

The Path-Breaking Potential of the Recovery and Resilience Facility: An Analysis of the Shifts in EU's Distributional Policy Mode with Insights from Romania's Experience

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Abstract: *In May 2020, the Recovery and Resilience Facility (RRF) was presented as a unique instrument, due to its ambition, form, and the mechanisms with which it is equipped. Both the EU institutions and the epistemic and administrative communities in the field of European affairs saw it as a path-breaking instrument in the implementation of EU policies. This article analyses this hypothesis, and whether the RRF has the potential to generate a new path dependency in the EU's distributional policy mode. It looks at the elements of the EU's coordination mechanism through the RRF, as well as the aspects that set it apart from other EU policies, especially the EU Cohesion Policy. Also, primary evidence relating to Romania's experience in drafting the National Recovery and Resilience Plan, and in implementing it, is presented and discussed from the perspective of the adjustments required by the specific approach of the RRF.*

Keywords: *Recovery and Resilience Facility, EU's Cohesion Policy, EU's distributional policy mode, the European Semester, new institutionalism.*

JEL classification: *B52, E60, H11, H60, P11.*

Introduction

The Recovery and Resilience Facility (RRF) has become a major topic of interest after the European Commission (EC) announced in May 2020 the introduction of this temporary financial instrument aimed at supporting economic recovery following the pandemic crisis. As a result, the specialised literature of the past three years has focused on analysing the context of the instrument's emergence, and the way the European Union's institutions (particularly the EC) have seized the opportunity provided by the pandemic to strengthen their transformative power over the Member States, with the goal of accelerating the deepening of European integration.

According to the general objective of the RRF (paragraph 1 of Article 4, Regulation (EU) 2021/241), this EU instrument aims to fulfil EU's medium-term (2030) and long-term (2050) strategic ambitions. Equally, it aims at: a) facilitating the achievement of climate neutrality by 2050; b) supporting digital transition; c) strengthening institutional resilience; and d) achieving upward economic and social convergence at the EU level. The rationale behind establishing the RRF has emphasised

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that the results and effects stemming from its implementation will make the EU economy and society fairer and more resilient, agile, and inclusive in the medium and long term. In other words, the RRF contributes to achieving a higher level of social cohesion among MS in terms of improved living and working conditions, high and flexible employability, adequate income, access to qualitative and affordable public services, enhanced mobility of the European citizens, etc. To benefit from the financial allocations accessible through the RRF, Member States (MS) have been conditioned to adjust their internal priorities (public policies, strategies, and domestic programmes) to these EU strategic ambitions within their own National Recovery and Resilience Plan (NRRP). In practice, in the EU's distributional policy mode, the MS had to adjust quickly to a new set of approaches very different from the ones of the EU Cohesion Policy Funds (CPF) they were used to.

The EU's distributional policy mode is characterised as a long-term functional approach whereby the EU's resources are initially collected and later distributed, and redistributed to MS, according to their needs and in line with EU's priorities. EU policies using the EU's distributional policy mode² are characterised by a high degree of equilibrium, thus ensuring stability, predictability, and satisfying the expectations of the main categories of interested or affected parties. Changes occur gradually, once every seven years, in the context of discussing and deciding on the Multiannual Financial Frameworks (MFFs), especially due to exogenous factors. For example, in the case of the EU CPF, adjustments are strategic and aimed at achieving performance (Bachtler and Mendez, 2020).

Compared to the EU CPF, the RRF experiments with another coordination mechanism from the intergovernmental area for the implementation of EU policies. In fact, that mechanism is a combination of specific approaches in the EU's distributional policy mode, namely the Open Method of Coordination (OMC) and intensive transgovernmentalism. Even though it is based mainly on lessons learnt from the macroeconomic assistance provided by the EU to some of the MS from 2008 to 2015, during the sovereign debt crisis, the RRF operates with specific elements of EU's distributional policy mode. In the case of the debt crisis, the EU institutions resorted to conventional policy measures, and a few ad hoc interventions (Drăgan and Pascariu, 2011), but did not have the potential to generate a visible path-breaking response. Instead, through several institutional innovations, the RRF has produced a change in the engagement of MS in the transformative processes of the EU's economy and society, by using both soft and hard conditioning methods. From its inception, the RRF was credited with the potential to establish "a new distributive and institutional path" (Laffan and Lindner, 2020), which will inevitably lead to changing the implementation paradigms of several EU policies.

In the rhetoric of the EU institutions (especially, of the services of the EC), the established approach to the RRF was presented as being possibly a path-breaking change in EU's distributional policy mode. Therefore, since the establishment of the RRF, the EU's epistemic community analyses the evolution of the RRF's implementation, and the way its approaches are applied at the MS level. However, few analyses also focus on

² Among the most frequently invoked policies that apply the EU's distributional policy mode, we should mention the EU Budget, the Common Agricultural Policy, the EU's Cohesion Policy, the EU's Social Policy, the EU's Enlargement Policy, etc.

the case of Romania. Moreover, at the national level, there are too few academic debates and institutional analyses regarding the RRF's implications on the future of the EU and on domestic policies.

Therefore, in this article, we set forth and discuss the elements of the RRF's coordination mechanism, along with aspects that set it apart from other EU policies, particularly the EU's Cohesion Policy. The first section presents the methodology used and the conceptual approach. In the second section, we analyse the critical path taken by the EU institutions in experimenting with various methods and coordination tools. The lessons learnt from their implementation formed the basic elements for establishing the new financial assistance regime, specific to the RRF. In the third section, we focus on the features of the RRF that justify the assumption that it is a path-breaking instrument in the EU's distributional policy mode. In the following sections, based on the outcomes of the distributional criteria, the analysis we conducted compares the RRF with the EU CPF for two MFFs (2014-2020 and 2021-2027). In the last two sections, we tackle two of the main institutional innovations of the RRF. We also discuss some primary evidence related to the experience Romania acquired in drafting the NRRP (which implied adjusting the NRRP to meet the requirements of the specific approach of the RRF) and in the first two years of implementing it.

