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The RRF as administrative subsidiarity

'[are] societies of men really capable of establishing good government from reflection and choice, or [are]they forever destined to depend on accident and force'

Alexander Hamilton, *Federalist Papers*, No. 1, 1787

When the corona crisis broke out, it was clear that eurozone economies were ill prepared for new setbacks. Put differently, the SGP had failed to produce convergence. The RRF offers an opportunity to reconsider the effectiveness of economic governance and to strengthen national ownership for sound economic policies.

Despite its potential merits, the RRF was not designed to reinforce national institutions to monitor and correct their own economic policies. Creating the required ownership for sound economic policies would have demanded empowering the independent National Productivity Boards (NPBs) and Independent Fiscal Institutions (IFIs), and integrating them in a redesigned independent network-based European Fiscal Board (EFB). The failure in 2020 to include the NPBs, IFIs and the EFB also implies a major break with the Fiscal Compact, Two Pack and Six Pack that aimed at empowering national institutions.

The RRF concerns a major financial commitment and could thus have been used as bargaining chip to strengthen the long-term reform measures by insisting on a subsidiarity-based European monitoring and enforcement system, including mutual inspections, and build around the nascent macroeconomic independent national and EU agencies. Such decentralized systems have proved their worth in successful European policy areas such as in monitoring the state of the environment in member states. This will have consequences for the organization of the EU Commission.

Using the lessons from the RRF to (forget to) strengthen national institutions is also relevant for redesigning the SGP. Firstly, redesigning the NPBs, IFIs and EFB will offer a suitable model for monitoring national policies as a replacement of the current centralized control under the SGP by the Commission. Secondly, the future development of the RRF and NGEU can be used as bargaining chip in the negotiations on the SGP.

The review of the SGP will involve adaptation of rules, reinstating the ESM, and deciding on new emergency funds. The negotiations ahead offer opportunities and leverage for steering towards a pro-active and constructive role for the Netherlands in the elaboration of subsidiarity-based economic governance.

1. Central question: The RRF and national competitiveness

Will the RRF strengthen the long term competitiveness of member states?

The focus here is on the strengthening of national institutions to monitor the national competitiveness. This concerns in particular the extent to which the National Productivity Boards (NPBs) and Independent Fiscal Institutions (IFIs), and their European networks such as the European Fiscal Board (EFB) are activated and involved.

In the crisis situation of 2020, something had to be done fast to support economies during the covid crisis. Some member states were already weak and particularly vulnerable. Moreover, the internal market was threatened due to unequal abilities of member states to support their services and industry. Wrongly, successful European integration is thought to be “built through crisis”.¹ As a matter of fact, EU crises often turn out to be dangerously persistent (‘permacrisis’²) and EU responses ineffective (‘failing forward’). When crises do not result in effective economic governance, how to move beyond endless tinkering with instruments?

Put in a longer-term perspective, tinkering with EMU instruments already started with the Stability and Growth Pact in 1997 -even before the euro was introduced. Since then, economic instruments have been profoundly modified, elaborated, re-interpreted or shelved (e.g. the Lisbon Process, Fiscal Compact, the European Semester and the ESM). Overall, the measures have suffered from serious flaws in terms of national ownership and supervision. This can be linked to centralisation of supervision in the Commission and to a limited involvement of national supervisory bodies. Despite the event-driven hopes of finding solutions, the eurozone has not yet found a model for sufficient national ownership or effective control. From the USA we know that own

– state-level – supervision leads to more ownership.³

The current design of the RRF fits the pattern of centralised governance. What lessons can be drawn from this for modifications to the RRF and other revisions in economic governance? Examining the RRF is of interest for at least three reasons. Firstly, the question related to its direct objective is whether the RRF is designed to optimize the success of greening, digitalisation and reform projects, as well as to ensure that member states build capacities for *permanent* surveillance of economic competitiveness. Secondly, will the RRF strengthen national macro-economic institutions? Thirdly, the RRF offers opportunities to discuss possible lessons from well-established policy fields relevant for designing new instruments in emergency situations. The 2020 crisis situation will not be the last eurocrisis. Hence, it is important to formulate guidelines for good governance that offer directions for further negotiations.

For this study 25 interviews were conducted with officials, politicians and experts in Brussels and other capitals to collect views on the RRF. Interviews were also conducted with officials involved in the setting up and running of the European Environment Agency (EEA) in the 1990s to explore why the agency and its networks have been successful. Apart from insights into the views on the governance of the RRF, the interviews also produced unexpected insights into how the Netherlands was perceived in economic governance debates.

2. The RRF as governance challenge

The RRF and centralised control

The RRF will affect national policies and related institutions. However, the long term effects of the financial support is probably modest given the limited size of the RRF for most countries and because of the limited

1 Monnet, J. (1978), *Memoirs*, Collins: London p. 417.

2 [Europe in the age of permacrisis \(epc.eu\)](https://www.epc.eu/en/europe-in-the-age-of-permacrisis)

3 [essay_fiscfed:Essay_series.qxd \(bruegel.org\)](#)

effects on institutions necessary for long-term sound national policies.⁴ Importantly, the RRF is not used to create or reinforce national economic institutions – nor to strengthen national networks of economic supervisors. It is designed as centralised programme run by the Commission. The EU Commission is responsible for the programme, it goes to the capital markets on behalf of the member states, it distributes the money over member states in the form of grants and loans, and it monitors the quality and the implementation of the plans and reforms (milestones and targets).⁵ In case of delays, the Commission handles the requests for extensions and negotiates revision of plans when necessary. The Commission reports its assessments of national programmes to the Council for adoption. Hence, the RRF is not built around subsidiarity-based mutual supervision nor is supervision put at arms length of governments and EU Commission.

