STUDY

Requested by the BUDG Committee

Performance framework for the EU budget

Concepts and practices

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Performance Framework for the EU Budget

Concepts and practices

Abstract

Performance-based budgeting has latterly become integral to the governance of EU spending. This study looks at the principles behind this approach and explores how it is being implemented in Cohesion Policy and the Recovery and Resilience Facility. The analysis reveals marked differences between how performance-based budgeting functions in these two frameworks and sheds light on both benefits and drawbacks in their implementation.

This document was requested by the European Parliament's Committee on Budgets.

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LIST OF ABBREVIATIONS

AAR	Annual Activity Report
AIR	Annual Implementation Report
AMPR	Annual Management Performance Report
CID	Council Implementing Decision
CP	Cohesion Policy
CPR	Common Provisions Regulation
CSRs	Country-specific recommendations
DNSH	Do No Significant Harm
EAE	Ex-ante evaluations
EAFRD	European Agricultural Fund for Rural Development
EC	European Commission
ECA	European Court of Auditors
EFC	Economic and Financial Committee
EMFF	European Maritime and Fisheries Fund
EP	European Parliament
EPC	Economic Policy Committee
ERDF	European Regional Development Fund
ESF	European Social Fund
ESI	European Structural and Investment (Funds)
GHG	Greenhouse gas
IIA	Inter-institutional Agreement
IT	Information technology
MAs	Managing Authorities
M&E	Monitoring & Evaluation
M&Ts	Milestones & Targets
MFF	Multi-annual Financial Framework
MSs	Member States
MTEF	Medium-term expenditure frameworks
OAs	Operational Arrangements
OPs	Operational Programmes
PB	Performance-based budgeting
PPO	Programme Performance Overview
PSs	Programme Statements
RRF	Recovery and Resilience Facility
RRPs	Recovery and Resilience Plans
SDGs	Sustainable Development Goals
SFC	System for Fund Management in the European Union
SMART	Specific, measurable, achievable, relevant and timely (objectives)
TB	Transformational budgeting

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EXECUTIVE SUMMARY

This study presents a comprehensive overview of the use of performance-based budgeting (PB) in the framework of the EU's finances. Its focus is on the conceptual background and the application of the PB approach in Cohesion Policy and the Recovery and Resilience Facility. This is the first output of a broader study of PB commissioned by the European Parliament.

Performance-based budgeting has been defined by the OECD "*as the systematic use of performance information to inform budget decisions, either as a direct input to budget allocation decisions or as contextual information to inform budget planning*". Its significance for the EP, as one arm of the EU's budgetary authority, is that judicious use of PB information can enhance transparency, facilitate better understanding of policy choices and enable Members of the Parliament to judge what works or does not.

The OECD identifies four types of PB which are explained in section 1, below: presentational, performance-informed, managerial and direct performance budgeting. A framework to assess PB purposes is built around four key blocks: tools and methods, accountability and transparency, enabling environment and use of performance information for decision-making. For monitoring and evaluation purposes, different types of performance information, based on input, output and results indicators, can be useful.

Mainstreaming is a conceptually distinct approach to budgeting, requiring the objective (for example, climate action or gender equality) to be factored into programme design and implementation from the outset. As an approach it tends to be more qualitative but, as a brief examination of how it functions in the EU shows, there are differences between how mainstreaming is applied in the areas in which it is most prominent. Assessments suggest that gender mainstreaming is relatively less effective than climate mainstreaming, while mainstreaming of biodiversity objectives is too recent to be convincingly assessed.

The PB and mainstreaming approaches are, nevertheless, complementary and offer decision-makers different tools for appraising budgetary choices. The study provides a comparison from a conceptual perspective based on seven dimensions: articulation of values, setting policy objectives, monitoring progress, use of indicators, shaping policy programmes, influencing future policy and importance for legislators.

To illustrate the development of PB, its implementation in Cohesion Policy (under the Multiannual Financial Framework for 2014-2020 and 2021-2027) and the Recovery and Resilience Facility is examined. This focuses on the following analytical dimensions: 1) overarching legal basis and key documents; 2) types of performance information (indicators) collected; 3) use of the performance information collected; 4) monitoring arrangements; 5) evaluation systems; 6) financing mechanisms; and 7) role of key EU actors (Commission, Parliament, Council of the EU, and Court of Auditors).

The study compares the managerial approach to PB of the MFF and the direct approach of the RRF. For the former, the information on performance is used to adapt the programming of the EU budget. By contrast, the RRF is an example of fully-fledged direct performance budgeting where funding is tied to the achievement of 'milestones and targets'.

The performance indicators used for CP and the RRF differ significantly. CP indicators are programme specific and complemented by common indicators which collect information related to the specific CP programmes. By contrast, the key performance information under the RRF is the milestones and targets, which are investment/reform specific. However, information collected via common indicators is not necessarily linked to the implementation of the specific measures.

For CP, information will be used only in the mid-term review to assess the programmes' progress up to 2024 and to decide on the allocation of the commitments for the remaining years of the MFF. In the RRF, performance information is used to decide upon the disbursement of resources, providing strong incentives for meeting milestones and targets on time.

For monitoring purposes, CP has an elaborate data reporting system which includes information on the progress of expenditure and operations, with data reported five times per year. By contrast, reporting under the RRF is twice per year, both for milestones and targets, as well as for common indicators, prompting some concerns (especially from the European Court of Auditors) that this is insufficient for proper tracking of progress. A related contrast is evaluation: CP remains one of the most evaluated of policies, whereas the RRF is to be evaluated only mid-term and ex-post.

Differences are also found in the involvement of policy actors and how they use performance information. Under the MFF, the Commission has a prominent role in both the approval of programmes and their modifications. For the RRF, it is the Council which formally approves plans and any modifications.

The role of the European Parliament in the two performance-budgeting systems is also different. For CP, the EP submits "general guidelines for the preparation of the budget" to the Commission and, once the EU budget is adopted, has the exclusive right to grant discharge of the budget. In doing so, the EP has not only to verify spending accuracy, but also to examine the soundness of financial management and the achievement of performance objectives.

For the RRF, the Parliament is informed by the Commission about the progress of milestones and targets and the common indicators. The regular dialogues are an occasion to exchange views with the Commission, but the Parliament cannot use the information on performance to influence the implementation of the plans. Similarly, the Court of Auditors is only informed on progress in implementing the RRF, even though the Court has sought to interpret its role more broadly in relation to the audit of payment requests.

Shortcomings in the PB approach are found under both instruments. For CP, these include technical issues around data transfer and reporting duties, as well as the need for capacity-building efforts and the use of performance information for decision-making. A key finding is that a stronger focus on results and the need to improve data quality and evaluations have been challenging for Member States and regions.

Moreover, Member States struggle to grasp the rationale behind indicators and point to limitations of common indicators in evaluating the results of projects. These findings highlight the complexities of PB as a governance mechanism.

The main criticisms of PB under the RRF include administrative burdens related to reporting as well as auditing. Data quality and monitoring arrangements are also sources of concern, particularly regarding the capacity to track the results and impacts of the related investments and reforms. As is also the case for CP, another weakness of PB in the RRF context is a lack of clarity on the type of indicators for milestones and targets of the RRF's performance indicators.

In conclusion, the study highlights the importance of realistic expectations and avoiding information overload, while investing in the necessary skills and capacities is crucial for improving the quality of performance budgeting. It is important to avoid over-reliance on input and output measures, and having unclear result indicators could diminish the effectiveness of PB. The solution to more effective implementation of PB lies in adapting administrative cultures in the medium and long run.

INTRODUCTION

Performance-based budgeting (PB) has become an important tool of budgetary management in a growing number of jurisdictions. It has been advocated by the OECD and the IMF, both of which have been instrumental in documenting how it is used and in supporting its adoption. In the EU context, the concept is increasingly being applied in the management and control of spending from the EU budget. It is also at the heart of the governance model for the Recovery and Resilience Facility (RRF). Indeed, the milestones and targets (M&Ts) central to the RRF can be seen as key components of an innovative methodology.

This study, in response to a request for services from the BUDG Committee of the European Parliament (EP) builds on and deepens previous research on the performance framework for the EU budget, with a view to assessing how it could be updated for the next programming period. The study is organised around eight tasks put forward in the tender submitted by the consortium led by CEPS. These tasks include a fresh examination of the conceptual basis for performance frameworks, an overview of the current architecture of the performance framework for the EU budget, including budgetary mainstreaming, and detailed assessments of its effectiveness and limitations. The study looks at the concepts of performance budgeting and provides an overview of how they are used in the EU budget. The second phase of the study will explore how the EP can use information on performance budgeting not only to scrutinise programmes, but also as a basis for influencing future budgetary decision-making, and potentially also legislation.

Terminology

To avoid any confusion, the terminology used in this study is consistent with usual practice in budgetary and evaluation documents produced by the EU institutions. Inputs are the money used to finance programmes. Traditionally the approach to financial management of funding from the EU budget was about verifying that inputs were properly accounted for and that appropriate procedures (for example in having transparent procurement) were followed.

With performance-based budgeting and mainstreaming approaches, three other concepts are employed. Outputs are the direct products of expenditure, such as numbers of people trained or kilometres of road constructed. Results are about the achievements of the policy or programme in meeting objectives. To adapt the same examples, a rise in employment or a fall in unemployment attributable to a training programme would be a result, as would be a decline in congestion or more rapid journeys facilitated by a new road. In the evaluation literature, the term 'outcomes' is also used and is a synonym for results, but the latter term is preferred in the EU for the pragmatic reason that it is how 'outcomes' translates into other languages ('risultati' in Italian, 'résultats' in French).

The third concept is impacts, referring to the societal transformations of a policy or programme. As will be explained further in section 1 of this study, mainstreaming of climate action or gender is about such transformations. However, impacts typically occur or become visible only after a programme has been completed; for this reason they are not usually part of a performance-based budgeting framework. Instead, the focus is on outputs and results.

Structure of this report

This publication is the output of the first phase of the broader study referred to above. Section one draws on a range of relevant literature to explore how performance budgeting and mainstreaming, two distinct approaches, arose and can be applied in a performance framework. Section two describes the current approach in two of the areas where performance budgeting is used, Cohesion Policy (CP) and the RRF. It brings out the differences between the two and draws attention to concerns about whether and why the practices described fall short of stated ambitions. A concise last section draws out conclusions.

1. CONCEPTUALISING PERFORMANCE BUDGETING

The principle behind performance-based budgeting (PB) is, in many respects, straightforward: to concentrate on the direct outputs of public spending and their consequences for the socio-economic priorities of governments, not only on financial management and the probity of spending. Audit bodies have primary responsibility for the latter. The 'consequences', as explained above, can be further divided into two categories: results (also sometimes referred to as outcomes) and longer-term impacts. The latter typically arise further in the future and can be hard – even impossible – to assess while a programme is being undertaken. Hence PB is primarily concerned with what a policy achieves on the boundary between outputs and results.

The rationale for PB is in part about ensuring that public money is spent in a way that reflects priorities, with policy achievements reflecting these priorities, but partly also that governments can learn from previous programmes and adapt accordingly. Although a growing number of countries are putting PB at the centre of budgetary policy, the concept itself is constantly evolving as are the techniques employed and the approaches adopted.

A working definition elaborated by the OECD (2023a) is as follows:

> *"Performance budgeting is defined as the systematic use of performance information to inform budget decisions, either as a direct input to budget allocation decisions or as contextual information to inform budget planning. Its purpose is to instil greater transparency and accountability throughout the budget process by providing information to government officials, legislators, and the public on the purposes of spending and the results achieved"*.

What is important to stress is that because, for many jurisdictions, PB is a relatively new way of approaching budgeting, it also alters the opportunities for different stakeholders – not least parliaments – both to feed-in to, and to make use of, performance data and other information associated with the budget process.

Mainstreaming is a conceptually distinct approach to budgeting, requiring the objective (for example, climate action or gender equality) to be factored into programme design and implementation from the outset, and often also to be taken into account across major policy areas. As explained in a previous study on social tracking for the European Parliament's BUDG committee (Begg et al., 2023), mainstreaming is difficult to apply because underlying goals can be ambiguous, while optimal approaches to realising them are often hard to identify. There is, nevertheless, a steady accumulation of experience, not least at the EU level, in how to make mainstreaming effective. Concepts relevant to mainstreaming, such as 'do no significant harm' (critical for climate action), or impact assessment (for gender) underpin strategies.

Plainly, PB and mainstreaming interact and are not necessarily consistent with one another. This section of the study looks at the origins and practice of the two concepts, then looks in more details at the typologies of PB and how useful they might be for the EU budget. A concluding section discusses the interplay between PB and mainstreaming.

1.1. Origins of PB

Performance-based budgeting is far from new and, as a seminal paper by Shick (1966: 243) shows, appears to have emerged from developments in the US in the 1950s and 1960s. He describes it as being 'anchored to half a century of tradition and evolution', but nevertheless portending a 'radical change in the central function of budgeting'. A review of PB studies by Mauro et al. (2017), though confined to English language papers and possibly subject to some bias for this reason, underscores the dominance of US studies: of sixty they look at, only five are European. A good illustration is Joyce (2003) who examines PB in US federal government programmes. He shows how 'the manner in which information can be used differs according to the stage of the budget process', with the implication that design of systems has to be sensitive to these different stages.

The thrust of PB in earlier literature is, above all, managerial and it is sometimes associated with the term 'new public management', first coined by Hood (1991), although in a review of twenty-five years of the latter concept, Funck and Karlsson (2020) note its vagueness and suggest it may have lost some of its traction. However, the link to new public management was only partial and as PB has evolved, its role in policy choices has been amplified and more recent developments show a growing demand for PB to have feedback mechanisms able to inform policymaking, rather than just report on it. Some of the challenges are explained by Joyce (2003) who asserts that 'performance information will influence decisions but will not be used in the same way from decision to decision'. The implication is that it may be implausible to seek a general model of how to use PB for policy development.

In the same vein, Posner and Fantone (2007) raise concerns about how the broad range of actors whose input is critical to decisions will use performance information. They need to be persuaded that it is credible and reliable, and reflects a consensus about performance goals among a community of interested parties. Similarly, the measures used to demonstrate progress toward a goal, no matter how worthwhile, cannot appear to serve a single set of interests, most often a finance ministry or Treasury which may have a narrow perspective on good performance. Others might have different parameters for judging performance, not least in relation to broader goals. If performance information is likely to influence future spending envelopes and programme designs, the interests of beneficiaries may differ markedly from those of paymasters.

