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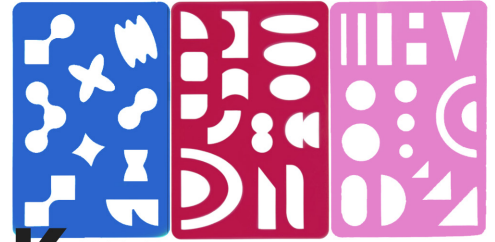


MONITORING THE PERFORMANCE OF LARGE-SCALE PUBLIC FUNDS:

FROM NEXTGENERATION EU TO THE RECONSTRUCTION IN UKRAINE

AHCD Policy Brief n. 01/24

Pan-European



**Key
Challenges**

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BACKGROUND AND CONTEXT

The initiative “Pan-European key challenges” was launched in 2022 led by the Albert Hirschman Centre on Democracy (Geneva Graduate Institute - Switzerland), the Edinburgh Law School (University of Edinburgh – United Kingdom), and Luiss School of Government (Luiss University - Italy). Its goal is to promote the exchange of experiences across European countries (both EU and closely related countries) – and possibly other countries beyond Europe’s borders. We aim to reflect on and debate current challenges and opportunities in the reprogramming, management, and expenditure of EU funds.

The three institutions build on their collaboration on the SNSF Sinergia project “[Reversing the Gaze](#)”. The context of the initiative is the project team’s ongoing study, across developmental contexts, of [unspent and underspent public funds](#). This research seeks to capture the institutional context, and technical and political drivers, of underspending and of failure to achieve targets. The limits to actual spending capacities represents a matter of critical policy relevance and political importance. It is even more urgent to examine and address it as governments and other executive bodies have mobilised massive amounts of funds to respond to the multifaceted crises connected to or amplified by the pandemic, and as they are willing to act in similar ways to address the energy crisis and beyond . Both within and beyond¹ the EU, the ways in which democratic governments have designed, funded and delivered welfare since the pandemic have led to political and institutional reconfigurations of the administrative state, as well as to changing citizen’s expectations.

This policy roundtable aimed to explore how the institutional, legal and administrative context influence the reprogramming, management and expenditure of funds – and in particular, citizens’ political participation therein. Methodological aspects were also examined in a cross-country perspective, along with the monitoring and evaluation models of public funds. These themes were a continuation of an early workshop: “programming and managing public funds at time of crises: european scenarios”, held in Geneva in October 2022 by the Albert Hirschman Centre on Democracy² . We adopted a cross-country perspective. The themes on which we convened the roundtables are directly connected with European funds, albeit not exclusively, as we aim at bringing a pan-European contribution to ongoing debates.

In the context of NextgenerationEU (NGEU), the instrument designed to support the economic recovery after the coronavirus pandemic and to make Europe “healthier, greener, and more digital”³ , €806.9 billion have been committed, mainly through the Recovery and Resilience Facility (RRF). Programmes have strong innovative elements,- for example the close correlation between milestones and targets, output and outcome indicators. The stakes of this facility are as great as its ambitions: it is transformative in its outcomes, but also in its scale. Its fiscal and administrative implementation will reshape state institutions, in particular in terms of managing the capacity to allocate

1 Berrod F et al, A pan-European strategy for the energy emergency, Policy Brief n. 01/2023, Luiss School of Government - Geneva Graduate Institute – Edinburgh Law School https://sog.luiss.it/sites/sog.luiss.it/files/PB_OB_1.pdf.

2 <https://www.graduateinstitute.ch/communications/events/programming-and-managing-public-funds-time-crises-european-scenarios>

3 https://next-generation-eu.europa.eu/index_en

and disburse funds effectively and flexibly, in response to changing political and policy conditions that result from the complexities of the current challenges countries face.

