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The governance of the recovery and resilience facility. The incremental innovation of standard conditionality regime

Ana Mar Fernández-Pasarín | **Andrea Lanaia**

Department of Political Science and Public Law, Universitat Autònoma de Barcelona, Barcelona, Spain

Correspondence
Ana Mar Fernández-Pasarín, Department of Political Science and Public Law, Universitat Autònoma de Barcelona, Bldg B, B3-163, 080193-Cerdanyola del Vallès, Barcelona, Spain.
Email: ana.fernandez.pasarin@uab.cat

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Abstract

How can we explain the system of governance underlying the conditionality regime of the Recovery and Resilience Facility (RRF)? Two contrasting instruments were adopted by the European Union to deal with the economic impact of the COVID-19 crisis. The initial adaptation of the intergovernmental European stability mechanism was followed by the RRF, an instrument adopted as an add-on to the EU budget and combining both supranational delegation and intergovernmental filters. Using the lenses of historical institutionalism, and a coalition-based explanatory framework, this article examines the impact of past institutionalization patterns on the shift towards the RRF combined model. It argues that space for supranational delegation occurred as the result of the incremental innovation of the standard Community regime at work in EU budget-related policies.

KEYWORDS

conditionality, economic governance, European stability mechanism crisis support, historical institutionalism, recovery and resilience facility

1 | INTRODUCTION

How can we xplain the system of governance of the recovery and resilience facility (RRF)? In the EU context, governance systems can be defined as regimes comprising institutional arrangements, procedures and norms designed to ensure the efficient implementation of EU policies (Bulmer, 1993). Within the "dual executive" of the EU's political system (Hix & Hoyland, 2022), these regimes require decisions regarding supranational delegation and intergovernmental control. In traditional spending policies, regime design follows the community method. By virtue of the treaties, the commission has implementing powers delegated by the council to oversee the disbursement of funds. By contrast, ad hoc intergovernmental solutions have been deployed to deal with atypical situations such as the need to guarantee macroeconomic stabilization during the Eurozone crisis. The EU's response to the economic impact of the COVID-19 pandemic is a puzzling case, since it consisted in the adoption of two financial support instruments obeying to different logics: the initial response consisting in the adaptation of the European Stability Mechanism (ESM-crisis support) was followed by a spending program adopted as an add-on to the EU multiannual financial framework (MFF). Both instruments reflect different allocations of institutional power. Concretely, while the ESM embodies the prevalence of intergovernmental coordination, the RRF follows a hybrid mode of "onstrained supranationalism" (Buti & Fabbrini, 2023): Although the European commission (EC) has the power to define conditions and evaluate performance, its discretion is subject to intergovernmental control exercised through three institutional filters: the Council, the Economic and Financial Committee (EFC), and the RRF comitology committee. This without prejudice of the possibility for the European Council to intervene as a last resort in case of conflict.

The objective of this article is to shed more light on the conditions leading to this institutional outcome. Literature on the RRF has analyzed the characteristics of the RRF as a tool of EU economic governance (Capati, 2024; Fabbrini 2024), highlighting the innovation it represents as both a policy instrument and funding scheme (Hodson & Howarth, 2024). Scholars have also discussed the conditionality and rigidity underpinning its functioning as a 6-year performance-based financing instrument (Bokhorst & Corti, 2024; Crespy & Massart, & Schmidt, 2024; Zeitlin et al., 2023). Besides, literature has explored the impact of the RRF on domestic politics (Domorenok & Guardiancich, 2022; Fernández-Pasarín & Lanaia, 2022) from different perspectives ranging from the analysis of the drafting of the National Recovery and Resilience Plans (NRRPs) to their effects on institutional and legitimacy issues (Munta et al., 2024). Attention has also been drawn to the ramifications and roots of the RRF: its effects on the EU broad system of economic governance (Bekker, 2021; Ceron, 2023) but also the drivers leading to this innovation. In this vein, scholars have pointed out how crises can challenge existing regimes through different causal mechanisms. Whereas some authors identify sociological drivers, such the emergence of a "joint belief shift" (Swinkels & van Esch, 2022) or "ideational change" (Capati, 2024) enabling consensus for regime innovation (Kassim, 2023; Quaglia & Verdun, 2023), others point to the role played by more progressive mechanisms such as policy learning (Zaki et al., 2023), rules and instruments layering (Crespy & Massart, & Schmidt, 2024) or institutional path dependencies (Angelou, 2024).

This article primarily contributes to this literature. It focuses on the role played by past institutional dynamics on the adoption of the RRF. More specifically, it explores the influence of past institutionalization patterns at work in EU spending policies on actors' preferences as a driver for regime innovation. Following Becker (2024) and Crespy, and Massart, and Schmidt

(2024), we approach the RRF as a spending conditionality regime, that is, a system where financial support is subject to compliance with a set of conditions. Through the lens of historical institutionalist propositions about incremental change (Mahoney & Thelen, 2010) and a coalition-based explanatory framework, the article examines the institutionalization patterns of EU spending conditionality regimes before the pandemic. Then it traces their relative influence on the decision-making process leading first to the adaptation of the ESM-PCS and then to the innovation of the RRF. The article argues that space for supranational delegation occurred as the result of the incremental innovation of the standard regime at work in EU budget-related policies. By standard, we mean a regime that is legally anchored in the treaties, whose functioning operates according to the Community method, whose content is generic, and whose goals are multipurpose. Our hypothesis is that coalitions favouring supranational delegation invested in the conversion of this regime to fit new policy goals. Actors favouring reduced supranational discretion prevented, however, full conversion by layering this multipurpose regime with extra intergovernmental filters. Ultimately, the combination of both strategies explains the hybrid governance system of the RFF.