1.2. Origins of mainstreaming

Dictionaries, such as Cambridge or Collins, point to policies in the US some 50 years ago to include children with special needs in conventional (or mainstream) classes as an early usage of the term 'mainstreaming'. It has since been especially visible in environmental policies and in the targeting of different forms of equality, above all gender, and has become increasingly used in a range of key policies. Mainstreaming is described by Halpern et al. (2008) as a meta-policy instrument and they argue that its use can be seen as a reaction to the failure of 'other stronger mechanisms of coordination'. In this context they cited the inability of coordination of environmental ministries, alongside the Commission DG, as a sectoral approach which was insufficiently effective. Looking at the EU context, they also contend that while its impact on policies implemented by (especially) the Commission has been limited, it did empower other stakeholders (for example women's groups) to push for more decisive action.

Mainstreaming is primarily a form of soft law, typically with few hard obligations or firm targets, but its strength lies in changing narratives. A search of *Google Scholar* reveals gender to be by far the area of mainstreaming mentioned most in recent publications, covering many facets of the subject. The second most prominent area of study is papers looking at different aspects of climate/environmental change, and there is some work on mainstreaming of social rights and human rights. Assorted other forms of mainstreaming examined in academic research use the same terminology, but focus on the topic becoming mainstream, rather than being an over-arching narrative for policy. Examples are in education, defence/security becoming politically more prominent and social concerns such as integration of migrants, as well the rise of the far right within the political mainstream.

1.3. Typologies of PB

A wide-ranging overview by the OECD (2019) provided a typology of PB and sets out findings on best practices based on evidence from many of its members. A more recent update (OECD, 2023a) describes four types of PB:

- The most basic is labelled 'Presentational' and refers to the provision of documentation, separately from the main budget, covering the objectives and expected outputs and results of PB. Indicators are typically used to organise the presentation. The OECD document found that a third of its members adopt this approach, including Germany, Italy and Spain.
- Second, there is 'performance-informed budgeting' which goes further by including information on performance within budget documents. A reason for doing so is to feed-in to the budget decisions. According to the OECD, it is the most common use of PB in OECD countries and their report cites New Zealand as a good example, following laws enacted in 2013
- A third, somewhat more elaborate form of PB, is called 'managerial' because it extends the second approach to encompass managerial considerations, notably how organisations adapt. Dubrow (2020) suggests that the managerial approach represents the most advanced use of PB, but that only eight of the thirty OECD countries he examined adopted it, including Finland and Norway
- By contrast, a fourth approach, styled as 'direct' by the OECD, explicitly ties resources to results, but is not (yet) found in any of its member countries. The main difference compared with the managerial variant is the use of the information to allocate, withhold or re-allocate funds in response to performance criteria while a spending programme is in progress. A key feature would be some form of contract or mechanism for linking payments to whether or not performance criteria are met. In principle, at least, this fourth approach characterises the EU's Recovery and Resilience Facility, although doubts are expressed by Darvas et al. (2023) about whether practice lives up to the principle (see next section for a discussion).

1.4. Achieving PB aims

As an evolving governance tool, PB contributes to, and is in turn influenced by, changes in budgetary policies. Shick (2019) notes how medium-term expenditure frameworks (MTEF) were largely understood as constraints, as they are in the EU's Multi-annual Financial Framework (MFF). However, in the interplay between the MTEF and the annual budget, decisions can be made about what is working or not and thus needs attention. Effective PB can help in this regard, but what is expected of PB will also change if it has to go beyond (often only ex-post) examination of whether outputs/results were achieved to providing information about plans for subsequent years.

Shick (2019) also warns that opening *'the door to more effective application of performance budgeting'* is vital, but *"cannot be a standalone innovation; it must be closely aligned to national performance and medium-term expenditure frameworks and evidence-based assessments of policies and resources"*. He goes on to stress how many budgetary authorities find the prospect of PB being a basis for shifting funding allocation to be an alluring idea, but struggle to do so. He mentions lack of capacity and sufficient information as two reasons, but considers the main reason to be "*because the deadline-driven, political-sensitive machinery of budgeting is more beholden to past commitments than to new possibilities*". His focus is on national administrations, but it is easy to see similarities in the EU budget and its governance.

Insights into why PB so often fails to deliver are explored by Moynihan and Beazley (2016) in a wide-ranging study for the World Bank. They find significant variations in how countries have implemented performance budgeting and in the benefits they have derived. These variations offer guidance for models of next-generation performance budgeting, avoiding classic pitfalls, and incorporating modifications introduced by those who have used it longest and found it useful. Key lessons include having realistic rather than fanciful expectations, avoiding what they call information overload, and investing in the necessary skills and capacities, while also being clear about "*What investments in capacity matter most for performance budgeting*?" (Moynihan and Beazley, 2016: 35).

They also emphasise the benefits of adapting administrative cultures, but invite caution in how to effect such a transformation: "it is pointless to offer a checklist for changing culture, because the levers for change will vary in each setting" [p. 38]. Moynihan and Beazley (2016: 2) point to systematic implementation difficulties and, sometimes, unrealistic expectations:

> *"The gap between promise and practice gives rise to a series of ironies: while performance budgeting promises evidence-based decision-making, the evidence to support its adoption is weak; while it seeks to increase organizational learning, as yet little has been learned about what make these systems more or less successful over time; while it demands objective evidence of improved performance, evidence of its own effectiveness is questionable. Without a significant re-evaluation, performance budgeting's history of disappointment seems likely also to be its future".*

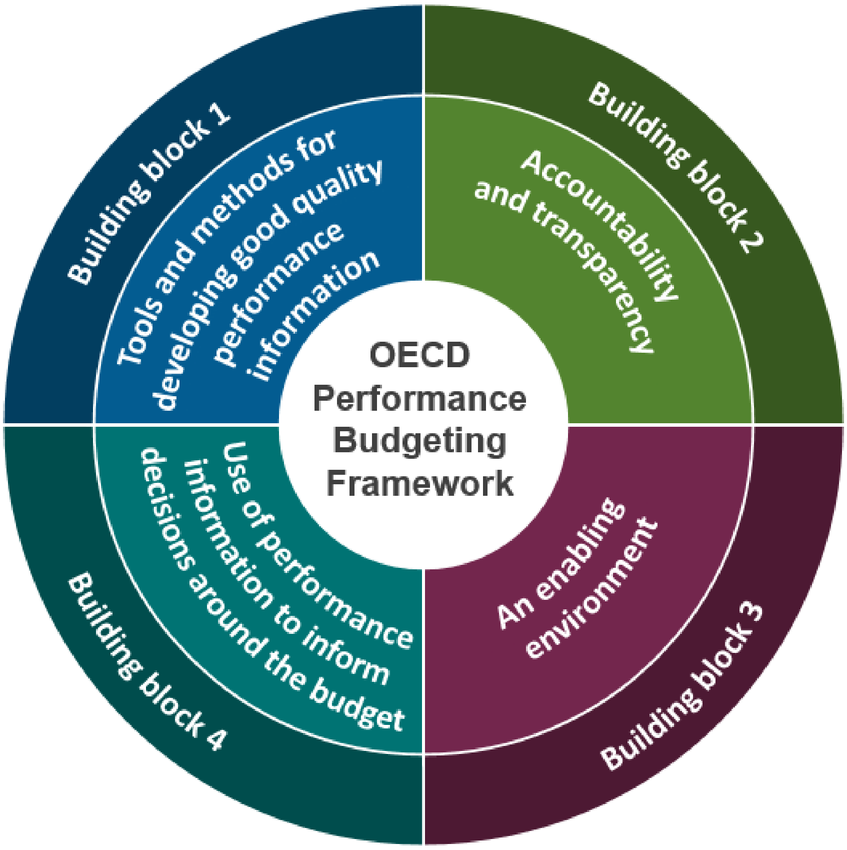
Several recent contributions to the literature focus on the management function of PB. For example, Ho (2018) suggests how multiyear budget planning, financial risk assessment, policy planning, the departmental budget cycle, the programme budget cycle, stakeholder engagement, regular spending reviews, and performance audits could be integrated more closely to address the long-term fiscal challenges faced by many governments and to respond to the public pressure on agencies to do more with less. Plainly, PB can also require a mix of learning-by-doing and periodic stock-taking. An example is the Netherlands where PB was introduced at the turn of the millennium. After a decade, a reform called 'Accountable Budgeting' was introduced in 2012 involving a major overhaul of the performance budgeting structure in order to enable more detailed parliamentary oversight as well as to enhance internal control by the Ministry of Finance and line ministries (De Jong et al., 2013). The second phase of the overall study will include discussion of how and when an overhaul from the perspective of the EP might be appropriate.

There are nevertheless other persistent obstacles to effective PB. Drawing on a varied selection of case studies, De Vries et al. (2019) show how problems in defining suitable result indicators and over-reliance on input and output measures diminishes PB. An associated problem is the difficulty of specifying policy aims and identifying indicators which capture performance. The compromise can be indicators which are too loosely connected to the policy and thus do not provide sufficient information for decision-makers to justify changes in programmes.

For legislators, PB can also be awkward. Saliterer et al. (2019) identify four general effects: de-legitimizing, legitimizing, improving and understanding, and deflecting, which together with the subjects addressed, blend into different use purposes. Their paper also sheds light on different factors affecting performance information use, that is, the attributes of users of performance information, the properties of performance, and the role of institutional support. In addition, reliance on PB can make it trickier to adapt to unanticipated changes in the socioeconomic environment and to deal with uncertainty (Zeitlin et al., 2023 and some of the literature they cite, notably in endnote 27). PB, by construction, requires some knowledge of what is expected and implies taking account of information on past uses of public spending, but these may be much harder to specify when new demands arise for which such information is lacking.

In considering how to foster the use of PB, the OECD (2023a) proposes four dimensions for an effective PB framework, shown in figure 1. Within each of these, there are various approaches or mechanisms to be used to promote PB.

Figure 1: A performance budgeting framework



Source: OECD (2023a)

Box 1 lists succinctly the fourteen categories of actions under the four OECD headings. For the first block, 'tools and mechanisms', the aim is to generate information of sufficient quality to assess whether performance is being achieved. The second, is called 'accountability and transparency' and is about clarity on roles, responsibilities and potentially (going a little beyond what the OECD writes) pinpointing who (or what) is to blame for failings. Third, is facilitating an 'enabling environment' by having not only adequate processes and capacities, but also appropriate incentives. The fourth component is the translation of PB information into decision-making, including engagement with legislatures and packaging of information in forms suited to different stakeholders. It implicitly paves the way for how the fourth approach to PB might more effectively be advanced. An important choice is how much detail to present to different stakeholders, with the advice from the OECD implying that the greatest detail is needed at operational level, whereas more strategic information is what is most relevant to Parliaments.

Box 1: Actions to promote performance budgeting

Tools and methods - Sequencing performance information - Criteria for developing performance information - Quality assurance of performance information Accountability and transparency - Accountability mechanisms - Clear roles and responsibilities - Ensuring transparency - Public access to performance information An enabling environment - Budget structured around programmes - Centrally issued guidelines and templates - Capacity-building efforts - Supporting IT environment - Incentive mechanisms Use of performance information for decision-making - Engaging with parliament - Presenting relevant performance information in budget documentation

Source: OECD (2023a)

1.5. Mainstreaming in practice

For the EU, only a handful of objectives can be regarded as genuinely mainstreamed. Action on climate change and gender are by far the most prominent, although the ECA (2021b) also mentions digital, SDGs and biodiversity. As a previous study explained (Begg et al., 2023), there are different broad approaches to mainstreaming, described as vertical and horizontal, with the former applicable to sustainability, especially in relation to climate-related and environmental objectives.

While values are central to mainstreaming, they can be diffuse and hard to relate to operations. Yeshanew (2014: 382) articulates well one of the main concerns: "*mainstreaming often suffers from receiving mere lip service or from being considered a 'feelgood' rhetorical agenda. It is often framed as a desirable objective without a clear strategy and concrete mechanisms of implementation*". The consequence can be for the objectives to be lost in the policy process, detracting from the scope for it to shape policies and programmes.

Steps towards solutions can be taken, but they have to be tailored to the core objectives. They include training for staff and other forms of capacity building, organisational change which might include inculcating the objectives within the culture or the agency, and external projection of the subjects to be mainstreamed. None of these is amenable to rapid action. Nor, as Yeshanew (2014) observes, is there necessarily a best way to pursue mainstreaming, because it is so often context specific, even with broad aims of the sort espoused by the EU.

What emerges from this discussion is the difficulty of identifying how the mainstreamed objective enters budgetary processes as opposed to whether it should be taken into account. However, gender is an area where there have been advances and steps are being taken to promote 'gender budgeting' as a form of mainstreaming. A recently updated definition of it from the OECD (2023b) is: *"Integrating a gender perspective in tax and spending decisions through special processes and analysis, to achieve resource allocation that benefits equality"*.

As it does for PB, the OECD monitors and tries to influence best practice, identifying seven principles associated with successful implementation of gender budgeting, listed in box 2. Very similar principles could readily be applied to mainstreaming of other over-arching policy goals. However, it is worth pausing to consider when it makes sense to do so and what features of a policy goal would warrant the use of the approach, as opposed to other means of achieving it. This can, perhaps, best be elucidated by considering some of the policy areas for which mainstreaming is either already undertaken or has been canvassed.

Box 2: Principles for adapting budgeting to support gender mainstreaming objectives

1. strengthening the link between budgeting and key gender equality objectives;
2. ensuring gender budgeting is sustainable beyond political cycles;
3. incorporating gender budgeting into the overarching budget framework, with leadership from the central budget authority;
4. embedding gender budgeting tools at all stages of the budget cycle;
5. underpinning gender budgeting with strong data and analysis;
6. supporting gender budgeting implementation through capacity building; and
7. using gender budgeting to reinforce government transparency and accountability.