The national institutions of the member states involved in the projects and reforms are not monitored nor are the projects supervised in detail.⁶ Member states have to present the projects, including the specifications of objectives and milestones and the national governance systems to supervise the deliverables.

Outside the immediate focus on the RRF, financial control is also to a large extent centralised. Although member states hold wide responsibilities for the management

of the RRF projects⁷, the interviews show that national accountancy control is unclear and doubts exist about guarantees that the funds are spent properly. A complication concerns the ability of the Commission to assess progress and proper spending of agreed projects. In case of allegations of fraud, OLAF will investigate projects and the European Public Prosecutors Office (EPPO) may “investigate and prosecute” fraud in member states. OLAF is an ‘independent’⁸ Directorate-General under the EU Commissioner for Budget and Administration and operates with little involvement of the member states. EPPO is partly designed as a network organisation. EPPO acts as a partly centralised and partly decentralised agency (i.e. a half-way house – an only partly integrated network). At the national level European delegated prosecutors in each country carry out investigations, using national staff and operating on the basis of national law. However, if EPPO takes up an investigation, national authorities will stand back from making their own investigations. So, at the central level, EPPO has two types of takes: organisational (supervising and coordinating national prosecutors) and performing stand-alone investigations.

Complementing the RRF debate: Is the RRF designed as multilevel governance tool?

The fundamental question is: In assessing the RRF, what is a suitable *multilevel* governance model that will strengthen ownership for long-term national reforms? This is related to both pillars of the RRF: the institutional system for monitoring investments (‘recovery’) and for economic reform (‘resilience’).

4 <https://think.ing.com/articles/the-eu-recovery-and-resilience-fund-a-first-look-at-the-economic-impact>

5 The Commission assesses the justification for support in relation to the additional reforms and investments (Art 15), and whether the additional reforms and investments comply with the criteria set out in Article 19(3) (relevance, effectiveness efficiency, coherence).

6 Recital 18: “payments should not be subject to controls on the costs actually incurred by the beneficiary”.

7 The Commission assesses the justification for support in relation to the additional reforms and investments (Art 15), and whether the additional reforms and investments comply with the criteria set out in Article 19(3) (relevance, effectiveness efficiency, coherence).

8 The notion of ‘independence’ in relation to EU Commissioners is specified in the Treaties as seeking neither instructions nor take instructions from either EU or national authorities. However, when it comes the EU Commissioners, the political affiliations are widely discussed in the media and academic literature.

This Policy Brief takes a multilevel administrative perspective that is missing in the RRF studies already available. The RRF attracted considerable attention. The EU Commission underlined the need for an investment budget to address inequalities related to reforms.⁹ Positive comments concerned the contribution of the RRF to stabilising financial markets and preventing decline in public investments during the covid crisis. Others discussed the RRF as a vehicle for moving towards a fiscal union. Other feedback included the doubts about the position of the Commission to ensure effective control once the projects are up and running and milestones have to be assessed (see Annex I for a summary of the criticism on the RRF as currently designed).

The presentation of the RRF as well as its critical discussions so far, display a lack of awareness of how to design the RRF as multilevel enforcement system. Moreover, the limitations of centralised management systems in the EU have not been identified (or are deliberately ignored for reasons presented in Annex III). Contrary to the private sector, an awareness of the necessity to link strategy (policy) and structure is insufficiently developed as core component in EU negotiations. The structure of the RRF emerged in the wake of the broad-brush agreements in the European Council – not on the basis of systematic considerations.

It is the design of the RRF that determines the lasting effects on national institutions and the extent to which member states will be motivated to create and continuously update their own macro-economic institutions. National supervision and enforcement demands independent national agencies plus independent EU agencies that act as hubs in the networks integrating national agencies. Although the goal of the RRF is to, inter alia, strengthen economic governance, there has been no systematic consideration in the RRF for defining the necessary organisational roles and networks that tie national institutions together.

9 EU Commission 2020 *Understanding the political economy of reforms: Evidence from the EU*, Technical note for the Eurogroup, 3/9/2020.

The development of possible successors of the RRF can also be seen as a bargaining chip to steer economic supervision in economic governance (see Annex II). Importantly, the event-driven approach of designing the RRF underlines that the EU lacks a multilevel governance model off-the-rack.

The RRF departs from the Two a Six Pack

It has hardly been noticed in discussions that the RRF departs in major ways from principles in economic governance that have been formalised after 2011. The Two- and Six-Pack aimed at reinforcing national economic institutions by obliging the creation of national productivity boards (NPBs) and Independent Fiscal institutions (IFIs).¹⁰ These independent authorities aimed at enhancing national ownership for economic reforms (subsidiarity-based and depoliticised economic control). Their role is however only mentioned once in the RRF Regulation as a light suggestion to member states “to consult” their NPBs and IFIs.¹¹

10 The European guidelines on the creation of **National Fiscal Councils (IFIs)** emerged between 2011 and 2013 on the basis of the legally binding Six-Pack (specifically Directive 2011/85/EU), Two Pack (specifically Regulation 473/2013) and the Fiscal Compact (The Treaty on Stability, Coordination and Governance in the Economic and Monetary Union), formally concluded on 2 March 2012 and entered into force on 1 January 2013. IFIs were set up as “independent bodies or bodies endowed with functional autonomy vis-à-vis the fiscal authorities of the Member states” as part of the wider initiative of “strengthening national ownership” within the European Semester (Directive 2011/85/EU, Article 6 (1b) and EU Recital 1 (see also Recital 16)). In addition, the **European Fiscal Board** was created through a Commission decision (2015/1937; 21 Oct 2015); see also Five-Presidents Report (June 2015). The **National Productivity Boards** were decided upon in 2016 via a Council Recommendation (20 September 2016).