Our method is comparative historical analysis (Thelen & Mahoney, 2015) and case-based research that diachronically traces strategic agency across standard and ad hoc EU spending conditionality regimes. We use primary data based on the analysis of preparatory documents for legislative and agenda-setting proposals as well secondary data from the literature and from newspapers and press release articles. The article is structured as follows. In the first section, we introduce the puzzle of power distribution in EU spending conditionality regimes. The second section presents the theoretical framework and our hypothesis about the impact of past institutionalization models on the EU's evolving economic response to the pandemic. The third section presents and discusses the empirical results of our study. The article ends with concluding remarks on the scope and limits of this study and an agenda for further research.

2 | THE GOVERNANCE OF SPENDING CONDITIONALITY REGIMES

Conditionality can be defined as "the adoption of a prescribed behavior (…) for accessing a promised EU benefit" (VIŢĂ, 2017). It implies asymmetrical relations based on the use of material incentives (Koch, 2015). Its chief operational dimensions are the time of application (i.e., ex ante or ex post) and the type of incentives used (i.e., positive or negative). In the EU context, conditionality regimes are designed by secondary legislation and involve the production of administrative implementation decisions. Although there is no universal procedure for their application, in standard spending policies such as the cohesion policy, the EC is usually the dominant actor. Yet, there are diverging views on the rationale behind the institutional settings adopted during critical moments of European economic governance, such as in the Eurozone crisis. The EU's response consisting in the combination of a new intergovernmental bailout instrument–the ESM–and enhanced EMU's macroeconomic surveillance under the aegis of the EC has led to different interpretations. While some scholars argue that the EU's predilection for intergovernmental coordination is explained by legitimacy concerns (Puetter & Puntscher Riekmann, 2021), others sustain that creditors countries' lack of trust is accountable for technocratic supranational involvement on credible commitment' grounds (Fabbrini, 2016). It has also been noted how the EMU has evolved to include conventional forms of delegation (Bauer & Becker, 2014) explained by mechanisms of integration resting on supranational activism (Nugent & Rhinard, 2016), spillover effects (Niemann & Ioannou, 2015) and mistrust among member states (Dehousse, 2016). Supranational delegation has also been explained by domestic preferences and functional characteristics (Seikel, 2019). Creditors would prefer intergovernmental control over spending instruments, but also supranational delegation for macroeconomic surveillance to prevent debtors from using intergovernmental fora to politicize conditionality. Lastly, perspectives that emphasize path dependencies have shown how earlier decisions regarding the establishment of the EMU (Verdun, 2015) and the initial intergovernmental response to the crisis (Gocaj & Meunier, 2013) have limited the scope for reforming institutional design.

The economic response to the pandemic crisis raises similar questions. Why two conditionality regimes, following different logics were activated and why a combined model such as the RRF was finally privileged? Literature falls short to address this question in two aspects. First, in the balance between agency and structure. Studies have analyzed the behavior and the interactions between the EU's supranational and intergovernmental institutions, unveiling their varying influence across the process of crisis-management and their preference for interinstitutional cooperation (Kassim, 2023; Quaglia & Verdun, 2023; Schramm & Wessels, 2023). Scholars have also underlined how cooperative interinstitutional dynamics do not preclude bargaining cleavages among member states (de la Porte & Jensen, 2021; Krotz & Schramm, 2022). These studies focus on actors' behavior during the RRF negotiation without considering the influence of institutional rules on power distribution during this process (Smeets & Beach, 2023).

The second gap relates to the lack of historical tracking and comparative analysis among spending conditionality regimes. Although it is argued that, compared with the Eurozone crisis, a paradigmatic shift occurred in pandemic conditionality regime (Genschel & Jachtenfuchs, 2021), and that decisions taken during the COVID-19 crisis involved a major institutional innovation (Camous & Claeys, 2020), attention concentrates on broad aspects of crisis-management and the evolution of EU's economic institutions rather than on the management of specific policy instruments (Buti & Fabbrini, 2023). Besides, literature has mostly examined the RRF and, only rarely the ESM pandemic crisis support (ESM-PCS) (De Angelis, 2022; Megliani, 2022). In this article, we bring into focus the institutional roots of strategic behavior across both instruments to understand the passage from the ESM-PCS to the RRF. In line with studies sustaining that rather than a drastic turning-point, the EU's economic response to the pandemic was built on the reinterpretation of existing rules, the layering of earlier instruments and institutional path dependencies (Angelou, 2024; Crespy & Massart, & Schmidt, 2024; Hodson & Howarth, 2024), we argue that past institutionalization patterns at work in standard and ad hoc spending policies have played a role in shaping the EU's evolving response to the pandemic.