Source: OECD (2023b)

Both climate action and gender have in common that they relate to broad societal aims and require wide-ranging policy interventions, the corollary of which is that fragmented actions cannot realistically be expected to suffice. Both entail long-run and irreversible transformations, only capable of being delivered by consistent and enduring strategies. Mainstreaming in these two instances is about ensuring not only that the goal is taken into account at all stages of the policy cycle, but also that governance mechanisms are in place to prevent back-sliding or lessening of commitments. Examples of the latter range from having broad consultations to conducting impact assessments.

Social mainstreaming is also frequently mentioned, but has the subtle difference that it tends to be seen more as a constraint than a higher-order societal objective. Aranguiz (2018) refers to 'shielding' social aims from economic policies likely to be divisive, noting how Art. 9 TFEU requires the EU, in all its policies, to take into account social objectives. She views the article as a horizontal obligation and argues it could become a basis for social mainstreaming, albeit one which has not been exploited. However, she suggests the European Pillar of Social Rights could facilitate social mainstreaming, based on Art. 9.

In a literature review on urban sustainability and mainstreaming, Adams et al. (2023) bemoan the "*inconsistent use of terminology*" and assert that this has led to "*two types of dilemmas: conflation and inadequate contextualisation*". The main conflation they find is, first, with policy integration in the sense of cutting across policy silos and, second, of institutionalisation understood as moving from the status quo ante, to a desired new 'mainstream'.

To some extent, mainstreaming can be about creating a 'new normal' in an academic discipline or a policy debate. Doing so recognises that the 'old normal' is no longer tenable and requires a reassessment of values or models underlying what is to be corrected. The adoption of mainstreaming provides a means of effecting the transition. An illustration is the approach to embodying human rights in the work of multilateral development agencies. In this context, Yeshanew (2014) portrays mainstreaming as being "*concerned with the conscious, systematic and concrete integration of certain values and standards into policies, plans, programmes, priorities, processes and results of the work of an organisation. Human rights mainstreaming refers to the deliberate infusion of human rights standards into the work of organisations*".

A novel concept associated with mainstreaming is 'transformational budgeting' (TB), defined by Blanch et al. (2023: 4) as "*using the budget process to support the implementation of transformational agenda adopted by the government*". They envisage TB to be complementary to PB, not an alternative, and elaborate by explaining three features of the approach:

- It should explicitly support societal change;
- It should be 'super-imposed on all public policies' thereby transcending their sectoral or programmatic objectives; and
- The link between the transformational agenda and budget policies has to be clear.

In addition to facilitating the realisation of what are, *de facto*, mainstreamed policy goals and providing systematic information on relevant spending, TB can have the more political effect of highlighting to stakeholders how budgets and/or programmes are contributing to the goals. Blanch et al. do, however, warn against having more than a few transformational agendas at one time, observing that "*if everything is a priority, nothing is really a priority*". What can be derived from their exposition is that there are opportunities for overcoming the often diffuse nature of mainstreaming.

1.6. Performance budgeting and mainstreaming in the EU

Both mainstreaming and PB are deployed in the EU. For the most part, gender, climate and biodiversity are the mainstreamed goals most in evidence, although the extent to which mainstreaming shapes EU budgetary actions varies.

1.6.1. Mainstreaming methodologies and practices in the EU

Mainstreaming functions in different ways in the EU context. For climate and biodiversity, the emphasis is on quantitative indicators to assess the effects of EU spending. Explicit targets for the share of EU spending to be devoted to climate action characterise both Cohesion Policy (starting in earlier MFFs and reinforced to a level of 30% for 2021-27) and the RRF, which has a target of 37%. These targets are complemented by the 'Do No Significant Harm' (DNSH) principle, enshrined in Regulations 2020/852 and 2021/1060 which mandate climate and environmental proofing of infrastructure investments in line with the principle.

Biodiversity is a more recent addition to mainstreamed goals, although it features in the 2020 IIA. It is more complex to track because fewer programmes, as yet, have relevant goals. However, the Commission published the Biodiversity Financing and Tracking Report (European Commission, 2020) containing plans for a sound tracking methodology for biodiversity and fully integrating the DNSH principle (European Commission, 2022a).

For gender mainstreaming, by contrast there is a more 'procedural monitoring' approach, involving the participation of key actors in the implementation of EU spending. The underlying intention is to rectify the causes of gender inequality by ensuring that a gender perspective is integrated into all policy areas.

The Gender Equality Strategy 2020-2025 (European Commission, 2020) proposes plans for these purposes at all stages of policy-making, from implementation to ex-post evaluations.

Work by the European Institute for Gender Equality Institute tracks progress and, in the latest (2023) iteration of its index[1], notes that the calculation has surpassed 70 for the first time. However, the Institute bemoans a lack of high-quality EU-wide data. In a similar vein, the ECA (2021b and 2022a) disputes overly positive conclusions in Commission statements on progress made towards mainstreaming targets, singling out gender as the area most deficient. For the latter, the explanation given is that the EU's institutional framework does "*not yet fully support gender mainstreaming*" and that the EU's budget cycle did not adequately take gender equality into account. Moreover, little information is presented on the results or impact of the EU budget in promoting gender equality. This finding accords with that of Lomazzi and Crespi (2019) who consider that gender mainstreaming had become marginalised during the 2010s and would need a pronounced cultural change in EU institutions to make progress.

For climate change and biodiversity, there is adjudged to be insufficient explanation of possible synergies. The ECA also observes that digital as an over-arching priority does not appear in the 2020 Inter-institutional Agreement and lacks tracking indicators. "*There is no requirement, nor any central guidance, to track expenditure on the digital or SDGs priorities across the EU budget*". However, some DGs track expenditure for specific programmes that contribute to the objectives.

1.6.2. Performance budgeting in the EU

PB as a tool and approach in the budget was given momentum by the adoption in 2015 of *An EU Budget Focused on Results*, although as Sapala (2018) records, there had been moves towards it over previous decades. Her paper traces how the approach has developed within the EU budgetary system and what challenges stand in the way of reform, and she also comments on the increasing interest shown by the EP's Budgetary Control committee.

Sapala's paper also draws attention to some future measures related to the implementation of performance budgeting in the EU's finances. Lennon et al. (2019), in a study for the EP's CONT Committee, draw on experience in five Member States in exploring how PB could be enhanced in the EU Budget. They identify various issues to resolve, ranging from the consistency and harmonisation of PB to making the performance aspects of budget discharge more exhaustive. They also anticipated subsequent debates about the quality of data and the risks of information overload. Cohesion Policy and the RRF, with the latter adopting a PB approach from the outset, exemplify many of the challenges as shown in a succession of reports, ECA (2019, 2021a and 2023a).

1.6.3. How mainstreaming and PB complement one another

Although PB and mainstreaming are conceptually different, they manifestly have as a common aim to shape both policy choices and the approaches adopted to ensure policy aims are achieved. For mainstreaming, the underlying question is often one of verifying that the design of spending programmes conforms to whatever over-arching objectives are chosen. By contrast, PB is about what is achieved by a policy once it is implemented and not ex-ante. A difference can also arise in how PB influences the transformation of policies at an operational level, whereas mainstreaming goals are more strategic. Table 1 provides an initial comparison of the two approaches, on a number of relevant dimensions.

[1] https://eige.europa.eu/gender-equality-index/2023

The use of indicators is crucial for the PB approach during the implementation of policy programmes, although as it will be shown in later sections of this study, their use is fraught with difficulties. Data availability is manifestly essential, but as emphasised in a previous study for the EP's BUDG Committee (Begg et al., 2023), the information needs also to be accurate, comparable across jurisdictions or programmes, available in a timely manner and capable of being aggregated. It is less obvious that indicators sit easily with implementation of mainstreaming, although at the evaluation stage of policy, they are vital. For mainstreaming, the focus on transformational aims makes selection of suitable indicators more complicated.

Table 1: Performance budgeting and mainstreaming compared

	Performance budgeting	Mainstreaming
Articulation of values	Only in the limited sense of definition of targets, but could become greater	Crucial feature of the approach through definition of intended societal transformations
Setting policy objectives	Targets set reflect policy objectives	Provides an over-arching strategy or narrative for policy
Monitoring of progress	Primary purpose of the approach, but with emphasis on outputs and results	Ex-ante in the policy formulation phase
Use of indicators	Essential for documenting progress towards targets as well as for ex post evaluations	Most relevant ex-post, to establish extent of change, including through evaluations
Shaping policy programmes	Setting intermediate goals and assessing 'what works' as programmes evolve:	Determining shares of ex-ante programme allocations, as for Cohesion Policy and the RRF
Influencing future policy	Potential for feedback [2]in most advanced forms of approach	Sets primary objectives in selected policy areas
Importance for legislators	Can enhance information flow, enhancing quality of scrutiny	Ensuring values are kept centre stage

Source: own elaboration

The two approaches can influence future policy in complementary ways. The PB perspective sheds light on 'what works' and can provide insights for decision-makers not only on what to change at break-points in programmes, but also in the design of successor programmes. More advanced forms of PB can be used by various stakeholders, especially legislatures, to make a case for substantive changes in policy. Mainstreaming is, arguably more about 'what do we want to change'. In the EU context, the distinctive nature of governance could be a complicating factor. For example, Sapala (2018) points to the much more diverse range of actors (and, by implication) interests to be reconciled. The roles of different institutions are also relevant: although, formally, the Commission has the sole right of initiative, performance information can provide ammunition for other institutions in policy debates and influence decisions on increasing or reducing budgetary lines where the evidence warrants it. This sort of process could also afford scope for greater legitimation through the EP.

[2] An interesting example cited by the OECD (2019) is in New Zealand, where there is an obligation of 'responsiveness to the collective interest of government'. This includes generating meaningful information for Parliament and the public to enable monitoring of progress compared with intentions.

2. THE CURRENT ARCHITECTURE OF THE PERFORMANCE FRAMEWORK FOR THE EU BUDGET

This section of the study provides a detailed analysis of the performance-based approaches in two of the principal areas of EU policy where it has been adopted: the Multiannual Financial Framework (in particular Cohesion Policy) and the Recovery and Resilience Facility. Building on the definition of performance-based budgeting provided above, the following information is provided for both instruments:

- Overarching legal basis and key documents
- Types of performance information (indicators) collected;
- Use of the performance information collected;
- Monitoring arrangements
- Evaluation systems
- Financing mechanisms
- Role of key EU actors (Commission, Parliament, Council of the EU, and Court of Auditors)

The performance systems under the MFF and RRF are first presented separately, together with the current challenges that affect the effective implementation of performance budgeting under the two instruments. How performance works under the two instruments is then compared, building on the same analytical dimensions.

The following sources were consulted:

- Official documents, such as Regulations, delegated regulations, Inter-institutional Agreement, Council conclusions, and EP resolutions.
- European Court of Auditors' audit reports and discussion papers.
- EP studies
- Reports published by think tanks and other relevant stakeholders.

2.1. The performance-based approach under the MFF

The performance framework for the EU budget under the 2021-2027 MFF strengthens the system established under the 2014-2020 MFF. This sub-section starts by providing an in-depth presentation of the performance framework for the 2014-2020 Structural and Investment Funds. It then documents the novelties introduced for the 2021-2027 period and concludes with an assessment of the challenges to be faced.

2.1.1. The performance framework under the 2014-2020 MFF

For the 2014-2020 period, the monitoring, evaluation and performance framework for the European Structural and Investment (ESI) Funds was set out in the Common Provisions Regulation 1303/2013 (CPR) and complemented by specific provisions spelled out in the Regulations of each of the ESI Funds (ERDF, ESF, CF, EAFRD and EMFF). In particular, the 2013 CPR stated that the ESI Funds "*should play a significant role in the achievement of the objectives of the Union strategy for smart, sustainable and inclusive growth*" (i.e. the Europe 2020 goals) and clearly defined a Common Strategic Framework to promote a coordinated management approach aimed at supporting the achievement of these goals.

To support the EU strategy and underpin the achievement of the Europe 2020 goals, the CPR further laid down 11 thematic objectives. Objectives 1-4 relate primarily to the ERDF, 4-7 and 11 refer mainly to the Cohesion Fund, while 8-10 are for the ESF (though the Fund also supports 1-4). Each of the thematic objectives was translated into fund-specific investment priorities provided by individual regulations. Every investment priority (except Technical Assistance priorities and programmes dedicated to Financial Instruments) is accompanied by milestones (i.e. intermediate targets) to be fulfilled by 2018 and final targets to be achieved by 2023.

The CPR also defined ex-ante conditionalities, tied to the 11 thematic objectives and to general prerequisites/objectives for all ESI funds. These included having "*a system of result indicators necessary to select actions, which most effectively contribute to desired results, to monitor progress towards results and to undertake impact evaluation*". The ex-ante conditionalities had to be fulfilled by the end of 2016, and Member States had to "*report on their fulfilment not later than in the annual implementation report in 2017*" (Article 19(2) of the CPR). These set concrete and pre-defined conditions enabling an efficient and effective attainment of the specific objective of the relevant investment priorities of the EU, while ensuring an optimised use of available resources throughout the implementation process. Member States had to develop action plans, clearly identifying measures for fulfilling the relevant ex-ante conditionalities, as well as meeting deadlines and naming responsible authorities. The responsible authorities were in charge of actively implementing the relevant measures to put in place the action plans and accountable for non-fulfilled or partially fulfilled ex-ante conditions at the time of submitting programming documents.

As spelled out in Article 30(3) of the EU Financial Regulation 966/2012, specific, measurable, achievable, relevant and timely objectives (the so-called SMART objectives) also had to be set for all sectors of activity included in the EU budget annually, and the achievement of those goals was to be monitored through programme-specific performance indicators. For each general objective, one or more SMART annual objectives were identified. SMART objectives, progressively complemented by thematic objectives and strategic/investment priorities, represented a first step towards the development of a fully-fledged performance framework.

Article 33(2) of the EU Financial Regulation in 2018 (European Commission, 2018a), related to 'Performance and principles of economy, efficiency and effectiveness', further clarified that "*the use of appropriations shall focus on performance and for that purpose: (a) objectives for programmes and activities shall be established ex ante; (b) progress in the achievement of objectives shall be monitored with performance indicators; (c) progress in, and problems with, the achievement of objectives shall be reported to the European Parliament and to the Council*".