11 Recital 59 from Regulation 2020/241 states that “Member states should be encouraged to seek the opinion of their national productivity boards and independent fiscal institutions on their recovery and resilience plans, including possible validation of elements of their recovery and resilience plan.”

Similarly, a former innovation, the ESM as management centre for support programmes, has been replaced by the Commission. The stigma of the ESM is feared by weaker eurozone countries. Together with the set-up outside the ESM, the RRF can be seen as more than a temporary measure and as a step towards politicisation and centralisation of supervision.¹² It does not contribute to the line set out in the earlier reforms of economic supervision.

The RRF does address national policies and institutions at the level of sectors. The German and Italian National Reform Programmes (NRPs), for example, rearrange education policies between national and regional levels. Evidently, the NRPs involve multifaceted –complex– reforms: new personnel has to be hired, tasks have to be rearranged, new procedures created, public procurement procedures adapted, etc. The funds for the change processes – such as for hiring new qualified personnel – are temporary due to the nature of the RRF. Hence more permanent reforms and relocations of national budgets will continue to be needed once the RRF has run its course. Yet, the RRF and the NRPs do not concern national meta monitoring bodies (NPBs, IFIs and others) to strengthen the national competitiveness on a permanent basis.

3. The RRF as subsidiarity-based monitoring system

Involving of NPBs and IFIs will have consequences for the member states and the EU Commission (in particular for DG ECFIN and the RRF task-force under the Commission president). Working through the IFIs and NPBs involves shifting first line monitoring and control to the member states and shifting second order control to the networks for mutual assessments. Key elements for setting up an EU supervisory

system is to strengthen (see Annex IV for an elaboration):

- First order control: The independent and transparent monitoring systems at the national level (NPBs and IFIs). The value of the macro-economic monitoring agencies has long been recognised. They are assumed to play a role in the reformed SGP to allow for credible flexibility and to create national ownership for sound economic policies. Yet, it seems as if there are few ideas about how to use these bodies. A strategy is required for embedding them effectively in national as well as in EU decision making.
- Second order control: The networks of mutual control managed by an independent and transparent European agency, i.e. elaborating and changing the current European Fiscal Board (EFB). The point needs to be stressed that the role of the EU agency should, in line with the principle of subsidiarity, be limited to managing the network. The roles of the network are to design, implement and monitor standards and rules of procedures, to take care of team-based mutual inspections and to draft independent and transparent reports addressed to the EU Commission.
- The EU Commission has two roles: 1) it is responsible for the system (management role) and 2) taking member states to Court (legal role). The leeway of the Commission is however reduced as the underlying reports and recommendations from mutual visitations are transparent and publicly available. Following practices from US agencies, the Commission has to give reason why recommendations are not followed.

Importantly, the network cooperation and mutual enforcement by independent authorities, force national experts to develop the necessary professional values.

As managed system, such a federal system is more than an intergovernmental system. As multilevel system based on integrated networks and with a division of tasks between national and EU monitoring authorities, it consists of much more than loose intergovernmental cooperation

12 This shift towards politicisation should not be confused with the much-discussed transition from austerity to financial assistance.

between independent ('sovereign') member states. A subsidiarity-based network is also more than 'open coordination' because the network and its mutual control go far beyond soft coordination as depoliticised reports and recommendations are preliminary steps for going to Court. Also, the reports are not produced by member states themselves but are written by visitation teams. Moreover the Commission keeps its formal decision-making role. Yet, the Commission has to give reason why the reports from the independent first-order control are overruled. The network-based control offers several types of multi-level checks and balances: mutual inspections, independent reporting, and transparency of the input on the basis of which the Commission takes its decisions.

The EU strategy for strengthening the position of NPBs and IFIs presented here reflects the governance in successful EU policy areas where substantial national reforms have been implemented through national and EU institution building (see the case study of the European Environment Agency below).

4. The RRF analyzed

The application of the subsidiarity-based models shows the gaps in the design of the RRF. The RRF resulted from the pulling and hauling during highly political negotiations. There was no reference model for structuring European interdependence with a view to implementation, monitoring and enforcement. The interviews show that there is little familiarity with matching policies to structures and there was a simple but unsatisfactory idea that the Commission would supervise the RRF. Moreover, officials and politicians find it difficult to apply concepts such as subsidiarity, independence, networks, agencies, first and second line of control, and management role of the EU commission. The interviews also underline that the multi-level approach developed here could be useful alternative for the current organization of the RRF. The analysis will follow the distinction between first and second order control.

First order control

Strengthening national (decentralized) macro-economic capacities/agencies?

Despite its importance for offering direct support to national economies, the RRF has not been used to strengthen supervisory capacities in member states nor to build a European economic enforcement network. The assumption is that these bodies would be involved. Other than that, their use was given little thought. Given the financial means available for national preparation and management of the NRPs, the RRF could have been used for deepening capacity building.

Some interviewees however expressed their reservations concerning the elaboration of NPBs, IFIs and their networks either in relation the RRF or as European network components more generally (see Annex III).

Second order control

The RRF and European networks

The RRF has missed the opportunities to build EU networks. As a result, the RRF has not been used to build lasting *interconnected* national monitoring capacities.

