some elements that should be learned and possibly transposed from the RRF to Cohesion, according to Mr. Nava. First, the logicof thorough long-term planning should be introduced into the functioning ofCohesion. However, in light of the fact that the implementation of this latteroften faces weak administrative capacities – *"not to talk about patronage pressures and corruption"* – Cohesion should be focused on specifically targeting those that are really in need, covering their primary necessities.

An instrument such as the RRF would instead be able to address much better larger investments and bigger development needs. Most importantly, the RRF is demonstrating that some investments such as in public health and infrastructure are so important in terms of the positive externalities they produce across Member States, that they should no longer be left in the hands of single countries.

Through the implementation of the RRF – Mr. Nava explains – the EU Commission is learning that technical assistance and support are often needed from the very beginning of a project's lifecycle and at every following step. There is sometimes a significant quality divergence betweenthe project proposals submitted by local administrations, and the proper project design or "term of reference" needed for requiring – and effectivelyspending – EU funds. States, regions, and local authorities usually have good ideas, but not the project management capacities to transform them into effective actions – this is where Europe and the Commission intervenewith the technical support.

According to Mr. Gorno Tempini, an RRF feature that could prove successful and be subsequently adopted by Cohesion is the requirement for interventions to adhere as closely as possible to every country's long-term objectives, thanks to a stricter integration of the Country Specific Recommendations. This increases the likelihood that investment and reformplans are synergistically embedded in broader, longer-term, public policy planning. He also believes that the interaction between investments and reforms is one of the main characteristics that could affect its success and that could probably be borrowed from the Regulations for the use of Cohesion policy funds. On this point, however, Ms. Herman strongly disagrees, because *"the reform element is not something proper of Cohesion and will never be; it is not the purpose of this instrument*". Rather,it is a fundamental discourse for the upcoming reform of the European Semester.

Ms. Herman expresses her hopes that the Commission will learn from the RRF that imposing concrete commitments and performance requirements to Member States for receiving EU funds makes the national governments more accountable for the investments' results. She, therefore, wishes thatEurope's attitude towards its investment instruments and policies can refocus on the importance of measuring outputs and outcomes. Thisattitude, alongside a more stringent control by the Commission on MemberStates' implementation, should shift towards DG REGIO as well, and be thusincorporated into Cohesion policy. If the RRF experience has a positive outcome – she adds – the Commission should learn that direct managementof EU funds works better than shared management.

While Ms. Herman sees that this performance type of conditionality could help boost investments' results, she is skeptical that the RRF can truly helpto achieve the objective of territorial cohesion in Europe. Making the example of Italy, Cohesion policy obliges the country to spend money in theSouthern regions, as part of the allocation key is based on the NUTS-2 classification. This is however not the case under the RRF, wherebyterritorial cohesion is one of the six pillars that should direct investments, but it is not a legally binding criterion in the Regulation. Italy could thereforespend the majority of its money in the more developed North – somethingwhich is already worrying national actors. She concludes that in this respect,it is the RRF that – if it were to become a permanent instrument – would need to learn from Cohesion policy to ensure that regions are better involved in the whole process, and their needs are better heard.

Lastly, Ms. Giua hopes that any elements that would determine the successof the RRF will be integrated into Cohesion but is concerned that this policylearning will not take place. She would have also hoped that the EuropeanUnion had learned more and better from Cohesion evidence and best practices. Among all the elements discussed, she believes that understanding and learning which type of governance is the most effectivefor these funds is key and should have the priority even over determining what to allocate them to. The policy governance has never been truly put under discussion in Cohesion, and the Commission has always assumed thatit was the right way to go forward in order to involve all the stakeholders and beneficiaries of the funds. Now that we have a large-scale new"experiment" called RRF, it would be key for Cohesion policy to undertake a thorough policy learning process and adjust its governance according to the evidence and future results of the RRF on what works and what does not. *"Evidence-based policymaking is fundamental to avoid unsuccessful experiences: it is not only desirable but is also the only correct way we havefor policymaking"*.