1. Research methodology and conceptual approach

The purpose of the article is to analyse whether the RRF has the potential to generate a new path dependency in the EU's distributional policy mode. Thus, the research starts from the hypothesis that the RRF, in addition to establishing a mechanism that conditions the public investments of the Member States (to respond to systemic or structural reforms on a solid foundation of budgetary, fiscal, and macroeconomic stability), has initially produced a path-breaking shift in the EU's distributional policy mode. That shift primarily refers to the establishment of a mechanism of mutual exchanges. First, through the RRF, MS receive financial allocations in exchange for committing to the implementation of ambitious structural reforms. Secondly, unlike the EU CPF, the RRF operates within a performance-based governance framework, meaning that payments are made based on policy outcomes, quantified through previously agreed milestones and targets (i.e., before the approval of the NRRPs) rather than on actual costs. The RRF is halfway through its implementation period, and it is important to analyse whether the breakthrough (presented and applied in the first phase) is maintained and can create a new path dependency. Thus, in the current research, we answer the following questions:

1. What was the critical path that led to the establishment of the RRF as a distinct instrument in the EU's distributional policy mode?
2. Which are the innovations that justify the labelling of RRF as "path-breaking" in the EU's distributional policy mode?
3. What primary evidence of a path-breaking shift in EU's distributional policy mode can be noticed in the drafting and implementation of the NRRPs at the MS level, especially in the case of Romania?

The research was conducted from the perspective of the **new historical institutionalism**, an approach that gained momentum in the context of establishing

and implementing the RRF. It is based on the premise that changing the institutional arrangements (in terms of rules, practices, and behaviours) requires a critical juncture that stimulates these changes. A critical juncture could be both a crisis (which generates constraints) and an opportunity (which involves incentives). The RRF leads to such an experimental juncture (Bocquillon *et al.*, 2023), both at the EU level and at the MS level. Without a critical juncture, the initial arrangements will persist according to habit and custom - thus establishing a path dependency of the initial arrangement (Capati, 2023). In the field of European integration, this paradigm is often used (Christiansen and Verdun, 2020; Schelkle, 2021) because it facilitates the description, explanation, and understanding of specific phenomena concerning the deepening of the European integration, such as:

- **The stability of institutions**, in the name of national preferences (Pierson, 1996). Even if the arrangements are not the most efficient or effective, they will still provide increasing returns or incentives for the agents who promote the respective policies or institutions (Pollack, 2020, pg. 20)³. The deepening of the EU integration thus follows a linear evolution with marginal oscillations. This phenomenon generates a routinized path dependence that provides EU integration agents with a framework of predictability, balance, and stability. In fact, at the EU level, there are several path dependencies operating, at least one for each EU policy⁴, as well as a few specific to cross-cutting subjects (e.g., in the case of applying the OMC).
- **Changes occur incrementally** by marginal adjustments to improve subsequent processes, while following the same path as the initial policy (Young and Roederer-Rynning, 2020). Incremental changes result from an extensive process of iteration, whereby agents preserve their interests and preferences, and increase returns. The evolution of the EU's Cohesion Policy is a very good example in this regard. Even though the changes are unnoticeable, they do occur (Laşan, 2012). Retrospective and longitudinal evaluations of the institutions illustrate the extent of these changes. At the same time, the incremental changes favour the obtaining of spillover effects (Pan *et al.*, 2023), which evidently contribute to the deepening of the European integration, even if the processes unfold much more latently and sometimes reversibly.
- **Acceptance of major changes as a last resort**, due to synchronic determinants derived from windows of opportunity (such as accessing European funds, or creating favourable internal political alliances/coalitions for deepening the European integration in certain policy areas), or obvious constraints and challenges, even if the latter involve unpopular structural or systemic reforms (the sovereign debt crisis spanning from 2009 to 2015 is perhaps the best example in this sense at EU level).

³ These can represent, without being limited to, either pecuniary elements (such as maintaining polluting technologies or production lines because they bring large revenues), or constituent-normative elements (e.g. the sovereignty attributes of the MS).

⁴ From this perspective, the most frequently invoked policies are the Common Agricultural Policy and the EU's Cohesion Policy.

Consequently, after long periods of policy stability, the equilibrium ensured by path dependencies is disrupted by a series of abrupt changes (Young and Roederer-Rynning, 2020, pg. 63). As Schelkle (2021) asserts, EU's experimental polity enables the agents of the European integration to bring us to such critical junctures that temporarily break with the path dependencies. Moreover, it allows them to maintain those junctures. Setting new benchmarks – favourable to the deepening of the European integration – at the level of existing path dependencies conditions the agents to exploit new opportunities, constraints, and challenges in a given timeframe, with a high level of ambition. Yet, nothing guarantees that the arrangements resulting from these major changes will prove optimal (Moravcsik, 2018) in terms of efficiency, acceptability, and durability.

The main limitation of the *new institutionalism approach* lies in the fact that it focuses on the trajectory of the process, and does not analyse the results obtained or the coordination of policy implementation, so as to explain the dynamics of policy preferences that are reshaped from the subsidiary level to the macro level of the EU, where they are implemented. However, according to Moravcsik (2018), precisely the type of results and the coordination matter most in implementing the EU's policies. Nevertheless, research in the field reveals that analyses using the *path dependency approach* have also managed to focus recently on explaining the obtained outcomes, as well as the manner and extent of multi-level coordination processes.

As research methods, we have used comparative analysis and case study. The main purpose of the comparative analysis was to present and analyse the EU's strategies for conditioning and stimulating its MS through various categories of European funds and different types of management. The case study was employed to examine and describe concisely the key stages of the drafting and implementation of Romania's NRRP. As desk research, this paper is based on the analysis of documents, legislation, and normative acts. The data used come from both primary sources (as a result of the author's professional activity in the field of programming European funds) and secondary sources (academic literature, and various analyses and reports from the grey literature category).

2. The critical path followed by the EU until the establishment of the RRF

To reduce the predominance of the *intergovernmental approach* over the *governance approach*, the EU institutions have explored over time various ways of gradually strengthening their coordination role in the implementation of those EU policies for which MS were not yet ready to cede their regulatory competences. Nonetheless, the Member States have periodically undermined the previous attempts to establish an easy-to-implement framework for conditioning European funds on the implementation of systemic or structural reforms. They opted for the maintenance of the *status quo* in all the types of competences attributed to the EU. Therefore, the strategy of the EU institutions, especially of the EC, has been to apply incrementally tactics that stimulate MS to accept gradually reforms in areas not falling under the EU's jurisdiction. Thus, in the late 1990s, the Open Method of Coordination (OMC) became an instrument destined to facilitate greater convergence towards the main objectives of

the EU (Radaelli, 2003, pg. 14). The OMC was initially used for the implementation of the Lisbon Strategy (Zeitlin, 2005). However, in the first decade in which the OMC was applied, it was not possible to establish a robust set of levers for conditioning the implementation of reforms through the EU's distributional policy mode, at the MS level, in line with the objectives of the Lisbon Agenda. A first attempt in this direction was made only in 2005, as a result of a mid-term implementation review coordinated by the former Prime Minister of the Netherlands, Wim Kok. The revision of the Lisbon Agenda was carried out in the context of preparing the MFF for the 2007-2013 period, but the changes were marginal. However, in retrospect, one can note that, in the first decade of its application, the OMC led to breakthroughs in some sectoral path dependencies, at the MS level, and enabled the setting of new benchmarks for deepening the European integration. A relevant example is the education sector where several processes took place (for example, the Bologna Process for higher education, and the Copenhagen process in the field of vocational education and training), facilitating a remarkable institutional convergence.

