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PROFEEDBACK POLICY BRIEF

ANALYSING FROM A POLICY EVALUATION STANDPOINT THE EUROPEAN STRUCTURAL AND INVESTMENT FUNDS (ESIF) COHESION POLICY AND THE RECOVERY AND RESILIENCE FACILITY (RRF)

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This Policy Brief was prepared in the context of the PROFEEDBACK COST Action (PlatfoRm OF policy Evaluation community for improvED EU policies and Better ACKnowledgement), which aims at fostering the networking of the policy evaluation community at EU-level, raise awareness on the importance of evaluation policy research and improve its impact on policymaking. It was prepared by a Task Force composed of Prof. Lena Tsipouri (Chair), Gábor Balás (PROFEEDBACK Coordinator), Prof. Jaroslav Dvorak, Olha Krasovska, Dr. Oto Potluka, Dr. Oliver Schwab, Kalterina Shulla. The members of the Task force prepared a questionnaire, which was sent to all PROFEEDBACK members to get information from as many Member States as possible, and organised a Workshop on 19 September 2023 in Brussels, which was attended by policy officers from the European Commission, the Court of Auditors and the Economic and Social Committee.

Introduction

The Ninth European Commission *Report on economic, social and territorial cohesion* emphasises that "New methods will have to be embraced, focussing even more on performance and results ... for European regions to reach their full potential"[1]. Positive experiences from implementing the ESF and ESF+, which adopted some elements of performance-based delivery, as well as insights from the mid-term evaluation of the RRF[2], offer valuable lessons for future EU regional development instruments. Building on these observations, this Policy Brief aims to examine the expected effectiveness, efficiency, and impact of two key instruments: The new programme RRF, which ties performance-based funding to reforms and national commitments, and the established ESIF, which focus on place-based policies and the reimbursement of actual costs.

The ambition of this Policy Brief is to spark a discussion among European, national, and regional policymakers on how to evaluate support mechanisms during the current programming period, while also offering insights for structuring future

[1] Inforegio - Ninth Report on Economic, Social and Territorial Cohesion (europa.eu)
[2] COM (2024) 82 final, 21.2.2024.

regional development policies. The differences and similarities between these mechanisms are examined from two interconnected perspectives:

a) how their characteristics influence the design of their evaluation and
b) their anticipated impact on the economic and social development of both Member States and the European Union as a whole.

Both funds share a common objective: fostering not only economic growth but also social inclusion and sustainability across European Member States. Additionally, ESIF carries a specific mandate for territorial cohesion. Despite their shared philosophy of adopting effective and flexible development plans for allocated funds, the two instruments differ in design, requirements, and how payments are distributed.

RRF versus ESIF in terms of funding and governance

The concept *Performance-based funding* (PBF) is being applied in public financial management, having been tested in national health and education policies as well as by the World Bank in development projects. In these contexts, various performance metrics are employed. PBF represents a significant shift from traditional approaches, as success is no longer measured by individual project spending and cost audits. Instead, it focuses on achieving reforms and projects agreed upon at the start of the programming period, with progress assessed through commonly defined developmental milestones and targets.

Reforms typically fall under national jurisdiction, leading to negotiations dominated by national administrations, which often overlook smaller-scale reforms implemented at the sub-national level—especially in federal Member States. This usually implies funding larger projects of national interest. The mid-term evaluation of the RRF, along with insights from the PROFEEDBACK community, suggests that the centrally set milestones may have been overly ambitious, and difficulties in reform adoption have delayed payments already allocated for specific projects. Furthermore, because payments are tied to bundles of milestones and targets, delays in one area can slow down entire groups of projects. In several Member States (Germany, Greece and Hungary are indicative cases) regional authorities have reported concerns, because they feel excluded from the planning process and receive limited information on the progress of the RRF.