Conclusions

There is a lot of expectations across the European Union on the Recovery and Resilience Facility capacity to both bring relief to the Member States inthe short term and economic growth in the longer term. The European Unionhas in fact managed to demonstrate its unity in front of an unprecedentedcrisis, and agree on an unprecedented, collective response. It now remainsto be seen whether this enormous amount of money flowing to countries will be spent as expected and not wasted.

This paper has analysed the substantial differences between the RRF and the main economic investment policy of the European Union, Cohesion policy, to try to understand if and why the RRF could be the success that the European Commission is confident it will.

After giving a comprehensive overview of the crisis the EU has faced and itsheterogeneous economic and social impact across countries and regions, the paper has presented the common European response it has triggered, the NGEU, and the reasons why it is an exceptional response. As the centrepiece of this instrument, the Recovery and Resilience Facility has been delineated in its fundamental features: among others, being a comprehensive package of both investments and reforms decided at the national level, the realization of which articulates in a considerable numberof Milestones and Targets to be achieved, on pain of suspension from funds' disbursement. A similar description of Cohesion policy follows, highlightingthe heterogenous results it has obtained over the years and the features that might have hindered its results in several European regions.

The analysis carried out in the third chapter has delved into four main aspects of the two policies, comparing their structural elements and features. More specifically, it has focused on the source of financing, the institutional governance, the performance conditionality, and the structural reforms and investments. The analysis shows that there are some significant differences between the two policies in these aspects. In a nutshell, the RRF presents a more centralized type of governance, a stricterconditionality based on the achievement of outputs, and a greater capacity-building effort stemming from the structural reforms located at the beginning of the national plans.

The interviews with experts in the fourth and last chapter have allowed to gain insightful and different perspectives on these aspects, highlighting boththe elements that could determine the success of the RRF, compared to theoften disappointing results of Cohesion, as well as the open issues that theinstrument is already and will be facing during its implementation. Among these, the administration capacity might continue to pose significant challenges for some countries, which could hinder the absorption of the large number of new funds flowing from the RRF. In

addition, some structural reforms might be highly politicized in national debates and create deadlocks. Lastly, in countries like Italy, investments and related targets might take much more time to be implemented than planned, possibly delaying the disbursements of further funds.
Generally, it results that the direct management of the RRF and the centralization of at least the long-term planning of investments to nationalgovernments might be a successful feature for the instrument. By requiringstricter adherence to targets and output results, the performance-based conditionality is considered an innovative and positive aspect. Lastly,structural reforms might be a significant booster to administrative capacities of both national and regional bureaucracies and contribute to thewell-implementation of the policy.
Except for the latter element, all of the other features are seen as having the potential to be later transposed into Cohesion policy to reform it towards more successful results. It remains fundamental that the learning process of the European Union is centered around an evidence-based approach to policy-making, both for adjusting the RRF during its implementation until 2026, and for later reforming Cohesion.

The analysis presents however some limitations. It has, first of all, broughta mostly Italian perspective, that might not necessarily have external validity for all the European Member States. The reason is that Italy seems to have the biggest divergence between the (weak) results obtained with Cohesion policy funds, and the results expected by the enormous amount of money that is flowing to the country under the RRF. Many institutional actors at the European level, as well as researchers from other countries, are often bringing the example of Italy as having a very ambitious nationalplan, on which high hopes are placed. In addition, three of the four interviewees are Italian, which means that their perspectives and views mainly come from the Italian context. More specifically, results fromCohesion policy in many other European regions, some of which lowdeveloped areas as well, are significantly better and satisfactory. Dependingon the institutional setting and capacity of a country, the regional or local governance of the policy might be more or less effective. Second, this research does not have the ambition to rigorously predict the potential economic impact of the RRF. It mostly addresses an untouched territory and is therefore mainly based on speculations about possible future scenarios for both European policies.