Along with programme-specific indicators, the monitoring and evaluation (M&E) framework for the 2014-2020 MFF relied on a set of common indicators, accompanied by well-defined guidelines for the establishment of monitoring and IT systems. The primary objective of these monitoring systems was to facilitate the consolidation of indicator data at both national and EU levels. While programme-specific indicators could be either output indicators (i.e. aimed at measuring the specific deliverables of the interventions) or result indicators, common indicators could be only output indicators.

Overall, more than 700 performance indicators (of variable quality[3]) were used to measure performance against 61 general and 228 specific objectives contained in the Programme Statements (PSs) of operational expenditure, as presented in an analysis conducted by the Commission alongside

[3] Not all the indicators calculate EU budget performance directly: some provide either high level contextual information (e.g. "the Europe R&D target of 3% GDP" or "share of researchers in the EU active population") or process related information (e.g. "quality of project applications", "number of participants") (European Parliament, 2017).

its budgetary documents in 2016 (Downes et al., 2017). In the document, the Commission highlighted that, *in terms of indicator usefulness, experience shows that it might be more important to have good quality information on a fairly small number of simple and key measures rather than a long list of indicators with limited information and relevance*.

The choice of indicators resulted from negotiations among the Commission, the European Parliament and the Council and was set out in the legal bases of the various programmes. Once indicators were selected, they could be used in assigning the performance reserve, which, as spelled out in Article 20 of the CPR, "*shall be established in the Partnership Agreement and programmes and allocated to specific priorities in accordance with Article 22 of the CPR*". Article 22 further quantified the share of resources allocated to each priority within a specific programme, i.e. between 5% and 7% of the allocation (except for priorities dedicated to technical assistance and programmes dedicated to financial instruments)[4].

The performance reserve was to "*be allocated only to programmes and priorities which have achieved their milestones*". As part of the performance framework, Article 21 of the CPR explains that "*the Commission, in cooperation with the Member States, shall undertake a review of the performance of the programmes in each Member State in 2019 (the 'performance review')*". The review was aimed at analysing the attainment of the programmes' milestones at the level of priorities, based on the information and the assessments provided by the Annual Implementation Report (AIR) submitted by the Member States in 2019. Once the reports were received by the Commission, the latter had to adopt a decision within two months to verify that milestones had been fulfilled for every ESI Fund and Member State.

If milestones for certain priorities had not been achieved, Member States could propose the reallocation of the related amount of the performance reserve to other priorities as well as the resulting amendments to the programme (which should be approved by the Commission) within three months from the adoption of the Commission decision. Such proposals had to adhere to thematic concentration requirements and minimum allocations set out in the CPR and the rules of each fund. Through the decommitment procedure, Member States could "*reconstitute the appropriations for their subsequent commitment to other programmes and priorities*".

At the same time, as explained in Article 22(6), where there is "*evidence, resulting from the performance review for a priority, that there has been a serious failure in achieving that priority's milestones relating only to the financial and output indicators and key implementation steps set out in the performance framework and that that failure is due to clearly identified implementation weaknesses,* [...] *the Commission may, not earlier than five months after such communication, suspend all or part of an interim payment of a priority of a programme in accordance with the procedure laid down in the Fund-specific rules*". The Commission could lift such a suspension if the Member State concerned took the necessary corrective action and go on to approve the amendment of programmes whenever the corrective action is related to the transfer of financial resources to other programmes or priorities. Potential financial corrections could be excluded "*where the failure to achieve targets is due to the impact of socio-economic or environmental factors, significant changes in the economic or environmental conditions in the Member State concerned or because of reasons of force majeure seriously affecting implementation of the priorities concerned*".

Two key documents were at the centre of the MFF 2014-2020: Partnership Agreements (PAs) and Operational Programmes (OPs). The former were drawn up after consulting key stakeholders, such as sub-national/regional governments, representatives from interest groups and civil society bodies, as well as the Commission. The Commission then carefully assessed the analyses provided by Member

[4] 6% of the total amount shall be allocated by ESI Fund and category of region to investment for growth and jobs goal, the ERDF and the EMFF, while there should be no performance reserve for programmes under the European territorial cooperation goal.

States, and asked them to submit their PAs, which summarised the MSs' analyses, within 4 months of the entry into force of the CPR (Downes et al., 2017).

The Commission, in turn, had to make observations within 3 months of the PA submission date and to adopt the PA no later than 4 months from its submission, provided that Member States had adequately responded to the observations from the Commission. Member States were also obliged to submit a Progress Report on the PA in 2017 and 2019.

Once the PAs were set out, Member States had to submit OPs within 3 months. OPs break down the overarching strategic objectives referred to in the PAs into investment priorities, specific objectives and concrete actions, thereby channelling and managing funding. Every OP defined a strategy for its contribution to the Europe 2020 goals. Operational Programme could be fund-specific or multi-fund, and could cover entire Member States and/or regions. The use of OPs allowed the selection, implementation, monitoring and evaluation of individual projects according to the priorities and targets defined by the national or regional Managing Authorities (MAs), in alignment with the Commission. National or regional MAs, following the principles of shared management and subsidiarity, were in charge of selecting, implementing, monitoring and evaluating individual projects, in line with the agreed priorities and targets in the OP.

Each OP was overseen by a Monitoring Committee (which includes a Commission representative), whose task is to review progress towards the fulfilment of objectives and related milestones. Moreover, OPs were also subject to an AIR, which included financial and performance data as well as a synthesis of the evaluations conducted. From 2019, the AIR also had to report on how the OP supported the EU strategy for smart, sustainable and inclusive growth.

Based on the information provided by Member States in their AIR related to the progress achieved through milestones, the Commission had to conduct a performance review (a one-off exercise). Both the AIRs and the evaluations (including ex-post evaluations from previous programmes where relevant), along with the key elements of the Annual Activity Report (AAR), outlining how the Commission Directorate-General had attained its objectives (pre-defined in its Management Reports), were the basis of the Summary Report on programme performance (or Synthesis Report) and of the Strategic Report.

The Synthesis Report was submitted annually by the Commission to the European Parliament and the Council, while the Strategic Report summarised the Progress Reports of 2017 and 2019. Additionally, Article 318 of the TFEU required the Commission to produce an annual evaluation report on the Union's finances based on the results achieved, i.e. the so-called Article 318 Report, which was the main document for overall reporting of performance, attempting to highlight key messages from the evaluations conducted.

To streamline performance reporting within the 2016 Integrated Financial Reporting Package, the summary report and the 'Article 318 Report' were integrated into the Annual Management Performance Report (AMPR), which is sent to the European Parliament, the Council and the European Court of Auditors (ECA) in the context of the annual discharge procedure. The AMPR included a separate section on performance and results, which briefly documented progress in relation to the objectives set in sectoral legislation. These findings were obtained by considering the Europe 2020 headline indicators and the related results fulfilled under every budget heading, with an extensive cross-referencing to the Europe 2020 goals. This section represented, de facto, a digest of the most relevant information provided by M&E documents, as well as Programme Statements.

The AMPR aims to consolidate essential findings from previous evaluations, incorporating ex post evaluations from previous programmes when applicable. It comprises distinct sections on 'performance and results' and 'management achievements'. The 'performance and results' section provides a concise overview of the significant performance-related information, including data provided by the PSs. The latter are designed to facilitate a comprehensive and well-informed assessment of the strategic, financial, and performance aspects of budgetary allocations. PSs, which are included with the annual draft EU budget, feature a meticulously crafted performance framework that encompasses 7-year financial commitments, programme performance baselines, end-goals for the multi-annual programming period, and intermediate milestones that are measured against SMART criteria.

High-quality information about programme performance, complemented by the annual and strategic reporting provided by the Commission, contributed to an informed debate as part of scrutiny by the European Parliament and the Council. In particular, the Council debated the strategic report concerning the contribution of ESI Funds to the EU strategy for smart, sustainable and inclusive growth. If programmes were considered non-performing or financial irregularities were identified, sanction mechanisms could be activated by the Commission under Article 142 of the CPR. However, this option has never been activated, given its last resort nature. The EP was invited to debate the annual 'summary report' of Programme performance submitted by the Commission. These reports were based on AIRs, monitoring of the progress of each Programme and evaluations. Moreover, the EP was involved in the oversight of the 'strategic report', published in 2017 and 2019, which summarised the related Progress Reports on the Partnership Agreements which member states had to submit.

Committees of the EP held discussions with the respective representatives of MS parliaments and national audit authorities to update them on budgetary procedure developments, and signalled good practices for parliamentary oversight of performance within the budgetary context (Downes et al., 2017). The EP welcomed the establishment of the inter-institutional working group on performance-based budgeting, of results-oriented budgeting, and commended the informative structure and content of the reports published by the ECA (European Parliament, 2016). However, the EP raised several concerns, recalling the weaknesses pointed out by the Court. Any concerns were taken into account before the EP decision on whether to grant discharge to the European Commission for the implementation of the EU budget (European Parliament, 2016).

The ECA supported the Commission within the performance framework, with competences of external scrutiny and quality assurance. The ECA acquired a particular role in the assessment and reporting on the financial management, notably on its performance dimension. Performance audits, taking into account the sound financial management of the EU budgetary expenditures, were conducted by the ECA on an annual basis following international audit standards. They evaluated the Member States' efficiency, effectiveness and economy in achieving the targeted goals, and the suitability of the organisation, operations and process or functions for their fulfilment.

Assessment of the performance of EU spending was covered in various ECA stand-alone Special Reports and in a dedicated section (chapter III) of ECA's Annual Report. However, only some of the Commission DG's AARs were reviewed and the AMPR was not commented upon, thereby providing only a partial oversight of the overall performance framework. ECA reports and documentation were periodically communicated to the European Commission (EC), the European Parliament and Member States to provide an updated overview of EU performance budgeting. The ECA's ability to conduct performance audits provided valuable information for the budgetary authority. Nonetheless, the ECA was unable to provide annual quality assurance on the performance data system as a whole.

It was described as a "*limitation that is a characteristic of the stage of development of performance auditing internationally*" (Downes et al., 2017). For example – referring only to the 2014-2020 policy cycle – there was still room for more clearly specified and centralised basic criteria concerning the quality of performance data. This encompasses various issues, such as the traceability of performance data and the implementation of quality controls in the measurement of results. Not having set these criteria, the ECA was unable to effectively ascertain the relevance and accuracy of the key performance figures/headline targets disclosed in the AMPR.

For its part, the EP submitted to the Commission "*general guidelines for the preparation of the budget*" and, once the EU budget was adopted, its scrutiny role comprised the exclusive right to grant discharge of the budget. In doing so, the EP had not only to verify spending accuracy, but also to examine the soundness of financial management and the achievement of performance objectives. Over the last decade, the Committee on Budgetary Control has been encouraging a more coordinated and holistic approach to parliamentary oversight, so as to take into account concerns and insights of the Standing Committees in a more effective and coordinated way.

For instance, the Committee on Budgetary Control enhanced its use of Performance Audits published by the ECA, conducted meetings with the ECA to deliberate on their Special Reports and encouraged participation from other Standing Committees in these discussions. The Council also submitted its ex-ante guidelines for the EU budget to the Commission. In its conclusions on the guidelines for the 2017 budget, the Council noted that "*Programme statements should, in particular, focus on performance information and ways to improve it, including the results achieved, the justification for the level of appropriations requested, and on the added value of EU activities. This analysis should be clearly linked to the relevant budget lines in order to support the budgetary decision-making process*".

In its ex-post assessment of budgetary implementation, the Council looked for a simple and streamlined accountability document, of a strategic nature and structured on the basis of performance information, aimed at ensuring a more effective decision-making process. Designing a clear performance-based document was intended to enable policy makers to verify easily that resources were delivering as expected. It also had to check whether these outputs were well-designed to support higher-level programme results and strategic policy goals. Council representatives continued to bemoan the lack of flexibility of MFF budget reallocations, despite the use of performance-based evidence to inform better M&E exercises.

2.1.2. Lessons learned and performance framework under the 2021-2027 MFF

The legislative framework for CP for 2021-27 further emphasised the results orientation of programmes and evidence-based decision-making, focusing especially on result indicators and data quality as well as on the attempt to streamline programming, monitoring and evaluation processes. The inclusion of a sub-item (ii) added to Art. 125 of the EU Financial Regulation 2018 (European Commission, 2018a), in the first paragraph on 'Forms of Union contribution', under which:

"Union contributions under direct, shared and indirect management shall help achieve a Union policy objective and the results specified and may take any of the following forms:

(a) financing not linked to the costs of the relevant operations based on:

> *(i) the fulfilment of conditions set out in sector-specific rules or Commission decisions; or*
>
> *(ii) the achievement of results measured by reference to previously set milestones or through performance indicator"*

This revision represented a paradigm shift by diverging from the previous financing-linked-to-cost approach and paving the way for the establishment of the RRF (see section 2.2).

Overall, a stronger focus on inputs provided by the EP and the ECA was adopted (European Commission, 2021a). The EP closely collaborated with the Commission and the Council to identify a high-quality set of indicators for the new programmes, commit to the integration of cross-cutting (climate, biodiversity, gender and SDGs) objectives into the EU budget and ensure that multi-annual spending targets would be respected (European Commission, 2021b). Policy objectives were redefined, as explained in the Joint Action Plan, which includes actions on:

i. a more competitive and smarter Europe;
ii. a greener, low carbon transition towards a net zero carbon economy;
iii. a more connected Europe by enhancing mobility;
iv. a more social and inclusive Europe;
v. Europe closer to citizens by fostering the sustainable and integrated development of all types of territories.

The performance framework reform for 2021-2027 encompasses several significant changes, one of which is the restructuring of the ERDF and CF indicator system. This reform entails the introduction of a more comprehensive set of common output indicators as well as a new list of common result indicators (putting the emphasis on outputs and results, as opposed to wider impacts). Its purpose was to improve coverage and ensure greater transparency, accountability, M&E and disclosure at regional, national and EU level. All the indicators, whose role in the monitoring systems has significantly improved, are linked to the specific objectives, with milestones (to be achieved by the end of 2024) set for all the output indicators and targets (to be achieved by the end of 2029) for both output and result indicators.

Moreover, the definition of certain indicators has been clarified, supported by dedicated guidance, manuals and training, to ensure consistency in their interpretation. The change was also aimed at addressing the ECA criticism of the high number and opacity of programme-specific indicators in 2014-2020. Fewer indicators will now be required, giving more prominence to the harmonised approach across CP Funds and to common indicators. As a result of this streamlining and clarification exercise, Member States should find it easier to aggregate specific indicators and gather evidence, facilitating the preparation of evaluations and verification of results.