Similar public programmes are also designed to support the reconstruction and development of countries in the context of migration, economic uncertainty and multifaceted tensions. In particular, large amounts allocated from the Midterm review of the EU Multiannual Financial Framework (MFF) and national aid empowered by the Multi-agency Donor Coordination Platform (established following a decision of G7 leaders taken on 12 December 2022) are to be devoted to the reconstruction in Ukraine.

The question of the reconstruction in Ukraine, and the way it will be monitored and implemented, is not only of crucial importance for the fate of a country currently suffering war and military occupation on its territory, but for European security at large. According to the the last EU Council meeting conclusions⁴, the Ukraine Facility (UF) - with a total budget of €50 billion coming from new EU loans and redeployments from existing funding - will provide to Kyiv €33 billion in loans in €17 billion in grants over the 2024-2027 period.

The UF will be structured in three pillars. Within the first pillar, the government of Ukraine will prepare a 'Ukraine Plan', setting out its intentions for the recovery, reconstruction and modernisation of the country and the reforms it plans to undertake inter alia as part of its EU accession process. Financial support in the form of grants and loans to the state of Ukraine would be provided based on the implementation of the Ukraine Plan, which will be underpinned by a set of conditions and a timeline for disbursements, with an approach very similar to the National Recovery & Resilience Plan (NRRP) model within the RRF.

Within the second pillar under the Ukraine Investment Framework, the EU will provide support in the form of budgetary guarantees and a blend of grants and loans from public and private institutions. A Ukraine Guarantee would cover the risks of loans, guarantees, capital market instruments and other forms of funding supporting the objectives of the UF. Finally, the Third Pillar comprises Union accession assistance and other supporting measures helping Ukraine align with EU laws and carrying out structural reforms on its path to future EU membership and in line with policies Ukraine started to put forward and implement since the signing of the EU-Ukraine Association Agreement in 2014.

A precondition for the support to Ukraine under the UF will be that Ukraine uphold and respect effective democratic mechanisms notwithstanding the current context of war, including a multi-party parliamentary system, the rule of law, and guarantees for the respect for human rights, including through legislation protecting the rights of minorities.

In this context, insights and recommendations on how to design and adapt the spending system are of significance and relevance to a variety of actors: beneficiaries, donors, implementing bodies, controlling bodies and the citizenry at large. The European experience of cohesion policy and of the RRF is particularly valuable. What lessons from these policies and schemes can be brought to support future reconstruction programmes for Ukraine?

In particular, we draw attention to the urgent need to understand (1) the institutional question: the relationships between programmes' financial and administrative architecture, and recipients' spending capacities; and (2) the democratic politics question: at the same time, how to make the design of the funds responsive to territorial specificities and priorities as well as to local and decentralised democracy.

⁴ European Council conclusions, 1 February 2024. <https://www.consilium.europa.eu/en/press/press-releases/2024/02/01/european-council-conclusions-1-february-2024/>

RECOMMENDATIONS

We highlight at the outset that, while the issues at hand are of a rather technical nature in terms of policy design and implementation, they have important political stakes. How, where, and for what funds are distributed bring with them visions of political community and solidarity, along with visions of social and economic futures. In the context of Ukraine, for example, the volume of funds will necessarily shape state institutions and state-society relationships. The funds, and their priorities, will also have a normative dimension, demanding engagement with, and contextualisation of, “European” values in the Ukrainian context⁵.

Turning now to the technical issues, we go further than the actual *Rapid Damage and Needs Assessment*⁶, and build on a previous risk assessment⁷, to highlight the value of understanding the drivers and effects of underspending, late spending, misleading use of resources and low target achievement and, in general, underperforming programmes. In this context, we strongly recommend:

1. From the governance perspective:

To assess the territorial approach that is most appropriate to foster both fiscal efficacy and democratic accountability. While designing the instruments and its implementation mechanisms, we therefore recommend to review pre-existing and possible deliberation mechanisms and practices at the local/subnational territorial level.