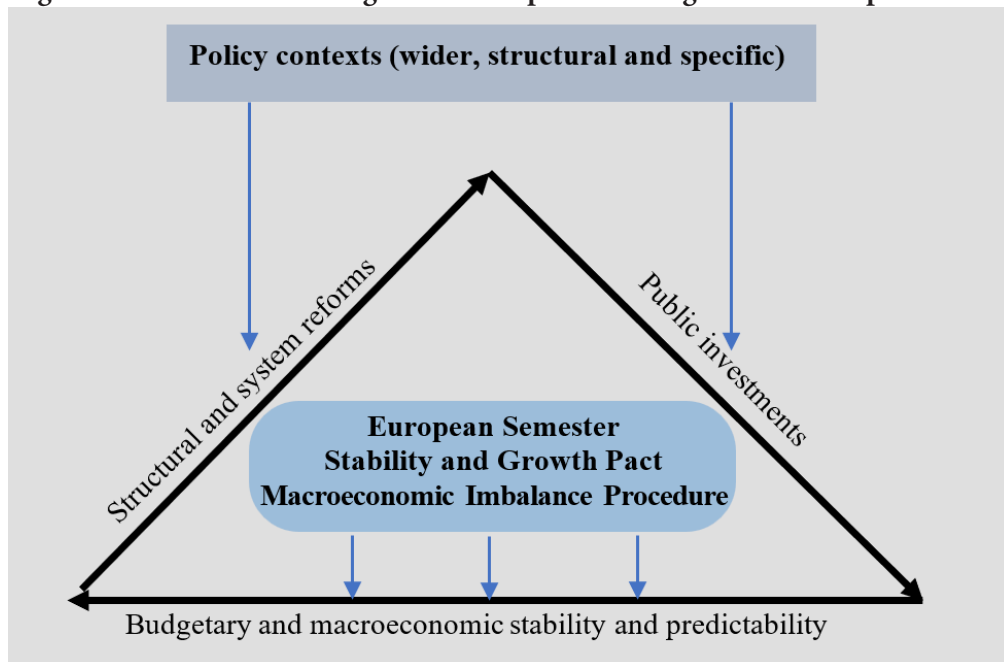
The second attempt to condition the implementation of reforms – through EU's distributional policy mode – at the MS level, in line with the EU's strategic objectives, was made in the context of defining the MFF for the 2014-2020 period. Then, much broader changes were made for using the OMC within the EU's distributional policy mode. Thus, starting from 2010 (in the context of the implementation of the Europe 2020 Strategy), and with the institutionalisation of the European Semester (ES) in 2011, the OMC has been significantly improved (Vanhercke and Pochet, 2022). The iterative processes, which required a lot of time and effort to establish compromise approaches, have been gradually replaced with much more rigid technocratic practices, based on rules and evidence. The ES thus acquired a prescriptive, intrusive, and coercive character (de la Porte and Heins, 2015; Zeitlin and Vanhercke, 2018), especially as regards aspects related to the stability and predictability of the macroeconomic, budgetary, and fiscal policies of the MS. In a recent research, Pan *et al.* (2023) argue that the ES was not the result of a critical juncture induced by the crisis, but rather the outcome of a historical evolution in which the balance of relationships between MS and the EU remained largely unchanged. As to the specific arrangements of path dependence, the initial innovations brought by the ES were marginal and did not exceed the limits of the EU's prior actions in relation to MS. Hence, incremental practices regarding the level of coercion continued to be applied. They evolved from general *ex-ante* conditioning (e.g., in the case of programming European funds) towards gradually imposed sanctions against countries that deviate from the budgetary discipline, and towards the application of corrective and coercive measures (e.g., the application of the Stability and Growth Pact provisions).

The essential particularity of the ES lies in the fact that, by its annual cyclical character, it has enabled a predetermined information flow on specific subjects (related to economic and fiscal governance, monitoring imbalances, and implementing structural reforms) to strengthen competitiveness and the growth potential at the MS level. After the establishment of the ES, the arrangements specific to the EU's policy cycles have also been reordered. Hence, primarily at the supranational level, the priorities for intervention are selected and problematized (the agenda-setting stage), the policy design is carried out (the formulation and adoption stages), and the interventions are

evaluated. On the other hand, the processes specific to implementation fall under the responsibility of the MS. Through this approach, the EU institutions impose their own conception of policies, and coordinate more easily the implementation of EU policies. The ES has, thus, become the main tool both for setting the agenda at EU level (de la Porte and Heins, 2014, pg. 164) and for enabling the EU institutions to supervise MS in the implementation, at national level, of policies and reforms derived from context priorities (Verdun and Zeitlin, 2018, pg. 138; Haas *et al.*, 2020, pg. 331), which do not take too much into account the internal political or social circumstances (Bokhorst and Corti, 2023, pg. 3). Even under these conditions, the ES proved to be less efficient than expected because MS either reacted reluctantly, or ignored the country-specific recommendations (CSRs). This attitude of the Member States toward the European Semester stems from the fact that the CSRs could not be implemented without pondering the social and economic affordability of the final beneficiaries, and ensuring adequate funding from the EU budget. Thus, in the period 2012-2020, the influence of the ES on the Europeanisation of national public policies was limited. Changes in the implementation of domestic policies of the MS were rather incremental, and strategic planning was largely based on national preferences.