Information from the various forms of monitoring will be taken into account in the mid-term review, to be performed by the Commission in 2025, and in deciding on the allocation of the flexibility amounts. In contrast to the 2014-2020 period, only allocations covering years 2021-2025 were fully programmed from the beginning of the process: half of the commitments expected for 2026 and 2027 are going to be based on the mid-term review, which will assess the progress towards programmes' priorities and objectives by the end of 2024. This will be followed by a retrospective evaluation to be performed by the end of December 2031 by the Commission, as referred to in Article 45 of the Common Provision Regulation 2021/1060. As a result of the introduction of the mid-term review, the performance reserve was dismissed.

Building on the lessons learned from crises, the Commission justified this shift on the grounds of the need to strike "*a balance between two main principles in programming: the need for both stability and flexibility*" (European Commission, 2018b). This would enable Member States and regions to mobilize EU resources faster when unexpected events occur, ensuring an adaptive evolution of investment needs, objectives and targets. At the same time, the CPR for 2021-2027 expects Member States to fulfil 'enabling conditions' conducive to fostering the effectiveness of EU Support. Member States should respect such conditions throughout the programming period. As opposed to the new system, in the previous policy cycle the amounts allocated to the performance reserve could be less swiftly reassigned. Moreover, several authorities had been very critical of the performance reserve because the administrative burden negatively affected the operations of the MA and intermediate bodies (McMaster and Kah, 2017).

An additional innovation has been introduced in Annex I of the CPR, which specifies that the Funds' intended contribution to climate and environment goals is assessed using the corresponding tracking coefficients (which now include the revised weightings to provide more comprehensive information on climate action) allocated to the areas of intervention. This will be complemented by increased reliance on official data sources, new models of data exploration, and more rigorous and frequent verification of the performance data. This supplementary data gathering, going beyond the minimum requirements of the monitoring system, represents a significant development from the 2014-2020 period.

Indeed, as outlined in ECA Special Report 09/2022 (European Court of Auditors, 2022b), the amount of climate spending that the Commission reported for the 2014-2020 MFF was overestimated: the Court stated that at least EUR 72 billion out of the EUR 216 billion declared were "*not always relevant to climate action*", undermining the original EU commitment to spend at least 20 percent of its 2014-2020 budget on climate action.

The 2020 Interinstitutional Agreement provided a more specific target for monitoring climate spending and its performance. In particular, Article 16(d) on 'Budgetary Transparency' stated that "*an overall target of at least 30 % of the total amount of the Union budget and the European Union Recovery Instrument expenditures*" should support climate objectives, [...] "*taking into consideration the effects of the phasing out of the funding under the European Union Recovery Instrument and differentiating between climate change mitigation and adaptation, where feasible*". The climate expenditures mentioned in the IIA are measured using an effective methodology set out by the Commission which has to be "*transparent, comprehensive, result-oriented and performance-based*" (Article 16(g)). It includes a corrective mechanism if there is "*insufficient progress towards the climate spending target in one or more of the relevant programmes*" (Article 16(d)).

From a qualitative perspective, the new climate tracking system is linked to the EU Green Deal through the establishment of the EU Green Taxonomy. The latter, despite being mainly meant to guide decisions of private investors, is a classification which focuses on the concept of sustainable economic activities and whose approach has been extended to public sector investments, as illustrated in the CPR for the 2021-2027 MFF. Additionally, the shift from a system "*based on stated objective*" of projects, used with the OECD 'Rio markers', to a new one where coefficients are "*based on expected effects*" of funded activities is a significant change of the framework (European Commission, 2022b).

Similarly, the exclusion of mandatory ex-ante evaluations (EAE) – apart from planned support measures through Financial Instruments – is a notable change from the previous M&E system. It is motivated by the shortcomings visible in 2014-20, where EAEs were sometimes carried out merely to meet the regulatory requirement. Currently, as explained in Article 44 of the Common Provision Regulation 2021/1060, Member States or the MAs "*shall carry out evaluations of the programmes related to one or more of the following criteria: effectiveness, efficiency, relevance, coherence and Union added value, with the aim to improve the quality of the design and implementation of programmes*".

Evaluation plans, which are based on the assessment of the Member States' needs, should be submitted to the Monitoring Committee within one year of the OP being approved. Then, by the end of June 2029, Member States must conduct an impact evaluation. The underlying intention of these changes is to limit the administrative burden placed on MAs, thereby increasing flexibility. Indeed, a key rationale for the reformed evaluation framework is to ensure simplification and flexibility, giving Member States more freedom in their decisions, but also more responsibility. Another novelty will be a mid-term evaluation to be done by the Commission in 2024. It will help to assess the progress of programmes and will feed into the mid-term review in 2025, even though relevant exogenous shocks such as the COVID-19 crisis, the unpredictability of political cycles and the limited absorption capacity by public administrations could possibly impair the efficacy of the review. Overall, thanks to the developed monitoring system, the new evaluation framework has improved in terms of accuracy, becoming more robust and comprehensive.

New and enhanced IT systems have been commissioned to improve the effective management of the OPs. They are intended to promote simplification, user-friendliness and usability through the improvement of key functionalities, enhance flexibility by allowing MAs to input relevant data independently, and promote digital interconnectedness of various public electronic systems. This is about reducing the administrative burden and improving data quality and reliability. Enhanced coordination across Funds, OPs and management processes has also been promoted.

While the 2014-2020 financial reporting practices will mostly remain intact, there will be a rise in reporting frequency from 3 times per year in the previous period to 5 times during the 2021-2027 policy cycle, and biannually for indicator data. Nevertheless, Annual Implementation Reports will no longer be mandatory. Annex 3 of the AMPR, i.e. the Programme Performance Overview (PPO), was introduced in 2020 and focuses on the single spending programmes, providing short fiches with related information on their implementation progress and summarising horizontal budgetary priorities. In addition, the PPO and the Programme Statements include a performance assessment section.

2.1.3. Challenges of the current performance framework

As previously outlined, the results-orientation and evidence-based decision making was strongly enhanced for the 2021-2027 period. However, several issues remain to be addressed and there will be many difficulties to overcome in making the system work as intended. Several recent studies (Naldini, 2018; European Commission, 2019; Pellegrin and Colnot, 2020) warn that a stronger focus on results and the related need to improve data quality and evaluations has proved to be quite challenging for Member States and regions. As recently discussed in the 54th IQ-Net[5] Conference (Dozhdeva and Fonseca, 2023), which brought together a wide range of stakeholders, MAs struggle to understand the difference between output and result indicators and, contrary to simplification ambitions, consequently, have to provide more information than during the previous programming cycle.

Some Member States claim that the collection of result indicators in CP, without at the same time considering the specific socio-economic context in which the assessed measure takes place, is an inherent weakness of the M&E system. In other words, assessing causality based only on linking the observed changes in results to specific interventions, without considering external factors influencing the socio-economic context, may affect the accuracy of the evaluation findings and the ability to comprehensively grasp the effectiveness of the interventions (Darvas et al. 2019).

Some of the common indicators included in the OPs may not be suited to the regional level or even that of the Member State, as they are usually designed to evaluate the relevance of projects' results in light of EU-level objectives (or, perhaps, work well only for larger Member States), because they are distant from national objectives and priorities. Moreover, certain common indicators are deemed to be especially challenging and unsuitable for their intended use. Examples include indicators RCO74 (number of inhabitants covered by ITI projects) and RCO75 (ITI strategies covered by support). These

[5] The IQ-Net Network promotes exchange of experience on the management and implementation of Structural Funds programmes among Managing Authorities and Intermediate Bodies. The results of the 54th conference were summarised in a report by Dozhdeva and Fonseca (2023), which provides a rich source of analysis of the challenges of the CP performance budget system. It is drawn on extensively in this sub-section.

indicators are directly related to the 8 percent special funding allocation for Sustainable Urban Development.

Finland is an example of such difficulties for indicator RCO74 as it records when a certain project has been implemented in each of the targeted 16 urban areas under the same Specific Objective (Dozhdeva and Fonseca, 2023). In this way the population target of the indicator is automatically reached, rendering the monitoring almost pointless. Similarly, the Finnish authorities are sceptical about the usefulness of indicator RCO75, which is supposed to be used to check the processing of payment applications .

Identification and setting of milestones, targets and baselines has also been questioned. The setup of milestones is often hindered by delays in the launch of spending programmes (following delayed implementation of OPs), especially for 'hard' investment projects, while it is difficult to define target values for result indicators because of their high dependency on external factors. Concerns also arise in defining baselines for targets when dealing with different regional categories and green indicators (particularly the GHG emissions indicator). In this regard, the Commission (European Commission, 2021) envisages at least the provision of an estimate of the carbon footprint before and after the intervention, but a lack of experience, limited data availability or poor guidance for MAs, make it hard to incorporate Commission requirements convincingly into national monitoring systems.

Monitoring compliance with climate-related objectives can also lead to administrative burdens, particularly when incorporating new types of projects. The need to develop procedures and appraisal criteria for sustainable projects can also exacerbate these burdens. In this regard, the Commission acknowledges that Member States may have reasonable concerns about using revised definitions of categories of intervention and the climate tracking weightings. It is even acknowledged that attributing a precise contribution to climate objectives in all categories using the tracking coefficients can be a challenging task. These coefficients are determined purely ex ante according to the respective methodology and applied non-uniformly, even though it is expected that the coefficients applied to projects would be split across intervention categories.

Other difficulties concern the definition and monitoring of indicators. As already outlined by European Commission (2012), Polverari (2015) and Pellegrin and Colnot (2020), inconsistencies in the definitions of indicators and the lack of a uniform interpretation across OPs, intermediate bodies and applicants had already been highlighted as sources of data fragmentation and incoherence in the 2014-2020 period. Nevertheless, aggregation of data and double-counting issues at the level of specific objectives still remain, as well as differences in interpretations and measurement methods. Dealing with these obligations often calls for new and costly processes to be used by beneficiaries, hindering the capacity to compare data evidence. Another challenge is how to ensure timely provision of data connecting results with output indicators during the programming stage, as well as the complexity involved in establishing indicators for financial instruments. These obstacles must be carefully considered in the planning and implementation of projects.

There is also evidence of technical issues around data transfer to the System for Fund Management in the EU (SFC) and migrating data from outdated monitoring systems into the new ones. This suggests that numerous programmes are still hampered by inadequate investment in their IT systems, not least to cope with the increased frequency of reporting in the new framework (European Commission, 2022c).

Despite AIRs no longer being among the mandatory documentation, Member States assert that reporting on both financial data and indicator data may nonetheless be burdensome[6]. Moreover, the more quantitative approach of the new reporting might imply less emphasis on the programmes' contents, partly because there is no clear indication of how qualitative statements can be included when submitting data to the Commission. Other problems identified include the time needed to update IT systems, and pressures to report on the progress of implementation while being forced at the same time to fulfil the expected monitoring and reporting duties. This impairs the scope for influencing the following planning period.

Evaluation quality is still limited by the availability and quality of data, because of inconsistencies in data collection methodologies, as well as gaps in data coverage and reliability (Pellegrin and Colnot, 2020). Furthermore, discrepancies may arise among national and regional authorities if they interpret aspects of the regulatory framework in distinct ways, resulting in a degree of data fragmentation and inconsistency (European Commission, 2022c). In turn, the effectiveness of the framework remains mixed, with simplistic and non-uniform approaches preferred to advanced evaluation methods promoted by the Commission (Naldini, 2018; European Commission, 2019) and limited availability of internal resources by Member States and MAs. The consequence may be to detract from the ability to produce comprehensive and robust findings (Pellegrin and Colnot, 2020).

More generally, many of the difficulties that are currently surfacing in the 2021-2027 evaluation framework echo the weaknesses of the 2014-2020 period. These include, in many instances, a limited capacity for carrying out evaluations and the lack of an evaluation culture. Problems also arise in the timing of evaluation exercises, as well as in the communication, follow-up, use and impact of evaluation results.

The absence of a sufficient evaluation culture is exacerbated by the restricted availability of competent external evaluators, and the minimal involvement of academia in the evaluation procedure: these factors collectively restrict evaluation capabilities. Moreover, the sub-optimal allocation of scarce resources is clear: inadequate division of M&E tasks within MAs, relegation of evaluation duties below monitoring tasks and staff turnover all contribute to deficiencies in the evaluation. The reluctance of evaluators to provide feedback and the possibility of those who have previously failed in delivering quality evaluation applying again may hinder the usefulness of recommendations.

As in the previous period, it is still difficult to define the most suitable moment to perform evaluations and undertake convincing analyses of the impacts of interventions, a problem exacerbated by the delayed start of the programming period and of the changing socio-economic environment. Given the delayed launch of the OPs, most of the Member States believe - notwithstanding its relevance - that the mid-term evaluation is scheduled too early. A lack of meaningful data, milestones fulfilled and projects finalised limits the scope for drawing valid conclusions and valuable insights into the implementation of OPs. Communication of evaluation findings to inform policy makers and realistically affect decision making is still sub-optimal.

Again, the lack of a functioning mechanism to follow-up, usually very time- and resource-demanding, as well as the limited ability to prepare evaluation outputs and the mismatch between the evaluators and the policy makers, are among the most consistent drawbacks to overcome. More specifically, political leaders usually do not fully consider all the information provided by evaluation results prior to taking their final decisions due to time lags between implementation and evaluation, limited capacity

[6] Concerns in particular arise about the unnecessary workload for beneficiaries and other related entities generated by CPR Annex XVII, establishing the data to be recorded and stored electronically on each operation.

to work with feedback mechanisms and difficulties in delivering evaluation outputs in the best format by the evaluators.

Some studies show that the emphasis on simplification and flexibility, relatively to the new evaluation framework, may weaken evaluation standards and reduce harmonisation of approaches, potentially resulting in reduced coverage (Naldini, 2018; Pellegrin and Colnot, 2020). Hence, the proposed simplifications might not be sufficient to reduce the administrative cost significantly, as regulations preserve or introduce different provisions like the evaluation plan and mid-term evaluations (Mendez et al., 2019).