Conversely, *Cost-based funding* (CBF) also known as *Payments based on Actual Costs* is the traditional model used universally for public funding. This approach involves reimbursing beneficiaries for the actual expenses they incur, provided these comply with the initial agreement. Beneficiaries are required to submit detailed records, undergo audits, and provide verifications. Final payments are made after project completion, once all costs have been thoroughly verified and approved. While this ensures precise allocation and use of funds, it also places a significant administrative burden on Managing Authorities and beneficiaries.

This method has been used by ESIF for decades to support programmes agreed upon by the European Commission at both national and regional levels. Over time, as the advantages of place-based policies became clear, ESIF increasingly empowered regional authorities - not only in federal countries but across Europe – in the process of priority setting and application of the Partnership Principle. Also, recognising the administrative challenges, ESIF introduced corrective measures during the 2021-2027 Programming Period to reduce these burdens by implementing simplified cost methods, such as Flat Rates and Financing Not Linked to Costs (FNLC). However, there was initial hesitation in adopting FNLCs, and the pilot programs identified by the Task Force encountered difficulties similar to those seen in the calculation of RRF targets.

Implications for designing evaluations

Evaluations are designed to determine the relevance, efficiency, effectiveness, coherence, and added value of interventions. Therefore, the evaluation frameworks for both the RRF and ESIF must be assessed not only based on their developmental objectives but also in terms of their respective governance structures, design, and funding mechanisms.

In ESIF, relevance is evaluated against national and regional priorities decided at the time the Partnership Agreement is signed. For effectiveness, the primary indicators are input and immediate output metrics, as it is almost impossible to measure longterm outcomes and impacts at the point of reimbursement (which occurs immediately after project completion). The emphasis on fund absorption and immediate outputs, combined with detailed initial planning (often with optional ex-ante evaluations), tends to favour projects with high maturity—though these may not necessarily be the most ambitious ones. Efficiency is assessed through cost-benefit analyses, with costs well determined by ESIF's implementation mechanisms. While these costs are well-defined, the benefits that can be captured are often short-term. Resilience and adaptation, which require the approval of Monitoring Committees, take time to materialise. The application of the Most Economically Advantageous Tender (MEAT) principle is the key tool used to ensure cost efficiency.

Conversely, in RRF, relevance is determined based on European Semester recommendations and national assessments, with regional authorities largely excluded from the decision-making process at the planning stage. Effectiveness is presumed to follow the adoption of the appropriate reforms. The focus for ensuring effectiveness shifts from managing individual projects to designing milestones and output indicators that are likely to lead to impactful and high-quality interventions and bundling them together using appropriate criteria. Efficiency is shaped not only by cost-benefit analysis but also by governance costs, which can be challenging to pinpoint, as they are often not explicitly allocated for the management of the RRF. However, resilience and adaptation are more straightforward, as adjustments fall under the responsibility of a single governing body, allowing for quicker modifications.

In a nutshell: the quality of preparatory work and evaluation methods, rather than the differences between the two models, ultimately determines the value of an evaluation. When planning is rooted in a well-constructed Theory of Change and appropriate evaluation tools are applied, both models can yield relevant indicators reflecting their respective results.

Initial ideas on relevance, efficiency, effectiveness and impact

Relevance for current and emerging needs: For ESIF, relevance is defined by compliance with national and regional priorities, with varying levels of regional involvement. In contrast, for the RRF, objectives are set by the EU under six pillars and further refined based on Member State shortfalls, as identified by the European Semester. The regional level is largely excluded. As a result, the RRF is more aligned with EU-wide and national challenges, while ESIF tends to be more relevant to regional and local priorities. This shift, however, annuls the merits of the Partnership Principle and place-based policies.