3 | The IMPACT OF PAST INSTITUTIONALIZATION PATTERNS ON THE EU's ECONOMIC RESPONSE TO THE PANDEMIC

The transition from the ESM-PCS to the RRF reflects a change in actors' institutionalization preferences. Concretely, a solution consisting in a mix-model of governance combining supranational and intergovernmental traits instead of a purely intergovernmental system was privileged. Our hypothesis is that this institutional outcome is the result of the incremental innovation of the standard Community-method regime at work in EU budget-related policies. To frame our analysis, we root our explanation in historical institutionalist propositions about incremental change (Mahoney & Thelen, 2010). Conditionality instruments can be treated as institutions, since they constitute a set of rules whose stability rests on the feedback they generate (Pierson, 2006). Institutions are in a "constant process of flux" (Peters, 2019, p. 218). Institutionalization is the process through which they can be strengthened or weakened according to mechanisms that span from the rational "logic of calculus" based on incentives to the sociological "logic of culture" based on shared norms or routines (Hall & Taylor, 1996). Institutionalization is thus a continuous variable and does not lend itself to straightforward measurement. We consider the conceptualization identified by Huntington (1965) as a valid reference for operationalisation articulated across two attributes: (1) adaptability as the capacity to face shifting challenges and (2) complexity as the capacity to fulfill different tasks and satisfy different interest groups. Accordingly, we identify two patterns of institutionalization in EU spending conditionality regimes. One is generic and multipurpose, and thus adaptable across policy problems. The other is specific, targeted and as such only covers a subset of problems.

Whether an actor's preference for a particular conditionality instrument is stable over time depends on the opportunity to introduce innovations, the availability of alternatives, and the relative strength of opposing coalitions (Weaver, 2010). In our case, the first two conditions are satisfied because since there is no universal legal treatment of EU spending conditionality, a case-by-case redesign is required. The strength of coalitions depends on structural elements that shape strategic behavior such as veto power and the discretion afforded by the rules that oversee enforcement. When combined, these two elements yield a fourfold typology of patterns of change and associated strategies: drifting, conversion, layering and replacement (Mahoney & Thelen, 2010), with all but the last one relevant here. Drifting and conversion (Hacker et al., 2015) differ in the first factor (strong and weak structural veto power, respectively) while sharing the same broad discretion over the enforcement of rules. Drifting occurs when actors that are unable to overcome strong veto power evade institutional effects by promoting the practical neglect of rules. Conversion involves low political veto power and high enforcement discretion, making convenient to change an institution from within and reap the benefits. Last, layering occurs under strong veto power and low levels of discretion over rules, when an opposing coalition seeks change by adding new rules that interfere with core institutional functioning.

Applied to our case, these strategies are affected by regime adaptability (Table 1). Ad hoc institutionalization enjoys limited adaptability to new circumstances, requiring renegotiation to extend its scope of action. Intergovernmental decision-making endows high veto power against significant policy change but cannot prevent strategies that are aimed at introducing minor changes. Moreover, ad hoc regimes might enjoy legitimacy depending on past experiences, but they are unlikely to be adopted by recipient countries that resent conditionality and by supranational actors seeking more competences. Standard institutionalization operating under the community method is, by contrast, more adaptable. Assembling a majority favorable to significant change depends on the distribution of preferences regarding supranational delegation and the existence of Treaty-based legitimizing arguments during agenda-setting. Legislators' preferences have to diverge enough to be exploited by the EC but not so much that they prevent a winning coalition (Pollack, 1997). The multipurpose and generic nature of rules that have already been tested in a broad range of instances helps to build consensus and form a coalition in favor of their conversion. Standard institutionalization favors supranational agenda-setting in its effort to credibly claim legal competence to deal with a new issue (Princen, 2011). Last, credible commitment can be a relevant concern for net contributors if

TABLE 1 Types of institutionalization.

	Standard	Ad-hoc
Regime adaptability	Broad	Limited
Rules	Generic, multipurpose, flexible	Specific, targeted, rigid
Institutional setup	Community-method	Intergovernmental
Legitimacy	Treaty-based, widely tested and consensual	Crisis-solving based, not widely tested and contested
Credible commitment	Supranational control	Interstate control
Coalition type	Favorable to supranational delegation	Unfavorable to supranational delegation
Coalition strategies	Conversion	Layering

experience reveals enforcement problems. Under these conditions, we expect the conversion of standard regimes due to functional considerations.

Turning to the coalition that favors intergovernmental control due to concerns about supranational agency slippage, its strategic options depend on its bargaining power across different institutional contexts. If there is no clear majority favorable to converting multipurpose regimes, we expect bargaining to take place on the introduction of ad hoc intergovernmental filters within the community method. By contrast, if a solid majority is in favor of conversion, the only option for injecting more intergovernmental control is to turn to layering strategies if superior bargaining power exists in a linked decision-making setting. This is the case with redistribution under the community method, which is generally subordinated to unanimous decision to authorize spending levels within the MFF.