Against this technocratic backdrop of the ES's implementation, but also with the idea of assuming ambitious strategic visions of climate neutrality, the ES's paradigm had to be adjusted in the context of preparing the MFF for the post-2021 period. Until the pandemic, proposals of a marginal nature, and within the limits of existing path dependencies, predominated. Thus, the first proposal from the EC consisted in strengthening the link between the ES and the European funds related to the MFF 2021-2027. Compared to the previous financial period, a series of explicit conditions were introduced whereby the programmes financed from European funds related to the EU's Cohesion Policy would implement CSRs. Moreover, 20 enabling conditions were established for adjusting internal policies to EU strategies and approaches in various specific areas of the single market, or for achieving upward convergence. However, because the European funds related to the EU's Cohesion Policy are provided and used on the basis of shared management, national preferences prevailed over the strategic ambitions of the EU institutions. Even though the 20 enabling conditions aim to link investments to public policies, at the MS level the paradigm according to which *the purpose of the European funds related to the EU's Cohesion Policy is to implement investments and not to implement public policies* remains dominant. Until the onset of the pandemic crisis, the EU institutions failed to propagate the concept of the "*virtuous triangle*" of development throughout the Union. In line with the EC's approach (COM (2018) 770 final, pg. 3), this concept involves initiating the following causal mechanism: reforms define the investment framework → investments trigger the materialisation of reforms → reforms and investments are implemented in a robust regime of budgetary and macroeconomic stability and predictability. As represented in *Figure 1*, the virtuous triangle of development is reinforced not only by the policy contexts but also by specific economic and fiscal governance processes in the EU. The first category of processes influences both structural and system reforms, as well as public investments. The second category of processes influences the budgetary and macroeconomic stability and predictability.

Figure 1. The “virtuous triangle” of development throughout the European Union



Source: Author's representation.

However, the pandemic crisis represented a critical juncture that caused (at least temporarily) a break with the path dependencies specific to various areas and sectors targeted by the deepening of the European integration, especially in the EU's distributional policy mode. First of all, the break was achieved thanks to the capacity to provide rapid financial support to MS (Allemand *et al.*, 2023): this initially materialised through traditional European funds (such as the first React-EU package, or the SURE instrument), and subsequently by establishing a distinct temporary and comprehensive financial package, with a financial envelope almost similar to an MFF. Secondly, the break was achieved swiftly by imposing the approach of the virtuous triangle of development, and thus by conditioning MS to adjust their internal policies to a programmed framework (ordered by milestones and targets). This would irreversibly set them on track to support the fulfilment of the EU's strategic vision for 2050, and the desideratum of achieving upward convergence. The RRF constitutes 90% of this temporary financial framework and is based on the allocation of financial resources for the NRRPs that comply with the aforementioned virtuous triangle, which is thereby institutionalised at the MS level. As a general approach, the reforms assumed by the MS, and the investments associated with them, had to be derived from the country reports and the CSRs. This approach facilitates the adjustment of domestic policies to EU approaches and commitments, especially in sectors that are subject to CSRs. It also strengthens the premises for achieving convergence between MS' approaches, thus facilitating decision-making on issues with major implications for national preferences in essential areas, such as energy, waste management, employment and social inclusion,

education, public administration, etc.

3. The consequences of the RRF's financial assistance regime on the domestic policy-making process

From a legal point of view, the RRF does not establish a temporary framework for the actual transfer of competences from the national to the supranational level. However, through its objectives, in certain areas of intervention, such as health, education, social inclusion, etc., the RRF leads to the deepening of the cooperation and to mutual exchanges of experience and quality practices. In the case of the MS in the euro area, as well as in the case of those benefiting from macroeconomic assistance, the supervision has an authoritarian nature, and implies coercive methods of compliance. For example, in the case of MS characterised by a limited level of compliance with EU requirements, Romania included, it is well known that major reforms have been carried out under external pressure (Dăianu, 2023). This aspect was one of the synchronic determinants that favoured the ordering of domestic policy preferences (in relation to the EU's strategic ambitions for the MS in the eurozone), while drafting and negotiating the NRRPs. As regards the MS that are not part of the euro area, the ordering of the domestic policy preferences was much harder, and the EC played either a role of mediator (in case of divergent partisan preferences), or one of policy entrepreneur (to raise the level of ambition for reforms and investments).

According to the approach of the new historical institutionalism, the basis of the RRF lies in the European Coal and Steel Community Loan Facility – the supranational loan instrument established since the beginnings of the European Communities (Hodson and Howarth, 2023). On the one hand, from a perspective closer to the recent history of the European integration, the RRF continues the approach of macroeconomic assistance offered by the EU to MS in the context of the sovereign debt crisis from 2008 to 2015 (Schelkle, 2021; Bocquillon *et al.*, 2023). On the other hand, the RRF takes over specific elements for implementing the EU CPF, and hence the implementation of this temporary instrument is very similar to the EU's distributional policy mode. Additionally, through the mechanisms and instruments with which it is equipped, the RRF greatly resembles the processes and mechanisms for guiding and monitoring either the progress made by candidate countries on their path towards EU accession⁵, or the advancements and achievements of some MS aspiring to join the eurozone⁶ (Bokhorst and Corti, 2023). That is why the RRF is an instrument that often involves the institutional memory, in the sense that MS have introduced the most extensive reforms and institutional changes, either in the context of negotiating and closing EU accession chapters, or in the endeavour to meet the convergence criteria to become members of the eurozone. Of course, the degree and extent of the institutional memory differs from one MS to another.

The RRF reshapes the policy formulation and implementation process at the EU level (Huguenot-Noël, 2023), and within the MS (Bokhorst and Corti, 2023, pg. 4). This process materialises both through the theory of change, which underlies the set

⁵ Especially in the case of the 11 MS that joined the EU in 2004, 2007, and 2013.

⁶ For 19 MS, the process has been completed before the establishment of the RRF. For Croatia, this process was in place at that time, and for Bulgaria such a process is still ongoing.

of innovative approaches of the RRF and its implementation mechanism. Therefore, the RRF has generated a critical juncture for MS, compelled to initiate or accelerate large-scale systemic reforms to facilitate the achievement of the EU's strategic visions. In Romania's case, the internal political agenda is set and reordered according to the consistency of the reforms included in the NRRP. As a result, in recent years the government programmes were designed to synergise with the aforementioned provisions and to respect the consistency of the milestones and targets in the NRRP. Besides the periodic meetings of the Interministerial Committee for the Coordination of the NRRP led by the Prime Minister of Romania, a significant part of the agenda in all government meetings is dedicated to aspects arising from the NRRP commitments.