The EU Commission (the task force under the President and DG ECFIN) has positioned itself at centralized manager and supervisor for the RRF and for the SGP. There is no spin-off in terms of network building. Basically, the Commission controls hands-on the plans of the member states. This implies that the Commission has taken over first order control and that there is no second order control (monitoring the national capacities for first order control).

There are nascent European networks of IFIs and NPBs but these have remained weak and informal in view of the major differences between these national bodies and in view of sensitivities between national and EU authorities. Moreover, although the EFB could be used as network, it has been given a stand-alone task not building on national NPBs and it is even located within the Commission.

The EU Commission as decision taker

The Commission is the centralized decision-maker with little transparency and – apart from the high level Committee in the Council – few checks and balances are in place.

The system has not been set-up to separate data gathering, analysis and decision-making by the Commission. As a result, transparency is an issue.

Similar missed opportunities for strengthening first and second order control were also noted in the interviews in relation to OLAF and EPPO. As ‘independent’ part of the Commission, OLAF is not a subsidiarity-based network organisation. Similarly, EPPO does not work in pan-EU teams.

Hence, by working through the Commission, OLAF and EPPO, the EU has missed major opportunities for strengthening independent agency-based European networks and related mutual quality control at member state level.

This also implies that member states gained little from the RRF to ensure that a more flexible SGP will be effective. The RRF could have created a basis for strengthening the ownership of the SGP.

5. European Environment Agency as administrative subsidiarity

Officials often noted that EU governance in their area is unique. This precludes drawing governance lessons across EU policy areas. Yet, from an analytical perspective, comparing governance systems is perfectly possible. In the early 2000s, the EU Commission had a horizontal office in the SecGen to support the development of governance systems and EU instruments. Guidance can be distilled from other policy fields.

Several major EU policy areas were able to get out of the dilemma of poor cooperation between member states and succeeded in setting up new structures for new

policy objectives. Despite the enormous economic, cultural and political sensitivities, monitoring the state of the environment in the member states (and hence at EU level) is an example of successful cooperation and integration. Annex IV offers an overview of the subsidiarity-based structure. The organisation of aviation policy, food safety, competition policy and the Schengen boarder evaluation mechanism have comparable structures with a European hub, a network of independent national authorities, negotiated rules, mutual supervision, transparent reporting, and partly communautory financing of projects so that national capacities are covered. The EEA, and the structures created in other areas mentioned, operate at arms-lengths from governments and the Commission. Reports and mutual supervisions are transparent and respect the distinctions between first and second order control, as well as between fact finding and trend analysis (the network) and policy making (responsibility of the EU Commission). Second order control (control on the quality of national authorities) is organised on the basis of mutual control, transparent reporting and the findings can have consequences for the financing of the participation in EU projects.

The important question is: why did subsidiarity-based structures emerge in the case of the EEA and in other policy areas, but not in economic governance (including the RRF)? Monitoring the state of the environment and of the state of national competitiveness are multifaceted and politically sensitive areas that needs continuous adaptations. The interviews reveal that EEA faced similar apprehensions as presented Annex III concerning the supervision of the RRF: the Commission wanted to remain in control (e.g. through budget and personnel decisions, appointment of director, work planning, limiting the remit of the EEA), member states had widely different systems and national capacities for monitoring the state of the environment, unfamiliarity with or dislike of independent authorities, bureaucratic politics (e.g. competition between the EEA, Eurostat and the Commission regarding the brief of the EEA). One of the worries was that technocratic conclusions of the EEA system would bind the hands of politicians.

Yet, the EEA was created and its ways of working are regarded as highly successful. Also the Commission, which was first apprehensive of independent monitoring and reporting, was quickly convinced that the independent EEA reports strengthened the hands of the Commission as well the credibility of Commission proposals and actions. Environmental transitions evidently remained far from easy but the transparent and well-regarded national and EU reports are important in the European and national political discussions and in the media. The success factors that result from reports and interviews with the officials involved in the establishment of the EEA include:

- **Timing:** Around the 1990s/2000s, the time was ripe for setting up agencies and networks. There was a search for 'new governance', for incorporating new (East EU) member states and capacity building was a major concern. The idea was still that member states should reform and control. East EU countries were keen to modernize and Southern member states were concerned about tourism and the state of their environment (quality of water, waste management). Moreover, the Commission was overstretched due to the upcoming enlargement and ambitious new policies such as environment policy so that new ways of working were explored including agency-based networks. Finally, the fall of the Santer Commission had triggered the search for new, transparent, policy instruments.
- **Leadership:** There was a group of key people from Northern countries – not in the least the Netherlands – wanting to produce broad, fact based, reports on the state of the environment, and to build a European governance structure based on existing capacities in the member states. Active steering during the early phases was facilitated through secondments from the Dutch counterpart (RIVM) in the EEA, and from the ministry for the environment in DG ENV. Denmark was keen to get the EEA established in Copenhagen close to the advanced Danish environment institutions. The resourceful 'leaders' from Northern countries were more or less by accident at the right place in the right time – it was the personality that made the difference.

Paradoxically, whereas advanced member states were actively involved and in the lead when setting-up the EEA, the strong member states are now not so keen to steer towards a well-organised European network when it comes to economic governance.

- **Funding:** The EU funds national hubs. This created a keen interest to cooperate (Topic Centres and the national bodies involved in projects). The funding also resulted in competition for being a topic centre. Environmental bodies wanted to put themselves on the map.
- **Negotiated order:** The network had to start with defining topics to be monitored (soil, climate, water quality, biodiversity, etc.), the statistics required, the methods for gathering data, and the creation of quality control systems. This negotiated network resulted in a strong involvement of –independent– national bodies (ownership).