To unveil the impact of past ad hoc and standard regimes on actors' strategic behavior, we trace the adaptability of both regimes across time. We look at the path of ad hoc spending conditionality up to the adoption of the ESM and how it was adapted during the pandemic. As for multipurpose spending conditionality, we focus on cohesion policy from its inception up to the RRF and MFF negotiations during 2020. We approach regime adaptability as the capacity to fulfill functions that are adjusted to new circumstances in terms of both conditionality content and management. We also consider the normative and legal resources employed by actors with the aim of maintaining or modifying existing power structures embedded in conditionality regimes. At the agenda-setting stage, we look at political activism regarding the link between the EMU and the EU budget since before the pandemic and the struggles concerning the type of action (within or outside the treaties) during the pandemic. We focus on the appeal to EU values and norms underpinning the choice of treaty bases. At the decision-making stage, we examine the strategic use of arguments for coalition-building, hard or soft bargaining and the threat of veto power.

4 | INCREMENTAL CHANGE OF STANDARD AND AD HOC REGIMES DURING THE PANDEMIC CRISIS

In this section, we first describe the different patterns of institutionalization at work in EU spending conditionality regimes before the pandemic. Then we trace their impact on the decision-making process leading first to the adaptation of the ESM-PCS and then to the RRF.

Our focus is on supranational (EC)-intergovernmental actors' dialectic as regards power balance. We look at the distribution of power between the commission and the council before the pandemic and at the negotiations between the commission and intergovernmental fora on power allocation during the pandemic.

4.1 | EU spending conditionality before the pandemic: Patterns of institutionalization

The origin of financial support is linked to the Single Market. Under the EEC Treaty, Community loans supporting balance-of-payment problems were confined to non-Eurozone members (Art. 125 TFEU). The instrument featured a conditionality regime whereby the EC negotiates the economic adjustment program, the council decides whether to grant support and the EC decides on disbursements. The first bailout of a Eurozone member, Greece, in May 2010 showcased the hybridization of international private law and EU treaties (Art. 136 TFEU). Ad hoc resources were coordinated by the EC but member states would decide on disbursement, based on EC assessment of the conditions established in the memorandum of understanding (MoU). More instruments were soon adopted to gain credibility with financial markets. Under the European financial stability mechanism (EFSM), based on Art. 122(2) TFEU, the council decided on granting support and the EC decided on disbursements. The European financial stability facility (EFSF) reinforced the intergovernmental chain of control. The EC would negotiate a MoU that, once validated by the Eurogroup working group, would inform the EC's proposal for a financial assistance facility agreement. The EC would still verify compliance with the MoU, but proposals authorizing disbursement required intergovernmental unanimity.

To ensure compatibility with the Treaty's "no bailout" principle, the establishment of the ESM in 2011 required modifying the TFEU (Art. 136(3)) and mentioning conditionality for beneficiaries. The ESM maintained the EFSF's loan-based approach and governance design but increased its scope of application, from debt repayment to purchase of government bonds or banks recapitalization. The ESM Board has to unanimously approve EC proposals regarding compliance with conditionality. The quest for legal uniformity required cross-referencing ESM macroeconomic surveillance with treaty-based macroeconomic adjustment programs, proposed by the EC and adopted by the council (Council of the EU 2013).

Compared to the assemblage of this ad hoc intergovernmental conditionality, the EU budget conditionality regime developed in a gradual and steady manner, fruit of long implementation feedbacks and evolving policy rationales. Cohesion policy is a spending instrument that features a nested principal-agent relationship (Blom-Hansen, 2005). Member states delegate implementation competences to the EC, which in turn delegates practical implementation functions to national administrations. Concerns over the use of funds led to the introduction of ex-ante conditionality monitoring, embodied in the expansion of the requirements to be fulfilled before receiving funds.

The perceived ineffectiveness of cohesion spending led the EC to promote the principle of "better spending," also supported by a subgroup of net contributors (the "friends of better spending") (Becker, 2019). A new performance reserve was introduced in 2013. Yet, the instrument turned out to be ineffective, since member states enjoyed ample margins of discretion in self-evaluation and the EC refrained from fully using its sanctioning powers (European Court of Auditors, 2021). Ex ante conditionality has been maintained in 2021 to 2027 cohesion policy as "enabling conditions," further strengthening EC implementation powers. The EC has to issue an implementing decision to approve the contractual commitments with a member state and can now also suspend payments if such conditions are no longer fulfilled. On the contrary, the performance reserve has been replaced by a new midterm review, allowing the EC to authorize "flexibility" to rearrange spending in view of new circumstances. A further effectiveness check coupled cohesion policy and domestic structural reform capacity, by demanding, in 2013, that cohesion measures also addressed reform priorities indicated in CSRs, and, since 2021, coherence with EU climate, energy and social policy commitments.

Macroeconomic governance is increasingly the most important form of spending conditionality (Becker, 2024). The Maastricht Treaty linked the cohesion fund to EMU governance, and since 2006 the council has been able to suspend payments for noncompliance with the deficit procedure. In 2013, postcrisis reforms introduced a "sound economic governance" chapter, enabling the EC to request modifications to cohesion programs failing to comply with CSRs. Failures in compliance also enable the EC to propose a council implementing act to suspend payments. Equally, noncompliance with the SGP allows the EC to submit a proposal to withhold funding, which the council could confirm via an implementing act adopted by QMV.