2. From the point of view of democratic participation and empowerment:

To involve in this exercise not only beneficiary country governments and organs of public administration, but also national and local stakeholders, including vulnerable groups, across the housing, education, social protection and livelihoods sectors. This necessarily entails understanding and considering the major demographic shifts currently occurring – along with their social, economic dimensions, and how these will affect economic and social effectiveness of the programmes.

3. From the point of view of technical effectiveness:

We highlight the importance of having standardised data at a granular level, which enables a sound and reliable design and assessment of funding for public policies. We therefore call for a strong statistical framework to meet a performance-based approach (e.g. aligning with Eurostat standards, as is already the case in Switzerland, Serbia, Turkey, etc.). We recognise that this will be a particularly resource-intensive process, especially in light of the aforementioned demographic shifts.

⁵ In an even broader perspective, these funds are a key part of the design of a common political and economic project between the EU and Ukraine. This may serve to further situate the issues addressed in this policy brief within the context of 1) Ukraine’s economic specialisation; 2) Ukraine’s international trade (involving new economic ties with the EU); 3) the politics of the relations between Ukraine and the EU.

⁶ The World Bank, the Government of Ukraine, the European Union, the United Nations, UKRAINE Rapid Damage and Needs Assessment February 2022 – February 2023, March 2023.

⁷ Monti L, Pozzi R, The future of the EU Cohesion Policy, Policy Brief n° 04/2023, Policy Observatory Luiss School of Government.

4. From the point of view of effective implementation:

To advise the Ministry of Education and the National Agency of Governmental Services to develop training programmes for civil servants to provide them more effective knowledge about the different funds, their institutional arrangements, their functioning, and their monitoring methods. To further recommend, on the basis of other country experiences, other possibilities to engage civil servants at the local level – in particular on interdisciplinary training to understand the ongoing process of financial resource allocation and disbursement, as well as the role of digital tools in doing so.

To devise a system of internal controls as part of the reforms under the plan. This approach will ultimately help the UF managers generate performance indicators (input, output and outcome set of indicators) that reflect the linkages between the UF and broader challenges, including climate transition, technological change and the ongoing process of accession to the European Union.

5. From the point of view of effective planning and timing:

Considering the short timing in which funds have to be accounted for and in view of effectively promoting their investment, to explore the full variety of financial options for disbursement – including grants, loans, guarantees, tax

AUTHORED BY



Deval Desai, Reader, Edinburgh Law School, and co-PI, “Reversing the Gaze” project

Carolina De Stefano, Lecturer, Luiss University Rome, and Associate Researcher, Centre d’Etudes des mondes Russe, Caucasien et Centre-Européen (CERCEC), EHESS, Paris

Alla Fedorova, MSCA4Ukraine postdoctoral fellow of the Faculty of Law of Palacký University in Olomouc, associate Professor of the Chair of Comparative and European law, Institute of International Relations of Taras Shevchenko National University of Kyiv, member of the European Committee of Social Rights

Christine Lutringer, Senior researcher, Albert Hirschman Centre on Democracy, Geneva Graduate Institute, and “Reversing the Gaze” project

Sergiy Makovsky, Associate Professor of the Department of International Relations and Foreign Policy, Institute of International Relations, Taras Shevchenko National University of Kyiv

Maria Mexi, Research Fellow, Albert Hirschman Centre on Democracy and Centre for Trade and Economic Integration, Geneva Graduate Institute, and Adviser to President of the Hellenic Republic

Luciano Monti, Senior Fellow, Luiss School of Government, and Adjunct Professor of European Union Policies, Luiss university, Rome

Ugo Panizza, Professor of Economics and Pictet Chair in Finance and Development, Geneva Graduate Institute

Nataliya Tchernalykh, Research and Teaching Fellow, Interdisciplinary Center for Children’s Rights Studies, University of Geneva

Guillaume Vallet, Professor of Economics and Co-director of the Grenoble Economic Research Centre, Faculty of Economics, University of Grenoble Alpes