CEPS EXPLAINER

THE RECOVERY AND RESILIENCE FACILITY

What are we really monitoring with a performance-based approach?

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SUMMARY

The introduction of milestones and targets to monitor National Recovery and Resilience Plans (NRRPs) has been welcomed as a positive step for the EU budget, a shift away from simple money managing to one focused on achieving policy objectives.

But are the milestones and targets (M&Ts) adequate enough to really monitor the plans' effective implementation?

Drawing on Italy as an example, this CEPS Explainer highlights the current limits of the M&Ts, being sometimes overly aggregated or too vague. It argues that to ensure the RRF is a true 'success story', on top of duly assessing the timely implementation of the agreed M&Ts and ascertaining that they have been formally fulfilled, a real reflection on the limits of the current system cannot be avoided and should happen sooner rather than later.

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To ensure the EU's Recovery and Resilience Facility (RRF) is a true 'success story', a new financing approach that is not linked to cost but rather to performance was introduced. In short, Member States submit payment requests and receive disbursements based on a positive assessment by the European Commission that the milestones and targets (M&Ts) linked to the concerned installment have been met.

The introduction of this approach has been welcomed as a positive step for the EU budget, a shift away from simple money managing (i.e. 'how much have we spent?') to one focused on achieving policy objectives, (i.e. 'what have accomplished with our money?'). To effectively monitor each Member State's National Recovery and Resilience Plan (NRRP), the RRF Regulation demands that M&Ts should be clear and realistic, and the related indicators relevant, acceptable and robust.

At the same time, since not fulfilling previously agreed M&Ts is the only criterion to justify not disboursing an RRF tranche, the Commission's guidance specified that M&T indicators should remain within the control of the Member Sates and should not be conditional on external factors such as the macroeconomic outlook or the evolution of the labour market.

Against this background, this CEPS Explainer examines whether the current system is appropriate for monitoring the effective implementation of the RRF plans. Or, to put it differently, are the milestones and targets being set adequate enough to monitor the plans' effective implementation?

Resisting the temptation of low-hanging fruit

In a special report published in September 2022, the European Court of Auditors already observed how some important issues remained unaddressed, including the lack of clarity for certain NRRP milestones and targets, the incomplete coverage of key implementation stages, and persistent and significant differences across Member States in actually defining M&Ts.

> **ELSEWHERE, WE OBSERVED THAT – BECAUSE OF THE RISK OF NON-DISBOURSEMENT – MEMBER STATES HAVE AN INCENTIVE TO STRATEGICALLY CHOOSE THEIR M&TS. TO PUT IT BLUNTLY, THEY ARE INCENTIVISED TO GAME THE SYSTEM.**

Elsewhere, we observed that – because of the risk of non-disboursement – Member States have an incentive to strategically choose their M&Ts. For instance, they might be tempted to commit to *guaranteed* targets and milestones, i.e. including reforms and investments that had already been planned for some time just to be sure that they will receive the Commission disbursement on schedule and in full. To put it bluntly, they are incentivised to game the system.

The smooth achievement of M&Ts during the first three RRF semesters and the Commission's positive assessment of all disbursement requests seem to further validate the '*low-hanging fruit*' hypothesis. Several of the M&Ts fulfilled during the first RRF year were indeed investments and reforms already planned (if not even already completed) at the time of the national plans' drafting.

The risk of non-disboursement, however, might also incentivise Member States to commit to vaguely defined M&Ts. Especially in the case of investments involving sub-national authorities, Member States could be tempted to commit to aggregated M&Ts to make sure that in the case of non-performing regional or local authorities, this would not undermine the overall disbursement of payments.

If the choice of already planned investments and reforms poses a problem in terms of expanding the scope of the RRF measures beyond their original intent, which we have already amply disucssed, the use of vaguely defined or overly-aggregated M&Ts threatens the overall effectiveness of the RRF measures. Indeed, even if the formal fulfilment of (unclear or overly-aggregated) M&Ts is enough for the Commission to tick a box and then disbourse the funds, it does not tell us anything about whether a specific RRF measure has actually been effectively achieved or how it met its objectives.

To further illustrate our concerns over this, we turn to Italy as a highly relevant case study.

Active labour market policies and childcare investments in the Italian RRF plan

One of the key measures included in the Italian plan is the National Programme for Employability Guarantee (GOL), which aims to provide all jobseekers with tailored services to facilate their (re)integration into the labour market, whether through retraining or the undertaking of new qualifications. The first target agreed with the Commission to monitor its implementation and to authorise the disbursement was 300 000 GOL beneficiaries by 31 December 2022. Interestingly, this figure was only half the one set at national level – namely 600 000 beneficiaries.

As reported in the table below, which is updated to 30 November 2022, there are huge regional differences in the GOL's implementation. Even though both the 300 000 and 600 000 objectives for 2022 have been achieved, the table highlights that this is due to the overperformance of some regions and the underperformance of others.

What emerges is that almost all regions have achieved the RRF milestone. Yet with respect to the national target, only eight regions have already achieved it, specifically Friuli Venezia Giulia and Sardinia (which have also impressively exceeded it), alongside Umbria, Puglia, Lombardy, Tuscany, Marche and Campania.

The decision to identify two different targets, at the EU and national level, is problematic in two respects. On the one hand, the fact that the national target is double the European one calls into question the credibility of the latter (arguably it was simply not ambitious enough). On the other hand, the choice for aggregated targets, which do not account for the GOL's uneven implementation at the regional level, doesn't help in shedding light on the actual effectiveness of the measure in overcoming one of Italy's biggest challenges, namely regional asymmetry.