The EEA therefore offers a comparison both in terms of structure and process of network building. The RRF is arising in a different era but conditions and timing may offer similar advantages: funding is available and there is a search going on for better economic governance (SGP reform). What the RRF lacks however is leadership.

6. Conclusions: using the RRF to support convergence

In its current form, the RRF contributed little to national capacities required to ensure long term trust in economic policies in the member states.

Political systems need checks and balances. Independent monitoring authorities are necessary to ensure credible and transparent information on trends, outlooks and performance. At EU level, the checks and balances should generally be located at national (first order control) and EU level (controlling the controllers – second order control). Moreover, credible monitoring depends on national and EU agencies located at arms-length of political decision making. Independent and transparent reporting also increases the legitimacy of

the Commission. The subsidiarity-based networks discussed above would help to ensure the development of national ownership for EU objectives and for building the required independent institutions. This framework helps to identify weaknesses in the RRF and economic governance more generally.

The case of the European Environment Agency shows that European enforcement networks can be effective. Working on the basis of a subsidiarity-based network, independent supervisory institutions (such as the national environment agencies) have been empowered and operate on the basis of mutual supervisory networks under the aegis of the EEA in Copenhagen. The reports produced are transparent input into Commission decision-making. This subsidiarity-based environment network is highly regarded.

The RRF was produced under considerable time pressure and the budget was decided without specification of the governance system. There is already quite some literature available on the functioning of the current RRF. However, little attention has been given to the functioning of the RRF as multilevel governance system.

Moreover, the Facility has departed from the line agreed in the Two- and Six-Pack to reinforce national institutions and reverted to centralised monitoring by the Commission. The distinction between first and second order control – essential for administrative subsidiarity – has not been pursued and is little understood. One of the major hinderances to reinforce the RRF lies in the fact that national and EU officials think in terms of policies (strategies) irrespective of structures. Moreover, officials and politicians tend to look with suspicion at independent enforcement systems, trust neither the Commission nor the member states, and are unfamiliar with multilevel structures in successful policy areas.

The study of the RRF as multilevel network results in various vistas for how to prepare for the revision of the SGP with a view to strengthening national and EU institutions for economic governance:

- Ensure that administrative subsidiarity is understood and accepted as basis for EU governance. Enforcement has to start from the principle of first and second order control. Realization is necessary that centralised monitoring and enforcement by the Commission is bound to fail for various reasons. Multilevel checks and balances are required.
- Improve the independence and transparency of data gathering and analytic institutions (NPBs and IFIs).
- Preparations for the redesign of the RRF and the SGP should start with finding like-minded countries when it comes to a subsidiarity-based elaboration of economic governance.

A final word on The Netherlands

Interviews with experts deeply involved in economic governance resulted in statements such as ‘what do the Dutch actually want?’, ‘I know what the Germany, France, Italy and Spain want, but what does The Netherlands want other than being the leader of the frugals?’, etc. Former Italian prime-minister Letta warned against being seen as “Mister No”.¹³ The analysis discussed above was however regarded in the interviews as a useful start of a constructive Dutch contribution to the debate on economic governance reform.

13 Trouw, 3-09-2020

Annex I – Selection of studies on the RRF

- *Institut Delors* and EU Commission officials have covered the potential of the RRF as a stepping stone towards an EU fiscal policy, as a vehicle for cementing a European capital market, and as a steps towards a more powerful geopolitical EU.¹⁴
- Bruegel has criticised the impact of the assessment of the EU Commission by pointing to the overoptimism in the assumptions.¹⁵
- CEPS has looked at the RRF from practical perspectives and noted the dangers when it comes to supervision of the distribution of funds and the drift in milestones and targets that maybe expected during the implementation of investments and reforms.
- Others, such as the German Constitutional Court, have discussed the legality of the transfer of sovereignty and the relative size of the RRF as a one-off democratically accepted project.
- In the European Parliament and the EU Commission, among others, there is a great deal of attention for transparency of projects with a view to the enterprises involved in the RRF (in view of involvement from geopolitical powers and corruption).
- *Institut Delors* addressed the sensitivities to fraud.¹⁶
- Limited attention to connect the RRF to experience in the uptake and management of existing EU funds.¹⁷
- The interviews showed concerns over the lack of independence in the supervision by the double-hatted EU Commission (neutral enforcer and political actor).

14 [20200211_Economic_governance_Guttenberg_et_al.pdf \(kxcdn.com\)](#)

15 Darvas, Z. "The nonsense of Next Generation EU net balance calculations", Policy Contribution Issue n°03/21, January 2021.

16 [Balancing urgency with control - Institut Jacques Delors \(institutdelors.eu\)](#)

17 ECB 22 May 2021 Financial Stability Review (FSR), Chart 1.6. [Financial Stability Review, May 2021 \(europa.eu\)](#)

Even if the Commission in the first round succeeds in gaining trust in supervision of the national programmes, trust is not guaranteed when it comes to the supervision once projects have to report qualitative milestones and quantitative targets. The implication is that, in different ways, the legitimacy of the Commission is a risk in itself. Similarly, complications were expected as regards the role of the Council in the mutual political supervision of reform plans.