Therefore, in drafting their plans, MS had a rather limited margin for including priorities specific to their national preferences. In its guidance actions, the European Commission aimed to cover the CSRs, considering the eligibility criteria for plans (Miron *et al.*, 2022) and their potential to harmonise with the strategic ambitions of the EU, according to the principle “*more for more and less for less*”. If MS did not sufficiently address CSRs in line with the intervention logic that underpins them, the EC had the liberty to reject the respective plans (Bokhorst and Corti, 2023, pg. 4). This prerogative is also maintained at the implementation stage because - for each payment request - the EC examines the Member States' way of implementing the reforms (and of ensuring their irreversibility) and of making the investments. In addition, the EC's agenda for the RRF focused on linking the reforms and investments – included in the national plans – with the seven EU flagships, as well as with the Important Projects of Common European Interest (IPCEI). According to the EC's instructions for drafting the NRRPs (SWD (2021) 12 final), MS were required to outline how the reforms, and associated investments, would contribute to their achievement. The EU flagships reduced the scope of the NRRPs and had a significant bearing on the setting of the internal agendas, at the expense of the promotion of the issues related to the MS' national preferences.

In Romania, contrary to the internal political rhetoric, the Romanian Government had to comply with the requirements set out by the EC's services, at the stage of formulating its National Recovery and Resilience Plan. Thus, the assumed reforms include adjustment actions to the EU's strategic framework and to the seven flagships. However, this adjustment process required several rounds of iterations between the Romanian authorities involved and the SG RECOVER. At that time, against a backdrop of political tension within the ruling coalition (Hartwell *et al.*, 2022), political leaders initially struggled to reach a compromise on issues of strategic national importance. Nevertheless, the range of preferences was quite diverse and oriented towards maximising returns based on partisanship criteria (Oellerich and Simons, 2023). Moreover, the range of national preferences included reforms and investments that either involved ample and disruptive changes, or implied incremental changes⁷. During the negotiation phase with SG RECOVER, the internal compromise – obtained following coalition bargaining processes – significantly facilitated the promotion of strategic national preferences to be included in the NRRP. Although SG RECOVER's initial mandate for negotiation with the Romanian authorities was quite restrictive, the

⁷ As an empirical observation, during the author's participation as technical coordinator in the formulation of Romania's NRRP, a balance was reached – at the end of the coalition's bargaining processes – between incremental reforms and reforms that involved disruptive measures.

result of the guidance, informal and formal negotiation processes was that national preferences for investments were largely accepted⁸. The most evocative example is the case of the A7 Highway, the largest infrastructure project financed from the RRF. To sum up, according to the data presented by SG Recover, Romania’s plan is among the most complex and diverse plans of the MS.

4. Particularities of the Recovery and Resilience Facility as compared to the EU Cohesion Policy Funds

Compared to other previous or current financial mechanisms and instruments (especially those specific to the European funds related to the EU’s Cohesion Policy), the RRF constitutes a path-breaking way of providing support for the recovery and development of MS (Schelkle, 2021; Bocquillon *et al.*, 2023). The idea that the RRF is very innovative (in comparison with previous approaches, mechanisms, and instruments) is based on the fact that the changes it introduces bring several major innovations in carrying out the EU policies, and in strengthening the convergence of the internal policies with those of the EU. The pandemic crisis has generated not only a window of opportunity, but also an alignment of synchronic determinants necessary for the EC services’ agile imposition of the innovative approaches described below.

To see the extent of changes in the arrangements – specific to path dependence – regarding the distribution of EU resources, it is useful to compare the approaches specific to the implementation of EU CPF for two MFFs (2014-2020 and 2021-2027) with those specific to the RRF. Thus, in *Table 1*, we briefly present the main changes in approaches based on criteria for analysing the distributional outcomes. As one can see, between CPF 2014-2020 and CPF 2021-2027 the changes are marginal, while between the CPF and the RRF they are much larger. Even though the CPF 2021-2027 and the RRF present a few synergistic elements (e.g., the link with the ES, and the conditioning for the implementation of CSRs), the changes of approach to some criteria are substantial. So, one can consider that the RRF represents a path-breaking instrument, especially within the EU’s distributional policy mode. The elements in the table below are analysed in the context of the RRF’s innovations tackled in the following sections.

Table 1. Comparison between the EU Cohesion Policy Funds and the Recovery and Resilience Facility in terms of distributional outcomes

| Criteria | EU Cohesion Policy Funds 2014-2020 | EU Cohesion Policy Funds 2021-2027 | Recovery and Resilience Facility |
|--------------------------|---|---|----------------------------------|
| Distribution mode | Traditional distribution | Conditional distribution | Conditional distribution |
| Type of management | Shared | Shared | Direct |
| Fund absorption approach | Qualitative, predominantly cost-oriented. | Qualitative, predominantly result-oriented. | Qualitative, performance-based. |

⁸ Exceptions were made for certain investments that either did not fit the purpose and objectives of the RRF (e.g., those related to the primary irrigation system or agricultural interventions), or had no direct connection with Romania’s specific CSRs (such as investments for tourism and culture).

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| | | | |
|---|---|--|--|
| Linkage with the ES and the capacity to implement CSRs | Weak | Medium to strong | Strong |
| The EU's power to influence domestic public policies | Weak | Medium to strong, enabling associated conditions. | Strong, by imposing systemic and structural reforms. |
| The strategic stake of influencing domestic public policies | Contributes to the EU's economic, social, and territorial cohesion, by linking funds to EU strategies, in particular Europe 2020. | Contributes to the economic, social, and territorial cohesion of the EU, by linking the funds to the medium and long-term EU strategies, and by making the MS responsible for the implementation of the CSRs. | <ul style="list-style-type: none"> - Contributes to the agile economic recovery of the EU, by establishing a virtuous triangle between reforms, investments, and budgetary, macro-economic stability, and fiscal coherence at the MS level. - Achieves real convergence and upward convergence. - Links financial allocations to the implementation of EU strategies (in the medium and long terms) and the responsibility of the MS in the implementation of CSRs. |
| Type of enforcement | Soft | Mostly soft, exceptionally hard (in case of breach of fundamental values, or violation of the deficit threshold). | Mainly soft, sometimes also hard (in addition to the MFF 2021-2027, it also applies in case of failure to meet milestones and targets). |
| The extent of the enforcement | Weak, emphasis on compliance with financial rules. | Medium. Emphasis on: <ul style="list-style-type: none"> - Compliance with the financial rules and the fundamental values of the EU. - The direct contribution to achieving the strategic visions of the EU in the medium and long terms. | Medium to strong. Focus on: <ul style="list-style-type: none"> - Achieving performance. - Compliance with EU's financial rules and fundamental values. - The direct contribution to achieving the strategic visions of the EU in the medium and long terms. |
| Enforcement leverage | Fulfilment of 36 <i>ex-ante</i> conditionalities (7 general, and 29 thematic) before 31/12/2016. | Fulfilment of the 20 enabling conditions (4 horizontal, and 16 thematic) throughout the implementation period of the MFF 2021-2027. | <ul style="list-style-type: none"> - Carrying out reforms and investments at a high-performance level. - Determination of long-lasting effects, and supervision of irreversibility. |
| The consequences of non-compliance | The EC could suspend payments affected by non-compliance, but not after 31/12/2016. | Failure to meet one enabling condition affects reimbursements related to a specific objective. | Partial or total suspension of payments specific to a milestone or a target. The EC has a discretionary power to judge non-compliance situations. |