In sum, the ESM has served the immediate function assigned to it (to avoid the Euro collapsing). However, the adaptation of the treaties to fit the ESM logic and, in particular, the mention of "strict conditionality" in art. 136.3 TFEU as a condition to ensure legal compatibility, is an example of the limitations of ad hoc institutionalization. By contrast, spending conditionality under the EU treaties has proven capable of spreading its institutional roots and, generating a complex multipurpose regime. The expansion of EU budget conditionality to include performance and macroeconomic requirements has not gone without criticism (Bachtler & Mendez, 2020). However, the establishment of a complex but predictable division of labor among EU institutions in which the final word is not one actor's prerogative has become a functional practice that has surfaced during different rounds of EU budget negotiations.

4.2 | The run-up to the pandemic: Supranational undercurrents in a sea of intergovernmentalism

The Eurozone crisis forced a debate on how to improve EMU design which overlapped with the debate over the modernization of the EU budget. Following up on the five presidents" Report on completing the EMU, published in 2015, the EC stepped up its agenda setting with a reflection paper in September 2017 on the "future of EU finances," which connected the EU budget to macroeconomic stabilization. Between December 2017 and May 2018, the EC tabled a battery of proposals to ensure the efficiency and democratization of EMU instruments, with an eye towards the upcoming MFF decision-making process (DW 2017). The EC sought to preempt the discussion on the permanent institutionalization of the ESM, whose effectiveness and legitimacy had come under severe scrutiny (Jacoby & Hopkin, 2020) and proposed communitarising macroeconomic stabilization via a European monetary fund (EMF). A second initiative was born of the debate over common countercyclical fiscal instruments to avoid new debt crises. Against the French proposal to establish a Euro-area budget outside the MFF (Le Monde 2017), the EC launched two initiatives linked to EU budget modernization. First, it proposed using the budget to support public investment by adding a permanent macroeconomic tool, a European investment stabilization fund (EISF), providing loans to Eurozone members during economic shocks and managed by the EC. The second proposal consisted in a reform support program (RSP) to enhance the political acceptability of domestic reforms compliant with the European Semester. In its proposal, the EC assigned itself the power to approve member states' requests and the disbursement of payments (Financial Times 2018).

The attempted supranationalisation of the EMU architecture met with the veto power of the "New Hanseatic League" in the Council comprising fiscally conservative small and medium-size member states, with the Netherlands at the helm. This coalition opposed any attempt to question the centrality of the ESM and its intergovernmental features (Tesche, 2022), which were maintained despite becoming increasingly enmeshed with the EMU, notably via the Single Resolution Mechanism of the Banking Union. The competences of the EC and the ESM Board were also clarified and mirrored the concerns of the New Hanseatic League about the effectiveness of the EC in enforcing fiscal discipline. ESM institutions would become directly involved in preconditional analysis of debt sustainability, in the signing of the MoU and in post-program monitoring to ensure debt repayment capacity (Aerts & Bizarro, 2020).

The budget proposal encountered a more favorable actors' constellation. The idea of an instrument fostering convergence and competitiveness through investments and reform had been endorsed by France and Germany in November 2018 and substantiated in a joint proposal for an instrument embedded into the EU budget framework (Euractiv 2019). Its governance structure, while responding to EU budget procedures, would operate under the guidance of the Euro summit and operationalised by the Eurogroup. The EC would be responsible for approving domestic plans, while support would be conditional on macroeconomic compliance. Germany's openness to minimal communitarisation of stabilization functions was again opposed by the "New Hanseatic League" and Dutch entrepreneurship managed to narrow discussions to investments conditional to structural reforms (Schoeller, 2021). In June 2019, the Eurogroup agreed on a less ambitious instrument than the EC's RSP proposal, reflecting a compromise between EC ambitions, the Franco-German initiative, and the New Hanseatic League's red lines. Financial support, in the form of grants, would be conditional upon implementation performance, macroeconomic conditionality and compliance with cohesion policy enabling conditions. A mixed conditionality governance structure would apply whereby the EC assesses domestic proposals and monitors implementation assisted by preparatory committees of the Eurogroup (Eurogroup, 2019). The proposal presented by the EC therefore centered on a governance framework for a budgetary instrument for convergence and competitiveness (BICC) for the Euro area. Accordingly, the Council should have adopted Eurozone orientations setting reform and investment priorities and country-specific guidance consistent with the CSRs. However, the pandemic changed the course of events, disrupting these previous attempts at policy change.

In short, before the pandemic, different coalitions worked to modify the link between EMU governance and the EU budget. Due to the veto coalition, the only result had been the amendment of the ESM along its intergovernmental architecture. However, for the first time, agenda-setting considered a timid communitarisation of EMU macroeconomic stabilization within a modernized EU budget. Moreover, the EC had been able to push for introducing conditionality mechanisms closer to modalities under the EU budget than those prevailing under EMU mechanisms, laying the ground for assembling coalitions favorable to the conversion of the former.