- Interviewees also addressed the need for follow up investments (a new high speed rail demands additional investments, solar energy demands new additional infrastructure, etc). Hence, more debts may result. Delays and running over budget are normal phenomena with large scale investments projects. It is unclear if or how the delays and additional budgets will be managed.
- Ulterior motives were expected with regard to downplaying the temporary nature of the RRF. Top officials in the EU Commission already qualify the temporary nature by pointing out that the horizon of the fund is 2058 and that the success of the RRF is essential to ensure that this new EU instrument will be hard to stop.¹⁸
- Financing of RRF via EU-budget or EU levies and taxes has not been settled.

Annex II – A note on timing: The RRF as bargaining chip

There are several discussions to which the redesign of the fund is related:

- A mid-term review of the RRF is planned for 2024 and there will be an ex post assessment. It is quite likely that projects are not finished and delays may have to be accepted, the budget is not fully used, and/or new crises of some sort and magnitude may materialize that have to be incorporated on a temporary basis in the RRF. Hence, it is not unlikely that discussions on the adaptations of RRF governance will start rather sooner than

18 [EU debt vs national debts: friends or foes? | Bruegel](#)

later. Time for selection of priorities for the negotiations and coalition building on the revision of the RRF and in relation to the review of the SGP might be shorter than expected.

- In any case, the review of the SGP and of the EU Semester will demand an administrative model for supervision. The flexibility of debts level should be linked to the design (size, roles, independence, networks) of national and European economic institutions.
- The ESM may have to be re-examined and that should also address the strengthening the national capacities and EU networks in relation to conditions for financial support.
- Other programmes will be considered, see e.g. the Social Climate Fund (part of Fit For 55).

Annex III - Support for subsidiarity-based European governance?

Discussing subsidiarity-based networks encountered different kinds of reactions in the interviews. Most interviewees recognized that the systemic approach offers new vistas. Some interviews however were dominated by aversion and lack of interest regarding network cooperation. As far as criticism and hesitations is concerned, the following findings follow from the interviews in relation to the RRF and related economic supervisory structures.

- There is a general lack of insight into how the organisational system of the RRF, IFIs, NPBs, and other bodies could be – or are – designed looks like or how they could interact. Officials seem to be more interested in policies and politics than in shaping the organisational setting. Lack of familiarity with organisational design breeds a lack of interest.
- There is a tendency to think in terms of ‘political will’: unwillingness of politicians to respect rules, and lack of willingness on the part of politicians to become engaged in “organisational details”.
- Mixing national and EU roles is feared. “We do not want to be seen as working for the Commission”. Networks are

seen as extension of the Commission (also displaying unfamiliarity with the importance of independent supervisory bodies as well as a distrust in the EU Commission). Similarly, there is a preference for keeping the Commission or EU structures at a distance: “We work for our government”. Such remarks lead to questions about the ability to think about the EU as system that is more than its parts.

- Independent (EU) agencies are seen as a threat. The EU lacks a culture of independent supervision. Moreover, EU agencies are not equated with the strengthening of national structures.
- Interference with national structures is not popular. “We are all different” – implying something akin to ‘and we want to keep it that way’.
- Mutual control in economic governance is regarded as “extremely sensitive”.
- There is strong believe in incremental changes and the assumption is that incrementalism will result at some point in effective structures. This believe in incremental change and the related ‘we-shall-see’ attitude seems inspired by a lack of vision concerning why and how European structures are important and a limited knowledge of how other policy areas are organised. Moreover, the ‘we shall see’ attitude can be expensive as well as resulting in permanent frustration. ‘We shall see’ explains in part the EU’s permacrisis. Such behaviour is hard to image in the private sector.
- For practical reasons, EU negotiators regard it as complicating to include implementation systems in the negotiations. Moreover, they have a preference for enforcement by the Commission partly out of lack of mutual trust but also because the Commission is regarded as a political body with which deals can be made. Furthermore, countries in favour of a policy do not want to see ambitions endangered by raising complicating questions about if and how member states will implement policy and what kind of EU network to create. Countries with weaker administrative systems will support high objectives for different reasons including a preference for *vincolo esterno* and the realisation

that none-compliance is often without consequences (as in the case of e.g. the EU semester). Stronger countries fear having to adapt existing structures that function well.

- Commission officials tend to think that they should work independently from the member states and that member states are generally not fit to cooperate so that the EU (viz: the Commission) is the appropriate actor. Moreover, independence within the Commission is regarded as an outdated due to the idea that facts and analyses are interrelated and political.

In the complex relation between Commission as supervisor, member states prefer keeping a distance from the Commission. This is one of the reasons why the networks of NPBs and IFIs have not matured. In fact, there are two light networks of IFIs: the Commission-run biannual EUNIFI meeting and the self-organised and independent Network of EUIFIs. These networks currently count 25 IFIs from 23 Member states as members. The network of NPBs is hardly active apart from occasional thematic meetings (e.g. on productivity developments and ways to assess productivity). The NPBs vary strongly in terms of size and quality and there is no system of mutual visitations.

The Commission and the member states have mixed motives. First of all, The commission is aware of the fact that member states prefer to keep the Commission – the supervisor – at bay when discussing policy challenges among themselves. Secondly, the Commission has its own ambitions as supervisor and is not interested in EU agencies as network organisations. In any case, for whatever reason, the Commission has no models for multilevel governance.¹⁹ Thirdly, member states prefer light networks with a view to keeping their hands free and given sensitivities regarding the creation of new EU bodies. Pressure on the Commission to set up effective and independent multilevel economic monitoring and enforcement systems does not automatically come from

member states. Keeping control in the hands of the Commission offers the guarantee of political control.