Effectiveness refers to meeting the objectives of an intervention. The RRF introduces long-awaited reforms that might not have been addressed otherwise. Its effectiveness depends on the selection and bundling of appropriate reforms, as well as a sound intervention logic. The problem is that the complexity of this task may exceed the capabilities of some Managing Authorities and beneficiaries. For ESIF, effectiveness is tied to the completion and success of individual projects and their integration into broader sectoral and regional programmes. Additionally, effectiveness is often measured by the speed of fund absorption and project implementation. RRF operates faster at the start, thanks to pre-existing ESIF plans, but may slow down if milestones are missed, delaying entire portfolios. Without the flexibility of the n+2 rule, the RRF is still expected to maintain a faster pace overall.

Efficiency evaluates the proportionality of costs to benefits assessing also administrative and adjustment costs and aspects of simplification. While both RRF and ESIF use cost-benefit analyses to evaluate their interventions, RRF is designed with simpler financial management and control systems, reducing administrative burden compared to ESIF. The centralisation of RRF audits streamlines oversight, while ESIF's 240 programmes make monitoring and evaluation more complex. However, early evidence suggests that the RRF faces unexpected delays in financial implementation, and rising interest rates increase the cost of RRF loans, unlike ESIF, which is directly funded by the EU budget, and thus has only an opportunity cost.

Coherence internally in each country and externally with other EU interventions or international agreements will, by definition, be higher internally in the case of ESIF yet higher externally in the case of RRF, where reforms and investments explicitly refer to EU initiatives. The differences may range from marginal to high, depending on the ESIF agendas and RRF agendas.

EU added value reflects results and impacts that go beyond what could have been achieved without EU intervention. For structural reforms under RRF, EU added value is expected to be high, as these reforms might not have occurred without EU pressure. Similarly, ESIF projects deliver significant value in their regions, especially when well-chosen. However, determining which reforms or projects will have a lasting impact requires careful evaluation on a case-by-case basis, there is no basic difference between RRF and ESIF.

In addition to the Better Regulation dimensions analysed above the ***Impact on intra-country territorial cohesion*** warrants special attention: Territorial cohesion is a core objective of ESIF, with evaluations showing that ESIF investments often, but not always, contribute to reducing disparities within countries. The first interim evaluation of RRF revealed mixed results regarding territorial cohesion and social inclusion. Some countries included territorial rebalancing in their RRF plans, while others did not. This suggests that while ESIF explicitly promotes intra-country cohesion, the RRF may risk recentralisation, potentially undermining the place-based approach that has proven so beneficial for certain regions.

Conclusions: a learning process is the best approach

Both ESIF and RRF have the potential to significantly contribute to regional development and cohesion if designed effectively. However, in reality, no design is perfect. Each approach presents notable advantages and drawbacks. ESIF's long-standing cost-based funding model, while ensuring a strong focus on place-based development strategies and merit-based project payments, cannot address resistance to change and tends to foster bureaucracy. In contrast, RRF streamlines bureaucracy and accelerates implementation, but it reduces the role of regional actors and risks delays due to overambitious initial milestones, which can block bundled projects at the end of a period. Despite these challenges, RRF offers a faster route to economic modernisation, only if milestones are realistic.

The Policy Brief proposes that future instruments could benefit from combining the best features of both approaches. One can learn from the other, or if RRF is discontinued, a combined instrument of regional development policy can incorporate aspects from both. The use of Financing Not Linked to Costs (FNLC) and simplified cost methods demonstrating how one instrument can modify its process towards adopting features from the other. An alternative idea is to apply one method over the other based on ESIF's Specific Objectives. For example, reforms related to Environment and Climate Change may be better suited to performance-based funding, while regional needs for Competitiveness could benefit from place-based planning, where local knowledge is crucial.

Critical preparatory work at both the EU and national/regional levels is crucial for successfully integrating these approaches and benefiting from coordinated planning. The "political economy of reforms" can draw important lessons from the evolution of both schemes. To enhance effectiveness and efficiency, ESIF take regional needs into consideration and strengthen partnerships with regions and municipalities, acknowledging the critical role they play. If a single instrument is adopted in the future, it would be advantageous to combine the best features of both approaches, leveraging their respective strengths.

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