4.3 | Drifting, conversion and layering: The ESM-PCS, RRF, and EU budget

Although EU leaders predicted since March 2020 a large symmetric shock due to the pandemic crisis, its uncertain development impaired consensus on the appropriate response. Within the

Eurogroup some member states suggested that the European Council of March 26 should consider using the resources still available under the ESM. Acco his meeting, however, revealed profound divisions. Italy and Spain, backed by France, pushed for common-debt issuance ("corona-bonds") and addressed a letter to the President of the European Council on March 25, along with six other member states. The letter set out efficiency and solidarity as new functional and legitimating arguments. However, practical proposals on commonly funded initiatives differed (Politico 2020b, March 27). In April, the French Finance Minister proposed a special vehicle along the lines of the ESFS while Spain requested the establishment of a Recovery Fund to complement the MFF. Although the Portuguese president of the Eurogroup and the Italian commissioner for Economy did not discard the common debt option, Germany and other northern member states shunned the idea. In search of cohesion, the European Council tasked the Eurogroup to come up with potential solutions. As no financial emergency had yet materialized, the Eurogroup considered ESM precautionary lending as a valid response (Euractiv 2020, April 10).

Divergence emerged on how ESM conditionality should be adapted to the circumstances in place. The Netherlands and Austria insisted on enforcing country-specific reforms, refusing to limit ESM conditionality to compliance with fiscal rules (Euractiv 2020, April 10). To appease reluctant creditors, it was thus agreed that new ad hoc lending would be based exclusively on loans and limited to cover only health-related costs. Debtors would benefit from favorable rates and avoid additional conditionality because the only requirement would be a plan detailing the costs of admissible expenses. However, the consequences of using the ESM-PCS remained unclear, generating fears that it would cover only a limited portion of increasing public debt and that regular ESM lending would apply if financial conditions worsened (De Angelis, 2022). Recourse to the ESM-PCS was put on the backburner by potential beneficiaries, who were wary of the political stigma that was associated with it (Camous & Claeys, 2020). Italy had never used the ESM and recourse to the ESM-PCS became a politically salient issue (Euractiv 2020, April 10). Italian Prime Minister Conte faced resistance within his own EMU-sceptic party and insisted on pushing for debt-mutualisation. Italy would have vetoed the ESM-PCS had Spain not expressed interest in its establishment. However, even the Spanish PM was reluctant to apply for an instrument that, during the Eurozone crisis, had been much criticized by his party, then in opposition (El País, 2020). Ultimately, legitimacy and functional motivations played a role in the drift of the ESM-PCS, not least the possibility of an alternative negotiation path.

Indeed, while the EC president had refrained from taking bold autonomous initiatives, she had at once assembled a task-force to work on a proposal linking the pandemic response to the MFF debate. The political environment for an EU budget-related initiative was challenging. Discussions relative to the new budget had started along their traditionally contentious lines. Three coalitions formed in the run-up to the negotiation. At both extremes, a "status quo" group comprising 15 southern and eastern countries (the "Friends of Cohesion") opposed cuts to cohesion and agricultural spending (Politico 2020a, February 1), while a group of net contributors asked for the application of the *juste retour* principle to shift funding from traditional expenditures to emerging priorities (Euractiv 2020, February 2). In between, a French-German initiative proposed to set up an extraordinary and temporary Recovery fund of €500 billion as part of the 2021–2027 MFF. The EC would finance such fund by borrowing money on financial markets. The Recovery support would be integrated in the own resource decision, and it would be linked to a repayment plan beyond the 2021–2027 MFF (Elysee 2020).

The MFF proposal tabled by the EC in May 2018 strived to strike a balance between these positions, including a shift toward new priorities and the introduction of new revenue sources.

The EC focused on placing the budget at the service of a future-oriented political agenda, including proposals on macroeconomic stabilization functions. The European Council struggled however to agree on a "negotiating box" amid sharp disagreement until February 2020.

When a shared narrative regarding the EU-wide impact of the crisis began to emerge (Schramm & Wessels, 2023), its effects were felt across the overlapping negotiation arena. Germany grew particularly concerned given the global character of the crisis and the absence of alternatives for its export sector outside the EU (DW 2021). The European Council of 26 March for the first time mentioned the need for a comprehensive recovery plan. Significant political change followed the revival of Franco-German embedded bilateralism (Krotz & Schramm, 2022). Their role as moderate exponents of the two opposing camps in the corona-bonds squabble was based on a compromise empowering the EC to raise common debt but replacing joint liability with the pro-rata liability traditionally associated with the EU budget. The "frugals" northern countries continued to advocate for intergovernmental alternatives. In a mini-summit preceding the European Council of April 27, progress occurred when the idea of corona-bonds dropped in exchange for support financed through Community-based mechanisms following the MFF logic (Smeets & Beach, 2023). Political sanctioning of the link between recovery support and the EU budget as well as a Franco-German proposal tabled on May 18, allowed the EC to move from ideal to substantive agenda setting. The EC's proposal of May 27, which anchored recovery within the EU budget, was meant to explore a winning coalition in the Council (Euronews 2020). It is likely that the EC, expecting changes during decision-making, advanced a maximalist supranational governance architecture. Intergovernmental decisions would moreover be needed to lay the legal groundwork. Tellingly, a modification of the council's own resource decision would embed the repayment of common debt into the MFF's liability framework.