This situation raises the question: Who is interested in the quality of EU governance?

Annex IV - Subsidiarity as governance principle

Building effective national institutions starts from the application of the principle of subsidiarity. The EU Treaties offer little guidance regarding the administrative relations between the member states and the EU. Yet, some important principles are specified:

- *Subsidiarity* is a core principle for distributing tasks between the EU and the member states. Subsidiarity is generally defined as a vertical legal concept related to a distribution of tasks: tasks are delegated (centralised) to the EU level if that is more efficient. Overtime, upwards delegation results in an accumulation of EU responsibilities.

Yet, in a federation, subsidiarity also needs an administrative interpretation related to how the EU and member states cooperate in the elaboration, implementation and enforcement.

- *Proportionality* dictates that EU actions must be limited to what is necessary to achieve the objectives of the Treaties. “The content *and form* of the action must be in keeping with the aim pursued” (emphasis added).²⁰
- Implementation and enforcement are based on the distinction between *first and second order control*. Member states are responsible for the implementation of EU policies and this includes the responsibility for first line of control. The Commission ultimately ensures second order control (which can/ should be organised to a large extent through team-based visitations). This

¹⁹ [PB_EU_Agencies_0.pdf \(clingendael.org\)](#)

²⁰ Eurolex: [Glossary of summaries - EUR-Lex \(europa.eu\)](#). Emphasis added.

involves controlling the effectiveness of national control *systems*. In case national systems are ineffective, for what ever reason, the EU Commission can initiate litigation before the European Court of Justice. The Commission can impose fines. Subsidiarity dictates that the EU Commission should in principle refrain from taking over first-line control.

Private sector management models help to translate these principle into practical European governance. ‘Subsidiarity’ is the equivalent of the organisational term ‘decentralisation’. Large and complex organisations in dynamic situations need to decentralize to prevent the centre threatens from becoming overburdened. Moreover, the centre lacks hands-on knowledge and experimentation suffers from centralisation. Furthermore, it is important to respect that social welfare functions and national conditions differ per country. Member states have idiosyncratic preferences, traditions and challenges (economic, geographic, environmental, cultural, etc.).²¹ Finally, subsidiarity/decentralisation is essential for ensuring ownership for agreed objectives and actions.

Subsidiarity also demands management of horizontal interdependence, monitoring and enforcement. Decentralisation does not exist without re-centralisation. It is the task of the centre to ensure that the system as a whole –including for monitoring and enforcement- functions. Federal systems need to be managed. As managed system, the EU is more than an intergovernmental system consisting of loose cooperation between independent (‘sovereign’) member states.

The centre –the EU Commission- has to ensure that the system functions as an effective and efficient network for policy making and enforcement. Organisational design models offer approaches to assess EU systems combining decentralisation and centralisation. A design approach allows

us to move beyond political preferences for (decentralised) ‘sovereignty’ or (centralised) ‘pro-European’ solutions.

The principle of subsidiarity, in administrative terms, has drifted out of focus in the EU.

Monitoring: agencies instead of the Commission

As central and political body, the Commission is in a difficult position when it comes to fact finding, reporting and enforcement among others because (in no particular order):

- Out-research to national audiences is limited. Reports of the Commission or of the EFB are not widely know or even dismissed. Renzi, for example, compared the EU as “an old, boring aunt telling us what to do.” As consequence of the distance to national audiences, it is hard for the Commission to engage in national public debates. Moreover, it is politically sensitive, if not impossible, to engage in national political debates. Fact finding, reporting and engaging in the related national debates has to come from (independent) national institutions.
- The EU Commission has to balance many political sensitivities. For example, timing can be an issue and the impression of interference in national elections has to be prevented. Legitimacy can also be compromised due to discussions over whether countries are equal (for reasons related to size or political colour of a government).
- The Commission may have various reasons to postpone publication of data or reports.
- The Commission is interested in ‘keeping the EU together’, smoothing over differences, and presenting optimistic messages (e.g. with a view to market reactions or tactical reasons related to tensions between DGs or vis-à-vis the Council).

Hence, there are good reasons for leaving fact finding and reporting to the national level (first order control) with a view to ownership, richness of information, visibility, participating in public debates, and depoliticisation. This however has to be seen in the context of a team-based European system of second order control (controlling

21 The management of Covid19 displayed the different national approaches to health care (e.g. with a view to speed of vaccination, attention to costs or to careful procedures compared to risks, etc.).

the controllers). Subsidiarity also implies a centre. European wide supervisory tasks can be organised in the form of multilevel networks:

- Independent national supervisory agencies
- A European network
- An EU agency at arms-length of the EU Commission
- The Commission as ultimate enforcer and as actor responsible for the overall effectiveness of the system and for regular adaptations of policies and structures.

Creating an effective network

Networks are important first of all to ensure that member states remain politically responsible. Secondly, the network is a tool to build the required national structures and professional values. Important processes for the creation of the professional values are the formulation of subgoals (milestones, targets) and of procedures for data gathering, for data analysis, for ensuring follow-up and for enforcement.²² It is this process of detailing content and ways of working through which ownership is created. This process will often require financial

assistance for new structures, for analysing data, for the running of the network (see the case of the EEA). The active involvement of the network stimulates the development of a culture of trust and the prevention of vicious circles of non-fulfilment of agreements. This is particularly relevant in European relations where respect for rules is, in the end, voluntary and related to the internalisation of objectives.