| | | | |
|--|---|---|--|
| <p>The EC's role in process monitoring</p> | <p>Supervises compliance with sound principles of financial management.</p> | <ul style="list-style-type: none"> - Supervises compliance with the principles of sound financial management, and the manner of respecting and preserving the EU's fundamental values. - Sanctions for non-compliance with the enabling conditions. - Monitors and sanctions, as it considers appropriate, the exceeding deficit and/or debt levels. | <ul style="list-style-type: none"> - Guides the MS in the implementation of reforms and investments. - Supervises compliance with the principles of sound financial management, and the manner of respecting and preserving the EU's fundamental values. - Strictly monitors the evolution of excessive deficit and/or debt levels. - Assesses the way reforms and investments are carried out. - Sanctions for non-compliance. |
|--|---|---|--|

Source: Author's representation based on the data sources used for the research.

The main changes in the distributional outcomes are derived from the results of previous attempts to boost the deepening of the European integration. One example is the introduction of conditionality-based lending, and structural adjustment programmes undertaken by the European Central Bank, the International Monetary Fund, the World Bank, in the context of the European debt crisis. A second example is the introduction – within the European funds related to the EU's Cohesion Policy – of the obligation to fulfil 36 *ex-ante* conditionalities before the 31st of December 2016. According to a part of the epistemic community (Berkowitz *et al.*, 2017; Freier *et al.*, 2022; Bocquillon *et al.*, 2023; Zeitlin *et al.*, 2023), these attempts did not have a major impact on the EU's governance systems so as to break the previous institutional arrangements related to the EU's distributional policy mode.

A distinct feature of the RRF is that it was defined from the start as a tool for correcting deviations from the EU's fundamental values, especially in the sense of compelling certain MS to strengthen the rule of law. This is based on normative coercion instruments, and financial or political sanctions. Initially, the approach to the EU CPF for the MFF 2021-2027 did not contain such explicit provisions. From 2021 to the present, Poland and Hungary have been subjected to such apparent constraints, either by delaying the approval of their NRRPs, or by freezing disbursements for pre-financing requests or for semestrial payment requests (Florczak *et al.*, 2022; Dudzińska and Ilonszki, 2023; Kubas, 2023). From this perspective, the RRF eventually enhances the hard nature of the EU's transformative power over MS.

It is worth mentioning that the RRF's approach to the distributional outcomes was largely adopted (except for the obligation to link investments to reforms) in the process of establishing a Social Climate Fund, which should be implementable starting with 2025 (Regulation (EU) 2023/955). However, compared to the RRF, the specific interventions of the Social Climate Fund should target more the households, the micro-enterprises, and the transport users, which are vulnerable and affected by the introduction of the Emissions Trading System 2. It is worth observing whether the post-2027 EU CPF will be influenced by the RRF's approaches to the distributional outcomes. In such a case, the new path dependence will become a dominant approach. A Group of high-level specialists on the future of the Cohesion Policy has been created at the level of DG REGIO. Throughout 2023, the group held 10 meetings and, in February 2024, it presented the final report of the ensuing reflections. The report contains a set of conclusions and strategic recommendations, taking into account both the progress of the

RRF's implementation, and the specific arrangements of the EU CPF 2021-2027. Thus, one of the recommendations highlights that the EU CPF post-2027 should align with the principles and special arrangements of the RRF, of course, adjusted to the characteristics of the EU's Cohesion Policy, such as the decentralisation of implementation and the adaptation to territorial specifics (European Commission, 2024, pg. 38). However, until the EC publishes its conceptual proposal on the future of EU CPF post-2027, it cannot be stated that a new path dependence has been actually instituted by the temporary path-breaking change generated by the RRF within the EU's distributional policy mode.

5. Establishing the mechanism of mutual exchanges

The fundamental innovation brought by the RRF is the creation of a mechanism unprecedented in its scale, which influences the mutual exchanges between the EU institutions and MS. Thus, to overcome the pandemic crisis and facilitate an agile recovery, the EU institutions, especially the EC's services, have opted for long-term high-performing economic growth, by strengthening the inclusive political institutions at the MS level. The mechanism is based on the fact that the EU borrows on the global markets, by issuing joint bonds, in order to periodically offer financial incentives to MS in the form of grants and loans. In the opinion of Allemand *et al.* (2023), this approach represents a radical change in comparison with the previous ones in times of crisis. In exchange, MS must deliver, within a scheduled framework (arranged in sets of milestones and targets), systemic and structural reforms, and investments in line with CSRs. Moreover, they must give the EC a much broader scope of intervention in their internal fiscal policies (Bocquillon *et al.*, 2023). On the one hand, for the MS to adopt reforms, the financial incentives have to be persuasive enough (Freier *et al.*, 2022). On the other hand, the reforms proposed by MS (in exchange for persuasive incentives) have to meet two essential conditions. Firstly, they must match a high level of ambition, and contribute to achieving the strategic visions of the EU. Secondly, they must provide a broader scope for the EC's services to intervene in shaping the fiscal policies of the MS in line with the EU's fiscal policy and the macroeconomic imbalances.