2.2. Performance based approach under the RRF

The key documents of the RRF are the Recovery and Resilience Plans (Art. 18 of the RRF regulation 2021/241). The plans include a comprehensive and coherent package of reforms and investments that fall under the scope of application of the Facility defined in Art. 3 of the Regulation, (i.e. the six pillars[7]) and contribute to achieving its general and specific objectives (defined in Art. 4). To be eligible for the RRPs, investments and reforms should be in line with a significant sub-set of Country Specific Recommendations (CSRs), they should comply with the DNSH and additionality principles (Art. 5 Regulation), and they should contribute to the climate and digitalisation targets by allocating at least 37% and 20% of the financial envelope to achieve respectively the green (including biodiversity) and digital transition objectives.

At the centre of the Recovery and Resilience Facility performance-based approach are the milestones and targets associated with investments and reforms included in the national plans. The RRF Regulation (Art. 2) defines milestones and targets as "*measures of progress towards the achievement of a reform or an investment*"[8]. The EC's guidelines on preparing RRPs specify that M&T indicators should remain within the control of the MSs and should not be conditional on external factors such as the macroeconomic outlook or the evolution of the labour market. As observed by Darvas and Welslau (2023), the RRF Guidance suggests the use of input indicators or preferably output indicators, while it discourages impact indicators since they are not fully under the control of the MSs.

M&Ts are proposed by Member States, then assessed by the Commission after the submission of the national plans and finally approved by the Council in the Implementing Decision (CID) on the approval of the assessment of the RRP. The arrangements to ensure an effective monitoring and implementation of the RRP, including the envisaged timetable, milestones and targets, and the related indicators, are also approved by the Council with the CID.

The fulfilment of milestones and targets[9] is the basis for the Commission assessment of the payment requests by Member States. Payment requests may be submitted by the Member States to the Commission twice a year. For each payment request, the Member States commit to implementing a certain number of milestones and targets. The assessment of the M&Ts relies on their description (set out in the CID) as well as the 'context and purpose'. If milestones and targets related to a payment request are not achieved, the Commission may propose to suspend all or part of the financial contribution.

7 (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 institutional resilience, with the aim of, inter alia, increasing crisis preparedness and crisis response capacity; and (f) policies for the next generation, children and the youth, such as education and skills.

8 Milestones are qualitative while targets are quantitative indicators.

9 As defined in the Council Implementing Decision approving the assessment of the Recovery and Resilience Plans and the Staff Working Document accompanying the EC proposal for CIDs.

In February 2023, the Commission presented a Communication in which it explains in detail the functioning of both the framework for assessing milestones and targets (including the application of the minimal deviations) and the payment suspension methodology and, in particular, the application of upward coefficients to decide on the amount to be suspended. The coefficients are based on the importance of the milestone or target and differ depending on investments and reforms[10].

If M&Ts are no longer achievable, either partially or totally, Member States can also propose amendments to their RRPs. Article 21 of the RRF Regulation defines the conditions for modifying plans. The Commission assessment of the modification request is based on the evidence of objective circumstances that prevent Member States from fulfilling the initially planned milestone or target. In order to facilitate a regular monitoring by the Commission, Delegated Regulation (EU) 2021/2106 (European Commission, 2021c) obliges Member States to report twice a year on the progress of milestones and targets (no later than by 30 April and 15 October), even in the absence of a payment request. Member States report their progress in achieving their milestones and targets due in the past and due twelve months into the future.

In addition, the RRF includes other types of performance information, i.e. the common indicators, set out in Delegated Regulation (EU) 2021/2106 (European Commission, 2021c), which are used for reporting on progress and for the purpose of monitoring and evaluation of the Facility towards the achievement of the general and specific objectives. Member States have to report to the Commission on the common indicators twice a year (by February and August) and the information is included in the RRF Scoreboard. This displays information on the progress of the implementation of the RRPs in each of the six Pillars, as well as the progress on the fulfilled milestones and targets. Contrary to the M&Ts, however, common indicators are used only for monitoring the progress of the plans but not for the disbursement or suspension of payments.

2.2.1. Roles and responsibilities in RRF monitoring, reporting and evaluation

Based on the RRF Regulation, two key actors are responsible for the monitoring, reporting and evaluation of the RRPs: the European Commission and the Member States. The former is responsible for ensuring "*that data for monitoring the implementation of the activities and results are collected efficiently, effectively and in a timely manner*" (Art. 29). This is based on the reporting by the Member States described above. The Commission then reports ex-post on the expenditure financed by the Facility. This reporting is based on the break-down of the estimated expenditure provided in the approved RRPs. The Commission is also in charge of providing an independent evaluation report. It assesses the extent to which the RRF objectives have been achieved as well as the efficient use of the resources, the European added value and continued relevance of all objectives and actions (Art 32). The first mid-term evaluation was released on 21st February 2024, while the ex-post evaluation is expected by 31st December 2028[11].

The Commission also produces an annual implementation report on the progress of the RRPs of the Member States. It includes information on the contribution to the green and digital targets, progress based on the common indicators and the expenditure under the six Pillars (see Art. 31). As foreseen by article 16, on 29th July 2022 the Commission presented its Review Report to the European Parliament and the Council. This report was supposed to include observations and guidance to the Member States

[10] As explained in Annex II of the EC Communication: "*Once corrected unit values are established, upward and downward adjustments will be made in the specific cases outlined below. The final amount to be suspended per unfulfilled milestone or target will be equal to the corrected unit value subject to any upward and downward adjustment ('suspension value')*".

[11] Recital 64 of the Regulation further specifies that the evaluation should be based on the information collected in accordance with specific monitoring requirements which, where appropriate, include measurable indicators as a basis for evaluating the RRF's effects on the ground.

before the update of the RRPs related to the 2022 update of the maximum financial contribution (see Art. 11), but the Commission brought forward its observations and guidance, as part of the Commission's guidance on Recovery and Resilience Plans in the context of REPowerEU, published in May 2022 (European Commission, 2022e).

As a platform to collect and monitor data on milestones, targets and the common indicators (i.e. the performance indicators), the Commission created the FENIX tool, where the information on the justification for the payment request is received. The RRF Scoreboard was also created to display the progress made in the implementation of the RRPs' milestones, targets and the common indicators. In both cases, the information provided takes account of M&Ts and common indicators already assessed by the Commission.

At the Member State level, the national coordination body is responsible for data aggregation, consolidation and reporting to the Commission regarding the milestones and targets. The same bodies are also responsible for reporting on the common indicators. At the national level, the RRP has to set out "*an explanation of the Member State's system to prevent, detect and correct corruption, fraud and conflicts of interests, when using the funds provided under the Facility, and the arrangements that aim to avoid double funding from the Facility and other Union programmes*" (Art. 18.4(r)). Member States should describe in their plans the control systems as well as other relevant measures and arrangements, including for the collection and making available of data on final recipients. To this end, MSs can make use of existing national control system(s) and related bodies. Control and audit bodies should be clearly identified.

The Commission assesses "*whether the arrangements proposed by the Member State concerned are expected to prevent, detect and correct corruption, fraud and conflicts of interests when using the funds provided under the Facility, including the arrangements that aim to avoid double funding from the Facility and other Union programmes*" (Art. 19.3). If the Commission detects deficiencies, it may require the Member State to develop an action plan to remedy the deficiencies as a matter of urgency. Milestones and targets for these measures are a condition for disbursements. Concerning the role of the Commission, it "*is accountable towards the budgetary authority in the context of the annual discharge procedure and Union funds disbursed under the RRF will be subject to the external audit of the European Court of Auditors. The Commission, the European Court of Auditors, the European Anti-Fraud Office and the European Public Prosecutors Office may therefore access and request information, undertake controls and investigate, according to their respective powers and competences. The Commission must ensure that the financial interests of the Union are effectively protected*" (Guidance RRF part I, p. 29).

The role of the European Parliament is relatively limited in the RRF. It should be kept informed about the implementation of the RRPs by the Commission (Art. 10). The competent EP committee can invite the Commission to discuss and provide its views on the implementation of the plans and its views should be taken into consideration by the Commission. The Parliament also has to be informed on the proposal by the Commission of the CIDs, as well as the suspension of payments. The European Parliament can invite the Commission to discuss the findings of the Review Report. The Commission has to provide the European Parliament with an overview of its preliminary findings concerning the satisfactory fulfilment of the relevant M&Ts (Art. 25). The Commission can be invited to present updates on the implementation of the Facility every two months and parliamentary views are expressed via resolutions (recovery and resilience dialogue, Art. 26). The European Parliament is the addressee of the Annual Report, the Review Report and the mid-term and ex-post evaluations.

Unlike the Parliament, the Council of the EU is directly involved – as observed above – in the approval of the RRPs as well as in the approval of any modifications of plans and in the approval of payment requests. The technical committees of the ECOFIN configuration of the Council are involved in this process. Notably, the Economic and Financial Committee (EFC) has a role in the disbursement of the financial contribution. It issues an opinion on the satisfactory fulfilment of the relevant milestones and targets by the MSs within four weeks of the EC preliminary assessment. A role is also played by the Economic Policy Committee (EPC). The latter is regularly informed by the EC on payment requests and amendments of plans, and based on this information, has to provide support to the EFC. The EPC delegates can submit written questions to the EC on specific aspects of payments or modification plans that are then the subject of discussion in the EPC meetings.

2.2.2. The RRF performance-based approach: an assessment

Since its launch in 2021, the Recovery and Resilience Facility has been closely scrutinised, prompting debate on the nature of the RRF itself and on it as an exemplar of a performance-based instrument. In what follows, positive aspects, as well as the main criticisms of the RRF as a performance-based mechanism are examined.

a. A positive shift towards performance-based budgeting

As broadly documented in the study supporting the Mid-term evaluation of the RRF (Corti et al., 2023), most of the national coordination bodies as well as EU institutions recognize that the effectiveness of the RRF lies in linking payments to the achievement of specific milestones and targets, rather than focusing solely on costs incurred. Several MSs point to the cultural shift towards performance budgeting as being important and one of the most effective features of the RRF. The same study highlights that the predictability linked to the performance nature of the RRF increased the efficiency and effectiveness of policy tools and provides precise criteria for assessing achievements. The decision-making process for implementing changes and financial allocations driven by anticipated outcomes compelled Member States to consider both reforms and investments simultaneously, which is considered as advantageous as it necessitates a unified strategy.

Bokhorst and Corti (2023) further argue that the milestones and targets increased MSs' internal discipline by granting additional influence to administrations at the national level. The RRF has been used by domestic stakeholders, particularly national governments, to speed up the implementation of long-debated reforms. The need to fulfil milestones and objectives has also been leveraged by governments to accelerate decision-making processes at the national level. In general, administrations have shown a willingness to incorporate a broad array of reforms in their strategies. This trend is particularly evident in countries such as Spain, Croatia, and Italy, where the financial allocation is substantial, increasing the risk of losing access to EU funds if milestones and targets are not met. In such instances, the performance-based approach limits room for deviation and enhances collective accountability in achieving the agreed-upon objectives within the specified timeframe. Conversely, in countries with lower financial allocations from the RRF, senior public officials may not feel as committed to adhering to the targets and milestones outlined in the plan, leading to diminished effectiveness.

The capacity of the RRF to accelerate the implementation of specific measures is greater for reforms than investments. This is not surprising since reforms are the direct responsibility of national governments and parliaments, whereas investments traditionally involve multiple governance levels, including regional and local authorities. The success of the RRF in fostering reforms has been widely documented and is empirically observable in the change in the number of country-specific recommendations (CSRs) implemented after 2021. In a special report (European Court of Auditors, 2020), the ECA found that over the 2011-2017 period, only 1.6 % of CSRs were deemed to have been 'fully implemented' within a year of being issued. 'Substantial progress' was achieved in only 4.6 % of the CSRs. The multi-annual assessment showed a better but still not very positive picture: MSs implemented 26 % of the CSRs substantially or over the full 2011-2018 period.

Based on the Commission's own assessment, the RRF contributes effectively to dealing with all or a significant subset of challenges identified in the relevant CSRs addressed to the MSs in the context of the European Semester in 2019-2020[12] (European Commission, 2022d). As reported in the 2023 European Semester Spring Package (European Commission, 2023a), which takes stock of the MSs' policy actions to address the challenges identified in the 2019-2020 CSRs (reference year of the RRF), 54% of the CSRs have seen some progress, 30% have limited progress, 12% substantial progress, and 2% are fully implemented. From a multiannual perspective, at least some progress has been achieved with the implementation of 63% of the 2019-2020 CSRs.

Research by Corti et al. (2023), as well as the above-mentioned reports by the ECA and other academic studies (Zeitlin et al., 2023; Corti and Vesan, 2023), find that the RRF contributed effectively to the support in most of the Member States of reforms that otherwise would not have been implemented. In effect, the RRF introduces a new positive conditionality in European economic governance. The CSRs conditionality attached to the RRPs pushed MSs to put in place reforms for which there would otherwise be insufficient political capital. Predictably, as observed above, the effectiveness of the RRF in supporting reforms is greatest in those countries that are the largest beneficiaries of the RRF envelope. By contrast, in other MSs, the reforms introduced with the RRF are not of the same magnitude. For instance, in Austria and the Netherlands, the reforms included in the plans were either already foreseen in the government coalition programme or introduced only relatively minor changes.

The Group of high-level specialists on the future of Cohesion Policy established by the Commission, which reported on 20 February 2024, dedicated two of its nine meetings to further investigation of the functioning of the new conditionality mechanism introduced for the RRF. Huguenot-Noël (2023) observes how the CSR-related conditionality introduced by the RRF is a step in the right direction compared to the previously existing macroeconomic conditionality or the ex-ante conditionalities (now enabling conditions) linked to Cohesion Policy.