Following intense negotiations, the second longest European Council in history (17–21 July 2020) achieved a comprehensive package deal covering the next generation EU funds (including the RRF) and the outline for the next MFF. The compromise traded reducting MFF spending with consent for recovery spending. Following agreement in the European Council, the nested RRF dossier entered final negotiations. The EC exploited the link with the MFF and based its RRF proposal on Art. 175 TFEU as cohesion policy spending. This decision also conferred RRF the legitimacy provided by the ordinary legislative procedure, whose use could have been avoided by choosing art. 122 TFEU as a legal base instead (Closa Montero et al., 2021, p. 169). To comply with the no bailout clause, the proposal was framed as promoting domestic economic growth, not as a rescue plan. However, it remained unclear which conditionality regimes should be chosen from the broad policy repertoire (Financial Times, 2020). The EC stated that the RRF was based on the framework of the RSP proposal. Member states would first submit proposals for reforms and investments based on EU priorities and CSRs which would be examined by the EC. Once approved, disbursement would be conditional on compliance with a set of milestones and targets. The EC chose the less restrictive type of intergovernmental control for its RRF proposal and, in analogy with the RSP, would approve the domestic plans and disbursements requests, following positive assessment via implementing acts. In both cases, the stricter comitology examination procedure would apply, thereby reassuring member states of their role in monitoring supranational delegation.

The common position agreed upon by the Council in October 2020 reflected the European Council's agreement in July. The agreement amended the conditionality regime proposed by the EC to accommodate the "Frugals" request for tight intergovernmental checks over delegated tasks. EU leaders intended to increase intergovernmental control over the adoption of national recovery plans, by proposing procedures echoing compliance-checks with sound economic governance under the cohesion policy. The council must adopt an implementing decision to confirm positive assessment of national plans by the EC, although it cannot overrule EC's negative assessments. At the disbursement stage, although authorization via an EC implementing decision subject to comitology was maintained, an intermediary step was introduced in the form of an EFC opinion, which must be delivered by consensus. Under Frugals' insistence, an innovative intergovernmental emergency brake in case of disagreement with EC evaluations was also introduced. Opposition from some members, especially Italy, prevented the Frugals from obtaining an individual veto right, as they had proposed (Politico 2020c, July 21). A less constraining procedure allows a member state considering that, despite the EC positive assessment, a serious deviation from the commitments exists, to request the referral of the matter to the next European Council involving the suspension of the disbursement until discussion under that format. In case of negative assessment, the council cannot however overrule the EC. The novelties introduced by RRF conditionality have been labeled as a "silent reform of cohesion policy" (Petzold, 2022).

In sum, the RRF does not feature a wholesale version of EU budget conditionality, but rather a hybrid peppered with intergovernmental filters. Its Community method procedures can be traced back to the attempts of the EC to link the EMU's macroeconomic governance with the EU budget. The EC spearheaded agenda setting to establish a permanent stabilization mechanism, without challenging the principle that fiscal transfers should be subject to some form of conditionality. It did so by leveraging on the existence of the proven capacity of enforcing conditionality in the EU budget to justify the conversion of such procedures into a new goal. The inclusion of macroeconomic conditionality under the EU budget had already established a precedent difficult to ignore. Agenda setting went hand in hand with coalition building, with the support of expected beneficiaries and the ouvertures made by France and Germany (Crespy & Schramm, 2024). However, the activism of The Netherlands in orchestrating Frugals' opposition had been effective while the mobilization of funds for new initiatives would require intergovernmental unanimity. A looming "joint-decision trap" provided a structural advantage for defenders of the status quo (Scharpf, 1988) and their capacity to extract concessions. The Frugals used the negotiations over the MFF package deal to trace their red lines in terms of the acceptable conversion of Community Method procedures. By proposing to layer intergovernmental filters on such procedures, they managed to place the outline of a viable compromise (Table 2).

5 | CONCLUSION

Past institutionalization patterns provide feedback loops that influence actors'preferences and strategies enabling regime innovation. The RRF governance system serves as an illustrative example. In response to the economic impact of the crisis, the EU provided an evolving institutional response. The initial adaptation of the intergovernmental ESM was superseded by the adoption of the RRF, an unprecedented performance-based funding instrument operationalised through an equally innovative system of governance. In terms of interinstitutional distribution of power, the RRF represents a significant departure from previous arrangements. Its institutional design combines supranational delegation with three intergovernmental filters—the Council, the EFC Committee, and the Comitology procedure—along with the potential intervention of the European Council as an emergency brake.

TABLE 2 Distribution of power within spending conditionality regimes in the EU.