Another particularity of this innovation lies in the fact that MS are free to choose their level of exposure to the "trap" of mutual exchange. A smaller exposure provides them with a higher safeguard for preserving internal preferences in the implementation of CSRs. According to the logic of previous experiences, the exchange is advantageous as long as MS access the grant component. In this case, MS are not obliged to implement all CSRs, and indeed the negotiation with SG RECOVER has been much easier for the states that have chosen to access only the grants. However, the simultaneous requests for both the grant and loan components have led some of the MS to the mandatory inclusion of additional reforms to cover all CSRs in their plans, and the EC's services have gained a much broader scope of intervention in their internal fiscal policies. Thus, the second option implies a much greater exposure to sanctions. For example, Romania decided to fully request the grant and loan components, and in exchange had to provide several "anchor" reforms (structural and systemic), very difficult to implement, in quite sensitive areas, such as public administration, the fiscal system, state companies, etc. Non-fulfilment of these "anchor" reforms can trigger a total suspension of payments. All the CSRs addressed to Romania have been tackled, despite worries about implications for other EU CPF (Hartwell *et al.*, 2022).

It should be pointed out that the mutual exchange mechanism, established by the RRF, refers to the part of reforms and not to the part of investments. The vast majority of MS have been "educated" for a long time in the spirit of conditioning reimbursements from EU CPF on results congruent with the principles of sound financial management. The funds related to the EU's Cohesion Policy did not expressly require MS to undertake reforms, or to institute new policies in the supported areas. In the EU's Cohesion Policy, the approach was rather soft in

nature, encouraging and guiding the MS: in other words, it was not conditional or hard, and it did not impose financial or political sanctions. In contrast, in the case of the RRF, it starts with a warning to MS that the conditioning is primarily of a soft nature (positive incentives), but that hard sanctioning instruments (partial or total non-payment) – related to the milestones and targets – can also be used where appropriate.

Some MS have opted to choose from among the CSRs those that support their national preferences in terms of investments needed for the green and digital transitions, or to strengthen the resilience of the healthcare sector or of other sectors directly affected by the pandemic. However, case studies highlight that the preferential selection of reforms and investments has not ensured a greater emphasis on the social policy area. The cases of Slovakia (Corti *et al.*, 2021) and Germany (Hacker, 2022) are illustrative in this sense. Also, a weak point of Slovenia's plan is that the proposed investments did not target the equitable distribution of funds at the regional level (Domadenik Muren and Franca, 2022). In Romania's case, in the first phase of drafting the NRRP (June-December 2020), the RRF was initially interpreted internally as an instrument close to the approach characteristic of the EU CPF. At the level of political decision, this conception gradually changed, as the SG RECOVER initiated the guidance actions for the formulation of the NRRP with the designated coordinating authority⁹. In the second stage of its drafting (January – June 2021), which overlapped with Romania's informal negotiations with the EC's services, we witnessed the inception of an iterative process of policy learning. The latter entailed the definition of reforms coupled with investments, and the segmentation of the implementation stages into milestones and targets. In Romania, such an exercise had not been undertaken, at the systemic level, since the accession negotiations (on the chapters of the acquis) to the EU. On the other hand, throughout the formulation of Romania's NRRP, the traditional distributive conception remained dominant at the level of the potential beneficiaries of the RRF funds, and especially at the level of the local public administration. In addition, the diversification of operations (included in the plan) involved the management of the risk of their overlapping with the operations of the EU CPF for MFF 2021-2027 (Hartwell *et al.*, 2022). From this point of view, a major advantage was the fact that, in Romania's case, the NRRP was drafted within the same governmental structures responsible for the drafting of the EU CPF programmes for the MFF 2021-2027.

The innovation brought about by the establishment of the mutual exchange mechanism is, in fact, much more complex. Besides the temporary right of the EC to borrow funds on the capital markets on behalf of the Union, the EU's own resource system has been supplemented by a new category of resources drawn from the application of a uniform call rate to the weight of plastic packaging waste generated in each MS that is not recycled. Compared to the previous MFFs, the amendment of the Own Resources Decision has been made quite quickly and with much more ambitious provisions than the prior incremental changes, which materialised rather slowly. It becomes certain that the temporary right to borrow funds on the capital markets will become permanent (Dăianu, 2023), and will extend to other categories of the EU's traditional redistributive funds, such as the EU CPF. This will obviously lead to a significant modification of the economic governance framework, and, as advocated by Allemand *et al.* (2023), to the consolidation of the EU's fiscal federalism.

6. The establishment of a performance-based governance framework

The second innovation of the RRF consists in the fact that the implementation of the NRRPs of MS must take place in a performance-based governance framework. Thus, payments within the RRF, unlike traditional spending programmes, are linked to the satisfactory fulfilment of milestones or targets – agreed upon prior to the adoption of each NRRP – and

⁹ At that time, the Ministry of European Funds played this role.

not to actual costs. This has led to the creation of a performance conditionality regime (Rubio, 2022, Lilyanova, 2023). This principle is very reminiscent of the conditions for fulfilling the criteria for joining the EU, the euro area, or the Schengen space. In other words, to benefit from the financial allocations agreed on with the EC's services, the MS must implement reforms, and make investments according to the arrangements stipulated in the NRRPs, which imply respecting deadlines, and quantitative and qualitative parameters. Moreover, in the post-implementation phase, the MS must periodically demonstrate the impact of the reforms, and ensure their irreversibility over a longer period. In this arrangement, the EC has discretionary power to assess the contextual developments of the reforms and investments undertaken by the MS in their respective NRRPs. Drawing on the characteristics of a state authority, the EC actually acts as a polyvalent agent: teacher, mentor, facilitator, supervisor, prosecutor, judge, debt collector, etc. Until the establishment of the RRF, MS were used to applying the cost-based and result-based principles, which meant obtaining reimbursements, by demonstrating actual costs, and achieving results according to the planned qualitative and quantitative parameters.

However, the evidence gathered – both from the international practice and from the actual RRF's implementation – suggests that the adequate application of this principle is debatable. Firstly, its application was supposed to lead to a simplified, agile implementation system with reduced administrative costs. Nevertheless, the first empirical data on the RRF's implementation show that, so far, its application has not reduced the administrative burden for either party (Zeitlin *et al.*, 2023). On the other hand, some consider that it contributes to the deepening of the territorial disparities (Huguenot-Noël, 2023). Additionally, allegations that it is not applied in line with the specific approaches – from the specialised literature – are put into question. For example, in the case of the difficult systemic or structural reforms, some MS adopt the tactic of mimetic compliance from a legal or financial perspective, without focusing on the quality of the processes (especially, those subjected to operational arrangements) and on the adherence to good governance principles. However, the EC's services overlook these phenomena that lead to institutional changes with a pronounced democratic deficit. Moreover, almost three years after the establishment of the RRF, one can note that even the MS with a strong administrative capacity cannot fulfil all the commitments from their NRRPs by complying with the performance-based criteria.