What distinguishes the conditionalities attached to the economic adjustment programme put in place after the global financial crisis, is the high degree of national 'ownership' of the RRPs. Overall, as Corti et al. (2023) show, Member States applaud the positive and constructive dialogue with the EC in the phases of preparation and implementation of the RRPs. Some countries claim that the RRF introduced a demand-driven system, which has implied a huge effort of coordination and engagement of the different administrative levels in drawing-up reforms and investments, but at the same time increased political ownership significantly. Together with ownership, a second explanation for better compliance with CSRs under the RRF compared to the CP ex-ante conditionalities is the centralization of planning – especially reforms – which increased the efficiency of RRF governance. However, while a high degree of centralization in the governance of RRP assures a more successful capacity to implement reforms linked to the CSRs, there are some concerns and inefficiencies when it comes to investments, especially when these involve local and regional authorities (Eurofound 2022 and 2023).

b. The limits of the RRF performance indicators: M&Ts and common indicators

One of the most discussed, even defining, features of the RRF is its performance orientation, notably the use of the milestones and targets and their capacity to track the results and the impacts of the related investments and reforms. Yet, both Darvas et al. (2023) and the ECA (2022c) point to the fact that the RRF Regulation – as observed above - does not require the achievement of results, i.e. broader

[12] The European Commission guidance to Member States on how to draft the RRF plans explicitly refers to the fact that 'Member States should look at the full set of country-specific recommendations addressed to them by the Council, in particular under the 2019 and 2020 Semester cycles' (see page 8).

and enduring effects of reforms and investments, but instead "*measures of progress towards their achievement*" (Art. 2 of the RRF Regulation).

As a result of this lack of clarity on the type of indicators for milestones and targets, there are major differences in defining milestones and targets across national recovery plans. This is considered to be an obstacle to assessing how milestones and targets translate into successful implementation of reforms and investments. The ECA, for instance, stresses that the lack of a harmonized approach in defining milestones and targets affects comparability across MSs and poses a risk of unequal treatment. For Darvas et al. (2023), the lack of a consistent use of result indicators is a missed opportunity to exclude projects lacking immediate usability (e.g. roads to nowhere).

In support of its claim, the ECA assessed the milestones and targets in six countries (Germany, Greece, Spain, France, Croatia and Italy), and found that most of them are output-oriented. Additionally, at least half of the sampled RRPs also incorporated input indicators, which typically involved the allocation of a specific amount of funds, as seen in Germany, Spain, and France.. Similarly, Darvas and Welslau (2023) analysed the targets set out by the five largest EU countries and Romania, and put them into three categories (inputs, outputs and results). Like the ECA, they observe that there is still heterogeneity across MSs in the types of indicators used to track the targets. The results show that France, Germany and the Netherlands adopted very few results indicators (respectively 3%, 7% and 6%), Italy, Finland and Romania have a larger share of result indicators (19%, 17% and 15% respectively), while Spain is somewhere in the middle (10%).

In Special Report 26/2023, specifically dedicated to the performance monitoring framework of the RRF, the ECA (2023b) further observes that despite M&Ts being generally suited to measuring progress in the implementation of reforms and investments, their level of ambition varies and the fulfilment of a measure is not always captured consistently. The ECA also observes that the description and the details regarding M&T in the Council Implementing Decisions is different compared to the description of the same M&Ts in verification mechanisms defined in the Operational Arrangements[13] (OAs) signed by the Commission and the Member States. Contrary to the CIDs, however, the Operational Arrangements are not part of the documentation used by the Commission to assess M&Ts.

Other authors look into the differences between the objectives set at the EU level in the CIDs, and those set at national level. For the Italian RRP, Corti and Ruiz de la Ossa (2023) observe that different targets have been set for the investments in Early Childhood Education and Care and Public Employment Service. In both cases, at national level, the objectives are set at regional level since the aim of the measures is to address territorial inequalities in service provision. As they note, Italy could well be compliant with the targets agreed with the EU institutions and defined in the CID, but not with targets set at the national level, raising doubts about the level at which the attaining of milestones and targets effectively tracks the achievement of results.

While the criticisms illustrated above are valid, the choice of input and output indicators for milestones and targets can be construed as logical for national governments[14]. Since decisions on payment

[13] OAs are agreed after the CIDs by the EC and the Member States. They are technical documents, detailing aspects of the implementation such as timelines, indicators for the milestones and targets, and access to underlying data.

[14] The Guidance of the Commission to Member States on the RRF plans' preparation explicitly invites Member States to select M&Ts' indicators that are output rather than result oriented: *Milestones and targets should be clear and realistic, and the proposed indicators relevant, acceptable and robust. They can reflect different stages of the implementation of reforms and investments, either based on input indicators (e.g. resources provided, which can be financial, human, administrative) or preferably output indicators (e.g. number of workers trained, numbers of renovated schools). Overall, it is important that milestones and targets remain within the control of the Member State and are not conditional on external factors such as the macroeconomic outlook or the evolution of the labour market. Impact indicators (e.g. decrease in the number of unfilled vacancies in the IT sector) should be avoided given the unpredictability of such indicators and their dependence on other factors outside the control of the Member State'* (p. 34).

requests are linked to the fulfilment of milestones, it makes sense for national governments, who are ultimately accountable for the implementation of milestones and targets, to commit only to something under their control. Put differently, if you want to hold governments accountable for the implementation of investments and reforms, you cannot make them commit to results that, by definition, cannot be fully under their control.

The fact that some Member States included in their plans more ambitious M&Ts (i.e. results or impact indicators, rather than outputs) is a free choice and not a shortcoming of the RRF. Critiques of the difference between the ambition of the M&Ts agreed upon with the Commission and those set at national level (Corti and Ruiz de la Ossa, 2023) are valid, but not at odds with the narrow scope of performance in the RRF context in line with the definition of M&T provided therein. Nevertheless, concerns remain about the comparability of the indicators and therefore in terms of equality of treatment of Member States when the fulfilment of M&Ts is assessed.

However, problems associated with common indicators cannot be ignored and feature in several critiques. The European Court of Auditors (2023b) observes that the RRF's outputs and results are not fully captured by the 14 common indicators, although these are clearly defined. Some indicators are highly specific, such as the creation of alternative fuel infrastructure, while others are broader, like the number of users utilizing new and improved public digital services. Furthermore, while the common indicators are intended to gauge advances made towards the objectives of the RRF, they only partially cover both the general and specific objectives of the Facility (not all the policy areas are covered).

As observed by Corti et al. (2023), the common indicators have been criticised by most of the Member States since they do not capture the effect of reforms and investments. According to MSs, there is no explicit link between the RRPs' measures and the information reported in the common indicators, which therefore have a relatively low added value. According to the ECA, contrary to the common indicators in the cohesion fund-specific regulations, the RRF ones do not have associated targets and are not systematically linked to each RRP pillar. This diminishes their contribution to reporting on the progress of the measures in the plans and their monitoring and evaluation.

c. Administrative burden and the cost-justification approach

The introduction of the RRF and the shift towards PB was presented as a shift away from the cost-justification approach, and was expected to bring more flexibility and lessen the administrative burden. Instead, the evidence suggests an increasingly more complex instrument with burdensome procedures to be followed, leading to inefficiencies. Corti et al. (2023) identify four layers of administrative burdens related to: 1) the assessment of milestones and targets; 2) modifying plans; 3) the reporting requirements; and 4) the audit and control systems.

With respect to the assessment of milestones and targets, the Commission Communication of February 2023 (European Commission, 2023c) explains that it relies on their description set out in the CIDs as well as the *context and purpose*. The Communication further explains that in a limited number of circumstances and in line with the application of the *de minimis* principle, minimal deviations linked to the amounts, formal requirements, timing or substance can be accepted. Nevertheless, Member States still express some concerns. They criticize the increasingly demanding requests for justification documents on the fulfilment of milestones and targets, as well as the excessively rigid interpretation by the Commission of the milestones and targets without proper consideration of the context and purpose. Such rigidity is a worry insofar as it decreases the level of ownership of the plans and creates dissatisfaction towards the instrument. It can also increase uncertainty regarding payment requests. Excessive flexibility and leeway in the judgement could lead to unequal treatment of Member States and could also decrease the predictability of policy implementation (Corti et al., 2023).

The same study shows that the process for revising plans is considered by a majority of MSs to be burdensome, slow and unnecessarily complex. Even though Article 21 of the Regulation clearly stipulates the procedures for amending plans, Member States cite avoidable administrative burdens. As an illustration, national governments point to the lack of difference between the procedures to introduce small as opposed to major changes in the recovery plans. Member States assert that a more flexible and faster approach could be envisaged for modifying plans, without necessarily requiring Council approval. Overall, Member States complain about the excessive number of procedures and justifications, increase the time for modification so much that it almost renders ineffective the modification itself, especially as the 2026 deadline for the RRF.

Unnecessary administrative burdens are also identified by Member States in relation to the need to report on milestones and targets, even if there is no payment request. Mandatory biannual reporting is foreseen by the RRF Regulation and is of key importance since it allows the Commission to monitor the implementation of the RRPs, potentially detect implementation challenges and engage in a dialogue with Member States. Yet some Member States which already submit two payment requests per year consider this additional bi-annual reporting to be redundant, because the same documentation has already been submitted to the Commission. Other criticisms of reporting from Member States focus on common indicators, felt to be an unnecessary administrative burden for the reasons given above.

A further subject of intense debate is the role of audit and controls. A large majority of MSs considered the opacity of the role of audits and controls at the EU and national level as the least effective aspect of the RRF. National coordination bodies complain in particular about the lack of clarity in the RRF regulation about the authority in charge of the audit and control, and the excessive documentation requested by multiple actors at the same time, which is considered inefficient and detrimental to the roll-out of the plans.

A related burden is the time spent by national authorities in providing justifications for the national and ECA controls and audits in addition to the ones already foreseen by the EC. In this respect, it worth stressing that both the RRF Regulation and the Guidance to Member States are clear in the definition of the audit and control responsibility of the Member States and the Commission. As said above, the role of the ECA is not defined in either the RRF Regulation or the EC Guidance. The RRF Regulation only foresees a general reference to the possibility for the ECA to use the information and monitoring system within their competences and rights.

d. Data quality and monitoring arrangements

As explained above, the FENIX system set up by the Commission to collect data on M&Ts and common indicators, is used for monitoring and control purposes by the Commission, as well as for reporting in the RRF Scoreboard. Overall, as reported by Corti et al. (2023) as well as the ECA special report 26/2023 (European Court of Auditors, 2023b), FENIX is widely appreciated by Member States and considered both efficient and user-friendly. For data collection, Member States themselves put in place IT systems. The Commission country desks oversee the assessment of milestones and targets and the information provided by the countries. The Commission also has a specialized control and evaluation unit for conducting retrospective audits of M&Ts, in addition to performing systems audits and verifying data collection systems of Member States.

The ECA (2023b) praised IT systems as well as the governance and control structures for the RRF, especially in light of the short timeframe for establishing them. The Court finds that the monitoring and auditing are appropriately carried out by the Commission, but queries the reliability of the data collected at Member State level. Notably, the ECA raises concerns about reliability due to the high level of data aggregation, which involves several authorities (mostly local and regional in the case of investments) and multiple final recipients. It also observes that the transmission of data is done automatically in some Member States, while in others it is done manually, with the latter less accurate.

The Commission ex-post audits in some countries found some errors in first-level checks on the data collection and verification mechanisms, thus pointing to some inefficiencies at Member State level. Such inefficiencies are identified especially in countries that perform the checks on the reliability and accuracy of data after submitting the payment request to the Commission. Since the RRF Regulation and the guidelines place obligations on the timing of performing these checks, there is a risk that M&T errors will only be identified at a later stage. To avoid any possible problem ex post, as highlighted by the ECA in Special Report 26/2023 (European Court of Auditors, 2023b) and by the Commission in its reply to the same report, national authorities are encouraged to perform ex-ante check on the reliability and accuracy of data on milestones and targets to be included in payment requests.

Concerns on data reliability also arise for the common indicators. The Commission does not require supporting evidence or explanation on self-reported data from Member States since no payment is linked to the common indicators. As the ECA (2023b) observes, this creates risks around data reliability and comparability across Member States and could undermine the usefulness of these indicators for monitoring RRPs. In addition, a large proportion of the data reported so far on common indicators is estimated and not actual data, accentuating concerns about the comparability of the data provided. The ECA observes that "*two types of estimates are used by Member States. The first type is made when data is available but not considered final. The second type is made when data neither is nor will be available and the Member States use an approximation methodology to come up with figures to report. The second type is more prominent in disaggregated data*" (ECA, 2023b - p. 31).

Neither data on actual expenditure nor estimated expenditure related to the RRF is reported at European level by Member States. The Commission does not report on this information in the Programme Statements, which serve the purpose of furnishing details regarding the financial implementation of the RRF and the progress made in attaining its objectives. These statements play a crucial role in the adoption of the Union's annual budget and the discharge procedure. Conversely, the Commission reports figures related to the RRF contribution to the six Pillars objectives, which however are considered as significantly problematic (European Court of Auditors, 2023b - paragraphs 78-80).

2.3. A comparison between performance budgeting under the MFF and the RRF

Based on the description provided above of the functioning of performance budgeting under the MFF and the RRF, they clearly have two different approaches. Using the categories identified in section 1 of this study, the MFF can be classified as managerial performance budgeting because the information on performance is used to adapt the programming of the EU budget. By contrast, the RRF is an example of fully-fledged direct performance budgeting where the resources are tied to outputs. This difference is reflected in all the dimensions of performance budgeting examined.

To monitor performance, both the MFF and the RRF include programme specific and common indicators. For the former, the comparison shows two very different systems. The performance indicators under Cohesion Policy are programme-specific and aim to measure the performance against the general and specific objectives of the programmes. By contrast, milestones and targets are indicators tailored to the specific reform or investment in a national RRP, which means that they are not directly related to any objective of the Facility.

In the MFF, there is a clear link between the overall funding objectives and the indicators monitored, while this is only indirect in the RRF where the link between reforms/investments and objectives is assessed by the Commission and the Council in the approval phase of the plan. Regarding the common indicators, there is a certain degree of overlap in terms of type of indicators. Yet the list of 14 common indicators under the RRF is not directly comparable with the much wider battery of common result and output indicators for Cohesion Policy, characterised in addition by a consolidated practice in its use. Moreover, under the RRF performance is mainly measured through milestones and targets and the purpose of the common indicators is to monitor the progress of the Facility as a whole (not of single national plans or single measures) towards its general and specific objectives.

Differences in types of indicators are also reflected in their different uses. On the one hand, the RRF embraces a financing not linked to costs approach with the fulfilment of performance indicators (milestones and targets) being the condition for funding disbursement. By contrast, CP performance information is to be used only in the mid-term review to assess the programmes' progress up to 2024 and decide on the allocation of the commitments for 2026-2027. Regarding the common indicators, for both the RRF and CP the information is used to inform on the progress of the implementation of the measures towards the objectives (as noted above).