A key component for creating shared ownership are mutual visitations to monitor implementation. Continuous professional exposure in all policy phases is essential.²³

To ensure that networks are seen as credible and legitimate, the national and EU bodies involved should be independent and transparent. The final *political* decisions based on the analyses remains the prerogative of governments and of the EU Commission, the Council and the EP. Ensuring that everyone has the facts and reports prevents the Commission from ending up in difficult positions due to sensitivities of its conclusions (see the case of the EEA).

Annex V – The European Environment Agency as network

The development of European environment policy has been a success in terms of policies, output (results), legitimacy and network building. This success can partly be attributed to the effective match between strategy and structure. Important in the governance of the EU's environment policy is the European Environment Agency (EEA) in Copenhagen which was created in 1993. The EEA is a relevant comparison because monitoring environment sustainability shares characteristics with monitoring economic sustainability. Monitoring the state of the environment (air, water, soil,

22 For a discussion, see Metcalfe, L. (1981) 'Designing Precarious Partnerships', in Nystrom, P.C. and Starbuck, W.H. (eds.) *Handbook of Organizational Design*. Oxford: Oxford University Press, pp. 503-530. Key steps in collective problem-solving include:

- Problem-setting: Creating the environment in which the parties can define the objectives and ways of operating. The a shared problem-setting environment is important with a view to, firstly, the evolution of objectives, rules and institutions and, secondly, to cement the ownership for objectives and processes. Support for change has to mobilized actors have to identify themselves as part of reference groups in which problems can be solved as they emerge. Change depends on endogenous processes instead of exogenous expert advice.
- Identification of the overlapping sub-systems. Change in policies generally involve changes in different areas. For the RRF involving different networks such as that of NPBs, IFIs, OLAF, EPPO, audit offices, policy-specific networks.
- Programme-evaluation-renew cycles are required to keep cooperation flexible.

23 Uncommittal exchanges of best practices as is the case in the numerous OMC-type meetings falls short of the pressure resulting from mutual inspections and the mutual monitoring of the follow up of recommendations.

energy consumption, etc.) and of economic developments (labour markets, productivity, pensions, etc.) both demand independent and reliable data and analysis of trends in the member states as well as monitoring the effectiveness of EU and national policies. Trend reports are input for the EU policies and for the management of (painful) national transformation processes.

The sensitivities in setting up independent authorities – both from the side of the EU Commission and the member states – in the case of the EEA are equally visible in the interviews on the governance of the RRF. Environment policies and related capacities varied considerably between the member states. Some countries had advanced policies and monitoring systems whereas the member states in the East were building up new systems in their preparations for accession.

The ultimate supervisor of the implementation of policies is the EU Commission and the Commission is the initiator of new policies if the trend reports show that targets are not reached. As regards fact finding and reporting, the EEA stands at arms-length from the Commission and the Commission is not involved in the operations of the network of independent authorities. In this way the sensitivities between enforcer (the Commission) and member states are mitigated.

At first the Commission was reluctant to accept an independent monitoring body and regarded the EEA as encroaching on its own responsibilities. The Commission however quickly discovered that the argument ‘this information comes from the independent EEA’ was a strong argument in debates on new EU initiatives or revisions of existing legislation. The EEA enhanced the Commission’s credibility.

The successes of the EEA includes both strategy (policies) and structures (the network). The policy-related activities involve the production of the data and trend analyses. The national experts and authorities are organised in *EIONET* (environment information and observation network). EIONET is the operation platform

managed by the EEA and has supported the institutionalisation of independent national institutions. Within the broad network of EIONET, *Topic Centres* have been assigned to lead specific policy fields in terms of data gathering, definition of methodologies and monitoring of the quality of institutions in the member states. There are currently 7 Topic centres (related to Air pollution, Water, Biodiversity, etc.²⁴). These topic centres are the hubs of the network. *National Focal Points* are the main contacts points for the EEA in the member states and coordinate the work of the national bodies (‘reference centres’) from the multitude of environmental bodies. Further relations in the network involve the secondments from member states to the EEA.

Together, these ways of working make the EEA a ‘network organisation’. The tasks and staffing of the EEA reflect its network-profile: considerable resources are devoted to the management of the network, maintaining the required ICT for the network, support for outreach (organisation of meeting, production of reports, media).

The independence of the network is furthermore supported by a scientific board next to the management board in which the member states are represented. The scientific board supervises quality; the management board advises on the relevance of the programme.

As this brief outline indicates, the EEA is subsidiarity-based. It builds for its expertise to a large extent on the member states. The EEA coordinates the involvement of the member states in the production of data and writing of reports. The coordination of the network also includes the organisation of the visitations by mutual teams for the supervision of the quality of national partners. The composition of the staff of the EEA is therefore to a large extent devoted to the various network tasks. Moreover, the projects managed through the EEA help to finance national research capacities.

24 [European Topic Centres – Eionet Portal \(europa.eu\)](https://eionet.europa.eu/)

About the Clingendael Institute

Clingendael – the Netherlands Institute of International Relations – is a leading think tank and academy on international affairs. Through our analyses, training and public debate we aim to inspire and equip governments, businesses, and civil society in order to contribute to a secure, sustainable and just world.

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Abbreviations

EEA	European Environment Agency
EFB	European Fiscal Board
EPPO	European Public Prosecutors Office
ESM	European Stability Mechanism
IFIs	Independent Fiscal Institutions
NGEU	Next Generation EU Budget
NPBs	National Productivity Boards
OLAF	European Anti-Fraud Office
RIVM	Rijksinstituut voor Volksgezondheid en Milieu
RRF	Recovery and Resilience Facility
SGP	Stability and Growth Pact