In Romania's case, the planning stage started from the premise that the implementation of reforms would be delayed due to the resistance to change. In a performance-based governance framework, the materialisation of such a premise meant affecting the capacity to send payment requests according to the established calendar arrangement. Therefore, to allow the institutional agents to familiarise themselves with this new governance framework, it was agreed with the SG RECOVER that for the first two payment requests, a set of pre-existing reforms should be taken from the drawer. Being easier to implement, these had no significant implications for the internal distributive arrangements. Many of such reforms consisted of policy commitments, following the implementation of projects aimed at improving the administrative capacity financed from the European Social Fund, or from the Structural Reform Support Programme. An example of such a reform is the update of the strategic planning system, which aimed at coupling policies and programmes with the multiannual budgeting process. This reform was supposed to be introduced in 2012, but in the absence of internal political determination, and of explicit conditions set by the EU, its implementation was delayed (Toderas, 2023). This reform had the potential to contribute to the establishment and application of a performance-based governance framework at the domestic level, which would have represented a great advantage in drafting and implementing the NRRP. Therefore, in the absence of such an enabling framework, the EC's services insisted on including this reform both in the set of specific public finance reforms, and in the one related to the central public administration. The regulations for the implementation of this reform have been approved according to the agreed schedule. Yet, the routinisation of

the new constituent arrangements of the multiannual programme-based budgeting is in its second year at the level of the entire central public administration. The impact and spillover will be observed in a few years, after at least one cycle of multiannual budget execution (in line with the current regulatory framework) is completed. However, for the moment, one can note that, due to the absence of an internal performance-based governance framework, reforms are carried out with significant deviations from the ambitions and deadlines agreed-upon (in the negotiation stage of the NRRP), while continuously testing the leniency of the EC's services. Through the technocratic iterations taking place between the Government and the EC's services, and with the involvement of the World Bank or the Organisation for Economic Cooperation and Development, the reforms gradually become much more substantial, approaching the EU's ambitions. Nevertheless, there are quite considerable deviations from the initial agreed-upon calendar arrangements, and the performance-based principle is tacitly violated. Thus, in Romania's case, the first two payment requests have been analysed by the EC's services more from the qualitative and quantitative perspective of fulfilling the result-oriented principle.

Conclusions

In 2020, the RRF was presented as a unique instrument because of its ambition and of the mechanisms it is equipped with. Both the EU institutions and the administrative and epistemic communities in this field have seen the RRF as a tool that generates an obvious path-breaking shift in the EU's policy-making mode. As shown in this analysis, actions have been taken to continue some of the innovative approaches of the RRF, but not in the case of the EU CPF post-2027. However, there are still insufficient primary data and analyses to conclude whether the disruption is materialising to generate a new path dependence in the EU's distributional policy mode. There are solid grounds to consider that the specific RRF approaches are advantageous enough to prevail in the EU's distributional policy mode for the next MFF. The EU's enlargement towards the Western Balkan countries, as well as towards the Republic of Moldova, and Ukraine, is also a factor that should be taken into account. In the case of the EU regions, the performance conditionality regimes – institutionalised through the RRF, and proposed to be extended to the EU CPF post-2027 – favour the acceptance of the EU's enlargement in synergy with the deepening of the European integration. In this context, the EU CPF post-2027 needs to be adjusted to accommodate 36 MS after the prospective enlargement, and to enable a more flexible and appropriate distribution of the European funds to reduce the social, economic, and territorial disparities.

While most of the reforms included in the Member States' NRRPs are sectoral (energy, environment, education, health, etc.), each plan also sets out major horizontal reforms aimed to enhance the administrative capacity and the rule of law, to promote equal opportunities among different social categories, to strengthen internal value chains, etc. In contrast to the austerity approach that implied providing financial support to MS during the sovereign debt crisis spanning from 2009 to 2015, the RRF is based on the will to enhance EU's competitiveness. Therefore, the EC's services are much more careful to secure a broad ownership at the Member States' level, when implementing difficult or contentious reforms (Rubio, 2022). The two innovations set forth and discussed reinforce the soft nature of the EU's transformative power over the MS, especially in the case of reforms that provoke hesitation and reluctance at the national level. For example, issues related to the decarbonisation of the energy sector, or to raising the retirement age, have a strong social, economic, and political impact. Hence, some MS interpreted the RRF as a reward for implementing CSRs that contradict national preferences (Bokhorst and Corti, 2023). From the angle of historical institutionalism, the governments of MS must operate within a synchronic determinants framework in order to benefit from the incentives negotiated with the EC's services, and to be able to implement the reforms according to the commitments made. Thus, against a background of evident governance erosion, the essential role of the

MS governments is to identify sufficient and satisfactory solutions for all the stakeholders so as to diminish the resistance to change, the social unrest, or the reluctance of the economic environment. In addition to political will, establishing the synchronic determinants framework in accordance with the commitments assumed illustrates the existence of a strong administrative capacity. As regards Romania, despite the fact that the public opinion did not observe any notable progress in the implementation of the NRRP, primary evidence shows that shifts from previous institutional arrangements do occur, even if latently and with gradual impetus from the EC. Through parallel multi-level bargaining processes, as well as due to the EC's leverage on the fiscal space related to the national budget, the synchronic determinants framework is achieved and, thus, the changes envisaged in the NRRP can be accepted. In Romania's case, it is rather necessary to strengthen the coordination and monitoring arrangements for the implementation of the NRRP, without creating or involving new institutions in this process.

The RRF being a temporary instrument, its experimentation with the application of innovative approaches indicates that the MS currently behave much more orderly and responsibly in coupling domestic policies with the strategic visions of the EU. At the same time, for the MS characterised by a weak policy-making culture (Romania included), it is noteworthy that the RRF provides an opportunity for policy learning in various aspects, such as the creation of synergies between reforms and investments, the respect for deadlines in implementing the reforms, or the guarantee of the irreversibility of reforms. Moreover, in view of the post-2027 MFJ, Romania must acknowledge that a return to the traditional approach of the EU's distributional policy mode is no longer possible.

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