Having said that, this paper hopefully contributes to shedding light on the lessons learned from the implementation of Cohesion policy for the design of the RRF, and the elements that might determine its successful implementation. It can therefore also help to highlight those features and tools of European policymaking that should be monitored closely during theimplementation of the RRF and researched for future learning opportunities.

A successful implementation is necessary not only because it will allow European countries to recover from the pandemic crisis and rebuild stronger economies, but also because it will demonstrate to the more skeptical and anti-Europeans, that unity makes strength, that the Union works for the benefit of all its citizens, and that European integration is the key to our future.

Bibliography

Accetturo, A., de Blasio, G., & Ricci, L. (2014). A Tale of an UnwantedOutcome: Transfers and Local Endowments of Trust and Cooperation. *Journal of Economic Behavior & Organization, 102*.

Banca d'Italia, (2018). On the unintended effects of public transfers:evidence from EU funding to Southern Italy. https://www.bancaditalia.it/pubblicazioni/

Barca, F., et al. (2012). The case for regional development intervention: Place-based versus place-neutral approaches. *Journal of Regional Science, 52(1).* DOI: 10.1111/j.1467-9787.2011.00756.x

Becker, S.O., Egger, P.H., Enrlich, M. (2010). Going NUTS: The effect of EU Structural Funds on regional performance. *Journal of Public Economics, 94.* https://doi.org/10.1016/j.jpubeco.2010.06.006

Becker, S.O., Egger, P.H., Enrlich, M. (2012). Too much of a good thing?On the growth effects of the EU's regional policy. *European Economic Review, 56.*

Bisciari, P., et al. (2021). The EU budget and the Next Generation EURecovery Plan: a game changer? *NBB Economic Review.*

Boeckx, J., Deroose, M., & Vincent, E. (2020). The ECB's monetary policy response to COVID-19. *NBB Economic Review.*

Böhme, K., & Besana, F. (2020). Understanding the territorially diverse implications of COVID-19 policy responses. *Spatial Foresight Briefing, 13.*

Boldrin, M., Canova, F. (2001). Europe's regions, Income disparities andregional policies. http://apps.eui.eu/Personal/Canova/Articles/icoeu.pdf

Bruegel. (2020). Will European Union countries be able to absorb andspend well the bloc's recovery funding? https://www.bruegel.org/2020/09/

Buti, M., & Papaconstantinou, G. (2021). Does The Eu Ever Learn? From The Financial Crisis to The Covid-19 Crisis: Looking Back to Move Forward.*School of Transnational Governance Policy Brief, 07.*

Canton, E. (2021). The Sectoral Impact of the COVID-19 Crisis: An Unprecedented and Atypical Crisis. *European Commission*. https://ec.europa.eu/info/system/files/economy-finance/eb069_en.pdf

Cerqua, A., & Pellegrini, G. (2017). Are we spending too much to grow? Thecase of Structural Funds. *Journal of Regional Science*.

Corti, F., et al. (2022). The Recovery and Resilience Facility: A springboardfor a renaissance of public investments in Europa? *Centre for European Policy Studies, Recovery and Resilience Reflection Papers, 6.*

Crescenzi, R., Giua, M. (2019). One or many Cohesion Policies of the European Union? On the differential economic impacts of Cohesion policy across Member States. *Regional Studies, 54(1).* DOI: 10.1080/00343404.2019.1665174

Camera dei Deputati (2021). I fondi strutturali e di investimento europei 2014-2020. https://www.camera.it/temiap/documentazione/

D'Alfonso, A. (2020). Next Generation EU. A European instrument to counter the impact of the coronavirus pandemic. *EPRS, European Parliament.* https://www.europarl.europa.eu/RegData/etudes/BRIE/2020/