Several doubts have been raised about whether the common indicators can actually monitor progress towards the objectives. According to the ECA, contrary to the common indicators in the cohesion fund-specific regulations, the RRF ones do not have associated targets to be achieved and are not systematically linked to each RRP. This diminishes their contribution to reporting on the progress of the measures in the plans and their M&E. Similar concerns on the common indicators have been highlighted in the RRF Mid-term evaluation, where common indicators are indicated as an unnecessary administrative burden (Corti et al., 2023).

Differences between the MFF and the RRF in monitoring are significant. Over the years, the Commission has actively encouraged and assisted Member States in the creation of an elaborate data reporting system for Cohesion Policy. This system encompasses not only information on the progress of expenditure and the distribution of funds by themes and geographical areas, but also various aspects of the implemented operations. The MAs of each programme are responsible for providing detailed information on the operations, which is then made accessible to the public online. In certain instances, national authorities may also offer lists of operations that include additional information beyond what is required by the CPR.

Data are reported 5 times per year which allow for continuous monitoring. By contrast, the monitoring under the RRF solely concerns milestones and targets. A report recently published by the ECA highlighted possible weaknesses in the monitoring of the RRF spending, leading to insufficient information for performance measurement. In particular, the report states that "*although the existing system helps to track Member States' progress towards the reforms and investments they agreed upfront in exchange for funding, it fails to provide a full picture of how the funded projects contribute to the RRF's objectives, such as making the European economy greener and more resilient*" (European Court of Auditors, 2023c).. Another drawback of the RRF monitoring system is the unclear geographical allocation of funding, since there are still no harmonised data by region (Bachtler and Mendez, 2023).

The RRF evaluation system includes only a mid-term and an ex-post evaluation conducted by the Commission. Conversely, within the MFF framework, apart from the mid-term and ex-post evaluation conducted by the Commission, Member States undertake evaluations of programmes based on an evaluation plan. By international standards, the EU's Cohesion Policy (CP) evaluation system is well developed and institutionalized. At the same time, several gaps persist in the system of evaluations of CP. The fact that CP has multiple objectives – some spatial, some related to EU-wide strategic goals – is a significant limitation on the evaluation of performance. Disparities in the level of development of evaluation practices are also evident across different Member States. Frequently, a suboptimal situation prevails, marked by limited capabilities, inadequate methodologies, and a rigid adherence to formalistic evaluation processes.

Among the actors involved, the role of the Commission is relatively similar in CP and the RRF. In the MFF, during the drafting process, the Commission verifies that EU priorities and objectives set *ex ante* in the Management Plans are duly incorporated into the several programmes planned by single Member States. The Commission also formally approves the adoption of the programmes. A similar procedure happens with the RRF where the Commission assesses the plans and their compliance with objectives. Yet for the RRF, the formal approval of the plans is in the hands of the Council, as well as any modification of the plans. In the implementation phase of CP, the assessment made on the Annual Management and Performance Report prepared by the Commission plays a central role in appraising the level of progress achieved by the single projects and their alignment with the stated objectives. For the RRF, the Commission again plays a key role in approving the disbursement requests by Member States, but – again – it is ultimately the Council that approves.

The role of the European Parliament in the two performance-budgeting systems is also different. For CP, the EP submitted to the Commission "general guidelines for the preparation of the budget" and, once the EU budget is adopted, its scrutiny role comprised the exclusive right to grant discharge of the budget. In doing so, the EP has not only to verify spending accuracy, but also to examine the soundness of financial management and the achievement of performance objectives. For the RRF, the Parliament is informed by the Commission about the attainment of milestones and targets progress on the common indicators. The regular dialogues are an occasion to exchange views with the Commission, but the Parliament cannot use the information on performance to influence the implementation of the plans. Similarly, the ECA is only informed on progress in implementing the RRF, even though the Court interpreted its role as more involved especially in the audit of the payment requests.

To sum up, even though similar terminology on the performance-based approach is used for both Cohesion Policy and the RRF, in practice they differ radically, and the in-depth analysis of their concrete functioning further confirms the differences. Table 2 summarises the key characteristics of performance budgeting under the two instruments.

Table 2: Comparative assessment of performance budgeting under the MFF and the RRF

	MFF 2021-2027	RRF
Indicators	Performance indicators and their framework defined, as is the methodology for the establishment of the performance framework. There seems to be a time focus (milestones to be achieved by 2024 for output indicators, targets to be achieved by the end of 2029 for output and results indicators)	Milestones and targets. Common indicators.
Monitoring	Transmission of financial data 5 times per year, annual review meeting, final implementation report. Mandatory publication of all information and data.	Common indicators Social Expenditure methodology for reporting social expenditure (Delegated Regulation (EU) 2021/2105) Transmission of data twice a year within the Semester on M&Ts

	MFF 2021-2027	RRF
Evaluations	No obligation to conduct an ex-ante evaluation by MS. MS obliged to finalise by end-June 2029 an evaluation for each programme to assess its impact. COM to conduct mid-term evaluation and by end-2024 and a retrospective evaluation by end-2031.	Evaluation is implicit in the payment request where the EC assesses the satisfactory fulfilment of milestones and targets). RRF Mid-term and ex-post evaluation also foreseen.
Use of performance information	Flexibility amount of 50% of 2026 and 2027 allocation, upon assessment by March 2025 of challenges identified in CSRs, progress in implementing National Energy and Climate Plans (NECPs) and European Pillar of Social Rights, socio-economic situation of Member State and regions, result of evaluations and implementation progress	Financing not linked to costs. Performance-based milestone and targets financing.
Role of the European Commission (planning phase)	Management Plans which show the actions and outputs for the year ahead, reflecting the priorities set in the State of the Union address and in the Work Programme.	Commission shall assess the relevance, effectiveness, efficiency and coherence of the recovery and resilience plan, taking into account criteria which it shall apply in accordance with Annex V of the RRF Regulation
European Commission (accountability phase)	Integrated Financial Reporting Package, in particular the Annual Management and Performance Report, which includes separate sections on performance and results and on management achievements May review Common Strategic Framework if changes are made in the EU strategy.	Approval of the disbursement requests based on fulfilling milestones and targets Annual report Review Report
European Parliament (BUDG and CONT committees)	Ex-ante role in performance budgeting is limited ("general guidelines for the preparation of the budget") Parliament has a strong role in budget scrutiny and accountability (subjecting the annual accounts and other accountability reports from the Commission to scrutiny, and by deciding whether or not to grant the discharge Parliamentary scrutiny across the budget cycle is not fully connected	European Parliament is required to discharge the NGEU grants, including for the RRF. Informed via Recovery and resilience dialogue, Review Report and Annual report
Council of the EU	The Council is strongly engaged in financial aspects of budget approval Council submits ex-ante guidelines to the Commission at an early stage of the cycle, to inform budget preparations. Budget responsiveness to results information is very limited	Approval of the proposal for implementing decisions on plan amendments and of the disbursement requests Informed via Review Report and Annual report
European Court of Auditors	ECA takes a systematic and thorough approach to assessing the qualitative aspects of budgeting, including the performance dimension The ECA annually conducts two types of audits based on international audit standards: Statement of assurance audits, Performance audits	ECA uses the information and monitoring system within their competences and rights

Source: own elaboration

3. CONCLUSIONS

Managing public expenditure effectively is a key priority for governments concerned not only to ensure the probity of spending, but also that it fulfils the expectations of policymakers. To this end, performance-based budgeting and mainstreaming have become valuable tools for ensuring that the results of spending conform to these expectations. For the EU as a budgetary actor, and specifically for the European Parliament as one arm of the budgetary authority, the application of these tools is of growing interest.

In some respects, as the OECD has acknowledged, the EU has been a leader in adopting PB. A far-reaching shift towards performance budgeting was initiated during the 2014-20 MFF (although elements of the approach had been in place in previous decades), primarily for Cohesion Policy. Recipients of funding were required to monitor the outputs and results of investments and use indicators to report on progress. The approach was refined for the 2021-27 MFF, partly in response to concerns about the administrative burdens.

The RRF brought in a stronger form of PB by linking disbursements to the attainment of milestones and targets set out in plans submitted by governments, something not hitherto applicable to Cohesion Policy, although the progressive strengthening of PB under Cohesion Policy is noteworthy, and there is continuity in how PB has been adopted for the RRF. In other respects, the RRF approach introduces important innovations which, while building on the experience of PB in the CP, manifestly go further. If the RRF approach proves its worth, it could pave the way for more ambitious use of PB in future EU budgets.

In principle, PB requirements provide strong incentives to design better programmes and to ensure they are implemented. They also enable national administrations to increase their leverage in advancing structural reforms, a facet of PB sometimes given insufficient attention. This latter effect is most pronounced when the inflow of funding is larger, because the political and economic costs of failing to obtain the funds can be substantial. However, attention needs to be paid to what happens in practice. Some of the evidence collected for this study suggests that there can be systematic difficulties. For example, it is harder for governments to exert control over investments that involve other stakeholders, including sub-national governments and agencies, as opposed to reforms they decide on themselves.

The connection with recommendations emanating from the semester process is also salient, albeit applied in different ways for Cohesion Policy and for the RRF. This form of conditionality has the potential to induce governments to take these recommendations more seriously than in the past, and early indications are that this is happening in response to RRF conditions. Whether this will continue and possibly be strengthened for Cohesion Policy, where performance information will be used in decisions on the second round of funding allocation, based on a review, is an open question.

Trade-offs characterise the use of PB in the EU setting, sometimes affecting how resort to the approach is perceived and implemented. A first is whether the administrative burden associated with generating the required information is commensurate with the benefits obtained. The evidence on the demands on recipients suggests too much was required in the 2014-20 MFF, but that a better balance was struck in the current period. The range and usefulness of indicators is another tricky trade-off. Many prospective result indicators only become available with lags, while more timely indicators can be too broad to be useful. Common indicators are subject to differences in methodologies for data collection, making aggregation at EU level problematic.

There are also questions around whether the same or very similar indicators make sense for both the RRF and Cohesion Policy, currently subject to different systems. The financing not linked to costs approach of the RRF is consistent with more elaborate forms of PB, but would entail new mechanisms to be applied to Cohesion Policy. In the preparation of the next MFF, examination of such issues will be important.

While PB is regarded as a defining feature of the RRF, its effectiveness may be in doubt for various reasons. First, as explained in section 2.2, milestones and targets have the undeniable incentive property of inducing recipients to meet these goals. However, duplication of reporting emerges as a difficulty, highlighting concerns about administrative burdens.

There is, too, a debate about whether relying mainly on 'output' variables (even, as revealed above, sometimes only input measures) is sufficient or should extend to assessment of 'results' if the full benefits of the PB approach are to be realised. To assist stakeholders (including the European Parliament) in using feedback on performance to influence changes in policy approaches PB (in line with the more ambitious objectives of PB explained in this study), at least some information on results is likely to be helpful. Further analysis will be undertaken in the second phase of the overall study to examine the potential as well as the implementation challenges that this may imply. The EU has also used mainstreaming to influence how money is spent in its largest expenditure programmes. Thus, under Cohesion Policy, recipients were required to earmark at least 20% of receipts to projects contributing to climate action during the 2014-20 MFF, and this ratio was increased to 30% for the current MFF. Similarly, mainstreaming of biodiversity goals has become a factor in funding for the agricultural sector and the rural economy. Most tellingly, money disbursed by the RRF has to meet stringent targets related to the twin transitions: respectively, a minimum of 37% for 'green' projects and 20% for 'digital'.

However, in relation to gender mainstreaming, its direct influence on EU spending is hard to judge and the scepticism express by the ECA about this is noteworthy. There is, moreover, a more qualitative focus to gender mainstreaming, reflecting values, such that its influence on EU spending is more diffuse. It is, nevertheless, a dimension of EU budgeting where fresh thinking would be valuable The ECA casts doubt on whether digital aims are pursued as rigorously as implied by being mainstreamed.

Whether the European Parliament is able to benefit from the shift towards both mainstreaming and PB is another open question, not least in relation to the scope for rising to the challenge of using PB information to influence policy development, as envisioned in the rationale for the approach. For Cohesion Policy, the evidence is encouraging. The Parliament (and the Council) has been able to debate the contribution of Cohesion Policy to wider EU goals, making use of performance information, but not all relevant information is debated. Nevertheless, the role of the EP's CONT committee has manifestly been enhanced, although an obvious challenge is to make the scrutiny by the EP still more systematic.

Clearly, the position is far less satisfactory for the RRF, for which the EP is to be informed and has opportunities to invite the Commission to comment. However, not having any formal role in key decisions, such as approval of plans, disbursements and suspension of payments is problematic, and the contrast with the Council – recalling that it is the other arm of the budgetary authority – is striking. The limited role of the Parliament in the legitimation of the RRF is recognised and partly reflects the temporary nature of Next Generation EU. But even abstracting from this wider political worry, the scope for the Parliament to use performance information to engage in policy development is likely to be diminished by being on the sidelines of decision-making. How the Ukraine Facility evolves and is implemented, now that it has been approved, could be an interesting test case.

Audit is a further dimension of the RRF in need of attention. Some ambiguity about responsibilities as between the ECA, the Commission in its surveillance role and national audit bodies emerged during the first three years of the RRF implementation. This not only leads to a risk of blurring accountability boundaries, but also affects the administrative burden of dealing with the PB approach.

The second phase of this study – due to be completed before the end of 2024 – will provide an in-depth analysis of mainstreaming, a comparative assessment of PB in Cohesion Policy and the RRF, and of the administrative burden associated with the approach. To illustrate the challenges of PB and probe further into implementation, case studies will be undertaken of recipients of funding from both Cohesion Policy and the RRF. The role of the European Parliament as a budget and discharge authority will be examined and the study will be completed with conclusions and recommendations. The latter will pay particular attention to the role of the EP.

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Performance-based budgeting has latterly become integral to the governance of EU spending. This study looks at the principles behind this approach and explores how it is being implemented in Cohesion Policy and the Recovery and Resilience Facility. The analysis reveals marked differences between how performance-based budgeting functions in these two frameworks and sheds light on both benefits and drawbacks in their implementation. implementation.

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