		Institutional competences	
Spending instruments		*Supranational (EC)**	*Intergovernmental***
EFSM	*Administrative*	Conclusion of a MoU	Decision to grant loans and establish attached conditions
	Disbursement	Decision on disbursements	
EFSF		Conclusion of a MoU Proposal for financial assistance	Unanimous approval of financial assistance
		Monitoring and reporting compliance	Unanimous approval of disbursement
ESM		Conclusion of a MoU	Unanimous decisions for adoption of the financial assistance facility
		Monitoring and reporting compliance	Unanimous decisions authorizing disbursements
EU budget	*Administrative*	Decision on domestic program financial regulation (disbursement)	
	Efficiency	Decision (suspension of payment + performance reserve)	
	Macroeconomic	Proposal suspension of payment/commitment	Implementing act to reject EC's proposal to suspend commitment or to accept EC's proposal to suspend payments
EMF		Monitoring and reporting compliance	Decision (QMV) confirming decisions taken by the Board by reinforced QMV (85%) on granting support and disbursements
EISF		Decision (concession + disbursement)	
RSP (RDT)		Decision on domestic commitments financial regulation (disbursement)	
BICC (governance framework)		Recommendation to the council	Recommendations of strategic orientations for the Euro-area and country specific guidance
RRF		Assessment of plans	Council implementing decision
		Decision on disbursements	Comitology (Examination) Emergency brake (informal European Council discussion)

*All legislative and administrative acts in this column refers to the EC.

**All legislative and administrative acts in this column refer to the Council, unless otherwise specified.

This article aimed to enhance understanding of the institutional origins and pathways that have resulted in this system of governance outcome. It builds upon existing research on the role played by institutional rules and path dependencies in the adoption of the RRF. It specifically examines the influence of past institutionalization patterns at work in spending conditionality regimes on the configuration of the RRF's particular system of governance. In doing so, it makes a contribution to existing literature on the structuring effect of past institutional choices on EU interinstitutional dynamics. Through the lens of historical institutionalism and a coalition-based framework analysis, we explored institutionalization models before the pandemic. Our findings demonstrate that these models' fundamental characteristics shaped actors' strategic behavior and, ultimately, influenced the transition from the intergovernmental ESM-PCS to the hybrid governance structure of the RRF.

The article put forth the argument that past institutionalization patterns of spending conditionality regimes mattered in two ways. Ad hoc intergovernmental regimes have a limited functional scope and require updating to accommodate new circumstances. If they rest on asymmetrical relations, their contested legitimacy can expose them to 'boycotting' strategies aimed at drifting their undesired effects. Second, if new policy problems can be framed in ways that open the door to available alternatives, the existence of consolidated multipurpose practices within the treaties become a strong competitor of ad hoc intergovernmentalism. Standard and multipurpose regimes might be conceived as tested "solutions in search of a problem" (Kingdon, 2005) and enjoy the support of favorable coalitions for their conversion to new goals. We found spending conditionality under the EU budget to be a fitting example, given the progressive incorporation of different forms of conditionality enforced through various forms of procedural cooperation between the EC and the Council. However, our empirical analysis also demonstrates how processes of conversions are unlikely to occur in their pure form if the introduction of redistributive instruments is nested and subject to decisions requiring unanimity. Under these circumstances, intergovernmentalism can enter through the back door of treaty-based decisions (e.g. those regarding the size and composition of EU's budget) and result in the layering of new forms of intergovernmental control. The outcome of the enmeshment of conversion and layering strategies depends on factual and legal contingencies affecting actors' preferences and bargaining power and it is difficult to predict a priori. In the case of the pandemic, the urgency to prop up EU's legitimacy in the face of a systemic crisis has favored the emergence of a hybrid instrument in which formal intergovernmental control under the community method coexists with informal control by the European Council.

Although this study is limited to the conditions leading to the institutional design of the RRF and does not address its functioning in practice, its findings have theoretical implications in terms of regimes adaptability and interinstitutional dynamics. They demonstrate that the specificities of institutionalization exert an influence on the trajectory of future political action. Nevertheless, whether and how this hybrid system could evolve into a standard model of governance is still an open question. In this vein, further analysis is required to shed light on the entrepreneurship role played by the commission as an agent of regime conversion and, more specifically, as an advocate of standard governance regimes.

Finally, whether and to what extent the structural and agency variables leading to the RRF interinstitutional distribution of power (supporting coalition, adaptability of standard regime rules and credibility of commitments flowing from the combination of supranational control and interstate filters) could be adapted or used for a new RRF-like instrument also require further research. In this regard, the efficient implementation of the RRF is key to assess its transferability to other policy fields. While significative deficiencies in implementation would likely undermine the supporting coalition and supranational entrepreneurship and relegate the RRF institutional design to a one-off experiment, successful implementation would turn such design into a candidate for replication across other domains with similar redistributive and conditionality features.

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CONFLICT OF INTEREST STATEMENT

The authors declare no conflicts of interest.

ORCID

Ana Mar Fernández-Pasarín http://orcid.org/0000-0002-3507-1912
Andrea Lanaia http://orcid.org/0000-0003-4418-7842

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AUTHOR BIOGRAPHIES

Ana Mar Fernández-Pasarín is Associate Professor in Politics and Public Administration and Jean Monnet Chair in European Policies at the Autonomous University of Barcelona, Department of Political Science and Public Law. She is the Director of the Jean Monnet Centre of Excellence in European Global Policies (EUGLOB), the Coordinator of the EUGOV: Government and Governance in the EU Research Group (www.eugov.uab.cat) and the Principal Investigator of the EUDECON Project: "Delegation and Consensual

Decision-Making in the Implementation of the Recovery and Resilience Facility" funded by the Spanish Ministry of Economy and Competitiveness (2023–2027).

Andrea Lanaia is Lecturer in Politics and Public Administration at the Autonomous University of Barcelona, Department of Political Science and Public Law.

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