Table 1. Number of jobseekers assisted by the GOL, by region

Regions	RRF milestone (2022)	National target (2022)	30 November 2022	
			Total jobseekers taken in charge	% Achievement RRF (national) target
Abruzzo	7 140	14 280	9 023	126.4 (63.2)
Basilicata	3 300	6 600	6 406	194.1 (97.1)
Calabria	13 560	27 120	25 866	190.8 (95.4)
Campania	40 710	81 420	86 031	211.3 (105.7)
Emilia-Romagna	19 020	38 040	36 960	194.3 (97.2)
Friuli-Venezia Giulia	4 890	9 780	19 123	391.1 (195.5)
Lazio	28 560	57 120	48 418	169.5 (84.8)
Liguria	7 260	14 520	12 047	165.9 (83)
Lombardy	34 530	69 060	77 849	225.5 (112.7)
Marche	7 290	14 580	16 110	221 (110.5)
Molise	1 530	3 060	1 490	97.4 (48.7)
AP Bolzano	2.280	4.560	1 905	83.6 (41.8)
AP Trento	2 940	5 880	4 221	143.6 (71.8)
Piemonte	19 260	38 520	38 138	198 (99)
Puglia	23 550	47 100	60 659	257.6 (128.8)
Sardinia	11 190	22 380	37 988	339.5 (169.7)
Sicily	32 340	64 680	58 655	181.4 (90.7)
Tuscany	17 280	34 560	38 329	221.8 (110.9)
Umbria	3 840	7 680	10 521	274 (137)
Valle d'Aosta	630	1 260	1 104	175.2 (87.6)
Veneto	18 900	37 800	28 663	151.7 (75.8)
Total	300 000	600 00	619 516	206.5 (103.3)

Source: own elaboration, based ANPAL, Sistema Informativo Unitario e dati di fonte regionale.

A second example is Italy's investment in Early Childhood Education and Care (ECEC). The aim is to increase the supply of public nurseries in Italy and fulfil the Barcelona target of 33 % (public and private) coverage in all regions.

To monitor this investment, the Italian plan includes a milestone for the award of contracts for building, renovating and ensuring the safety of nurseries, preschools and ECEC services, and a target to create 264 480 new places, to be respectively fulfilled by the second quarter of 2023 and the fourth of 2025. A regional ceiling has been established at the national level and a specific target for childcare facilities has been identified to avoid resources being overly concentrated in just a few regions. However, the lack of detailed milestones and targets in the agreement with the Commission leaves it entirely up to Italy to decide how these specific objectives are achieved and prevents the Commission from accurately monitoring its realtime progress.

A first glimpse of these critical issues already emerged in the first half of 2022, when the tender notice was reopened three times to allow for more local authorities to participate, especially from the South. Despite this, the ranking of approved projects to be financed (six months behind the initial objective of March 2022) starkly highlights that a large number of municipalities with either no or marginal supply chose not to participate in the tendering process or, as observed by the Ufficio Parlamentare di Bilancio, preferred to concentrate – especially in the south – on kindergartens over nurseries.

The combination of public procurement delays and the lack of valid projects for nurseries presented by local authorities, especially in southern regions, risks undermining the objective to guarantee 33 % coverage in all regions. In the meantime, the national government decided to allow derogations from the initially set regional ceiling of places and to allow municipalities to use resources to create new pre-school places instead of nursery ones – thus completely negating the original purpose of the initiative.

Paradoxically, this poor implementation cannot be monitored using the target agreed with the Commission, which does not specify any territorial criteria for distributing the funds, nor does it earmark fixed quotas for nurseries.

Again, as stressed above, the fact that the target on this agreed with the Commission remains over-aggregated represents a real problem when attempting to ascertain the initiative's effectiveness.

Conclusions

Despite being illustrative, these two examples from Italy showcase the limits of the milestone and targets system to monitor RRF investments.

In both cases, Italy is – and will be – compliant with the indicators agreed with the Commission. It will successfully fulfill the M&Ts but crucially will likely not achieve the objectives of the measures included in the plan – namely reducing regional and local inequalities in the provision of employment and childcare services.

While this will not affect the RRF disboursements, it certainly risks hampering the measures' effectiveness and ultimately disappointing (and possibly angering) those citizens that have been patiently waiting for these promised new services. To be clear, the M&T arrangement currently in place formally works but it falls far short in meeting the requirements and expectations of performance budgeting.

The Commission will publish an independent evaluation report on the implementation of the Recovery and Resilience Facility no later than February 2024, where it will assess how far the various objectives have been achieved, how efficiently resources have been used and the European added value of the programme.

So far, the debate has been largely focused on the formal fulfilment of milestones and targets. 2023 is considered as a turning point for the RRF's implementation where one might expect further challenges and delays. The prospect of this has already raised the question on how much flexibility (if any) will be given to national governments to achieve their various M&Ts (see the [latest ECA Journal] for further details).

On top of duly assessing the timely implementation of the agreed M&Ts, a real reflection on the limits of the current system cannot be avoided and should happen sooner rather than later. If we want the RRF to really make a difference, the formal box-ticking of performance targets is simply not enough.

ON TOP OF DULY ASSESSING THE TIMELY IMPLEMENTATION OF THE AGREED M&TS, A REAL REFLECTION ON THE LIMITS OF THE CURRENT SYSTEM CANNOT BE AVOIDED AND SHOULD HAPPEN SOONER RATHER THAN LATER.

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