De Vet, J.M., et al. (2021). Impacts of the COVID-19 pandemic on EU industries. *European Parliament*. https://www.europarl.europa.eu/RegData/

European Commission. Recovery and Resilience Facility. https://ec.europa.eu/

European Commission. Next Generation EU. https://ec.europa.eu/eu-budget

European Commission. Economic Forecasts. https://ec.europa.eu/info/

European Commission. The EU's main investment policy. https://ec.europa.eu/regional_policy

European Commission. Cohesion policy 2021-2021. https://ec.europa.eu/regional_policy

European Commission. ESIF 2014-2020, Country Data: Italy. https://cohesiondata.ec.europa.eu/countries/IT

European Commission. Funding by management mode. https://ec.europa.eu/info/funding

European Commission. (2021). The EU's 2021-2027 long term Budget andNext Generation EU, Facts and figures. DOI: 10.2761/808559

European Court of Auditors. (2017). Ex ante conditionalities and performance reserve in Cohesion: innovative but not yet effective instruments. https://www.eca.europa.eu/Lists/ECADocuments/SR17_15/SR_PARTNERSHIP_EN.pdf

European Court of Auditors. (2018). Commission's and Member States' actions in the last years of the 2007-2013 programmes tackled low absorption but had insufficient focus on results. https://www.eca.europa.eu/Lists/ECADocuments.

European Court of Auditors. (2020). Annual Reports 2019. https://www.eca.europa.eu/Lists/ECADocuments/annualreports-2019/

European Court of Auditors. (2021). Performance-based financing in Cohesion policy: worthy ambitions, but obstacles remained in the 2014- 2020 period. https://www.eca.europa.eu/Lists/ECADocuments/SR21_24/SR_Performance_incentivisation_EN.pdf

Eurostat. European Statistical Recovery Dashboard. https://ec.europa.eu/eurostat/

Eurostat. Regional Data. https://ec.europa.eu/eurostat/web/regions/background

Fana, M., et al. (2020). The COVID confinement measures and EU labour markets. *Joint Research Centre.*

Follain, J., Migliaccio, A. (2021). How the Italian Mafia Is Targeting Europe's Crisis Recovery Fund. *Bloomberg*. https://www.bloomberg.com/news/articles/2021-03-04/

Gagliardi, L., Percoco, M. (2016). The impact of European Cohesion policyin urban and rural regions. *Regional Studies, 51(6).*

OECD. (2017). Budgeting and Performance in the European Union. *OECD Journal of Budgeting, 1*, sections 1.2.2 – 1.2.3.

OECD. (2020). The territorial impact of COVID-19: Managing the crisisacross levels of government. https://read.oecd-ilibrary.org/

Percoco, M. (2014). Impact of European Cohesion policy on regional growth: does local economic structure matter? *Regional Studies 51(6).*

Pfeiffer, P., Varga, J., & in 't Veld, J. (2021). Quantifying Spillovers of NextGeneration EU Investment. *European Commission.*

Profeta, P., Calò, X., & Occhiuzzi, R. (2021). COVID-19 and its economicimpact on women and women's poverty. *European Parliament.* https://www.europarl.europa.eu/RegData/

Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility. https://eur-lex.europa.eu/legal- content/EN/TXT/PDF/?uri=CELEX:32021R0241&from=EN

Rubio, E. (2022). From words to action. Analysing possible scenarios and political dynamics in the process of disbursing the European Recovery and Resilience Facility funds. *Jacques Delors Institute.*

Sapir, A. (2004). Agenda for a Growing Europe: Making the EU EconomicSystem Deliver. *European Commission*.
DOI:10.1093/0199271488.001.0001.

Sapir, A. (2020). Why has COVID-19 hit different European Unioneconomies so differently? *Policy contribution 18*, Bruegel.

Senato della Repubblica, (2018). Spending for Growth? 30 years of EU policies for deprived areas: the impact of cohesion in Italy and Europe. *Impact Assessment Office.*