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Recovery and Resilience Facility: Two years on
A unique instrument at the heart of the EU's green and digital transformation

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A unique instrument at the heart of the EU's green and digital transformation

The two-year anniversary of the entry into force of the Regulation establishing the Recovery and Resilience Facility[1] ('RRF') is an opportunity to reflect on the achievements and challenges of this unprecedented instrument. The RRF, at the heart of the EUR 800 billion NextGenerationEU recovery plan for Europe, was established in the midst of the COVID-19 pandemic to help the Member States recover faster and become more resilient. It provides a powerful tool at the European level to support an accelerated and ambitious green and digital transition. Yet, its implementation is taking place in a constantly evolving context, marked by Russia's unprovoked invasion of Ukraine, high inflation, and an energy crisis.

The RRF remains at the core of our European efforts to address these new challenges in a changing geopolitical environment. Now is the time to take stock of the experience gained over the past two years to ensure a continued successful rollout of the RRF.

This Communication reviews the state of play of the implementation of the Facility, outlines further steps for supporting the continued successful implementation in the years to come and explains the methodology that will be applied in case a payment needs to be suspended.

1. Two-year anniversary of the Recovery and Resilience Facility – an innovative and successful crisis-response tool

1.1 The unique design of the Recovery and Resilience Facility

The RRF is the centrepiece of the EUR 800 billion NextGenerationEU recovery plan for Europe and, as such, part and parcel of the EU's response to the COVID-19 crisis. The Facility was created to mitigate, in the near term, the economic and social impact of the pandemic and to support, over time, the EU recovery while making European economies and societies more sustainable, resilient and better prepared for future challenges. A common EU economic response was also decisive to protect the Single Market and avoid increased economic divergences in the Union.

The Facility is an innovative, performance-based instrument, where payments are made to Member States, as beneficiaries, upon delivering reforms and investments pre-agreed in national recovery and resilience plans. The funds are therefore disbursed solely on the basis of the progress in the achievement of the reforms and investments that Member States committed to. Focused on the timely and efficient implementation of Member States' plans, the performance logic of the RRF makes payments conditional on concrete outcomes. Disbursements thus depend on the delivery of the pre-agreed investments and reforms rather than the final costs incurred.

The RRF helps Member States to deliver on jointly identified policy priorities, including the green and digital transitions and the European Pillar of Social Rights. The Facility supports long-lasting reforms and investments that directly contribute to the green and digital

[1] Regulation (EU) 2021/241

transitions, including the net-zero industrial transformation. About 40% of the total allocation of the plans contributes to measures aimed at reducing net greenhouse gas emissions by at least 55% by 2030, and more than 25% to measures of digital transformation of the European society and economy. The RRF's contribution to the green transition is further reflected in the mandatory respect of the "do no significant harm" principle, which is essential to ensure the compatibility of the Facility with the EU's environmental objectives. Across the recovery and resilience plans, which have been positively assessed by the Commission and then adopted by the Council, around EUR 203 billion is allocated to climate expenditure and EUR 131 billion to digital expenditure (respectively around 41% and 26% of the plans' allocation). Moreover, the Facility also supports measures that are contributing to the implementation of the European Pillar of Social Rights, the Union of Equality, and the achievement of the 2030 targets in terms of employment, skills and poverty reduction - with almost 30% of the plans' allocation dedicated to social expenditure, or around EUR 138 billion.

Member States have flexibility in designing and implementing the measures in a way that suits their national conditions, which increases their ownership of plans. Milestones and targets are designed individually to fit the specific investments and reforms the Member States commit to implement; this gives them full ownership to ensure a successful delivery. Investments and reforms are typically structured into a series of related milestones and targets spanning over multiple payment requests, in order to track progress with the delivery. In contrast with most EU programmes, the RRF is characterised by the absence of co-financing requirements, thereby alleviating national budgets in times of economic strain.

One of the main strengths of the RRF is that investments are combined with reforms. The RRF supports Member States in addressing relevant country-specific recommendations adopted by the Council as part of the European Semester. As such, the RRF provides political momentum and financial incentives for Member States to deliver on long-standing and newly emerging reform needs. Meeting such needs is essential to enhance the resilience and competitiveness of the European economy and to contribute to upward social and economic convergence. Reforms are typically designed to have an enabling effect for both public and private investments, by setting the right framework conditions, removing absorption bottlenecks, addressing labour market mismatches and skills shortages, and improving the overall business environment. Reforms typically do not carry a large budgetary cost, but they must also be delivered by the Member States. Anchoring national recovery and resilience plans in the European Semester cycle ensures their continued relevance, as possible modifications of plans are assessed against the latest country-specific recommendations.

The agenda of reforms and investments supported by the RRF is complementary to other Union programmes and tools. RRF-supported investments are undertaken in complementarity with the implementation of the cohesion policy funds. In addition, the reforms implemented under the RRF also contribute to facilitating the roll-out of investments in the cohesion policy programmes. RRF investments and reforms also coherently support Member States in achieving the objectives of other instruments like the National Energy and Climate Plans and the Just Transition Plans.

The RRF's unprecedented agenda of already adopted reforms and completed investments[2]

The RRF has triggered the implementation of major reforms across a wide range of policy areas. More than one third of all measures in the 27 recovery and resilience plans are reforms (around 2187 reforms compared to 3780 investments). These reforms do not only make Member States more resilient in the long-term, but also improve the conditions for a successful delivery of the related investments under the RRF as well as the Cohesion policy Funds, for instance, by modernising regulatory frameworks in key sectors (digital, renewables, transport), improving permitting and public procurement procedures and strengthening the rule of law and anti-corruption safeguards.

Some of the flagship reforms already adopted include:
- Reforms to digitalise public administration (Slovakia) and ensure cybersecurity (Romania).
- Reforms of civil and criminal justice systems to make them more efficient by reducing the length of proceedings and by improving the organisation of courts (Italy, Spain).
- Labour market reforms and modernisation of active labour market policies (Spain).
- Reforms enhancing employment and social protection (Croatia).
- Reforms to foster scientific excellence and improve the performance of universities and public research organisations (Slovakia) and to enhance the predictability and stability of public research funding (Portugal).
- Reforms tackling corruption and ensuring protection of whistle-blowers (Cyprus).
- Licensing simplification reforms to boost the investments in offshore renewables or reforms to create the conditions for introducing renewable hydrogen (Greece, Portugal, Spain).
- Reforms to support the roll-out of renewable energy and sustainable transport (Croatia, Romania).
- Reforms improving the quality of the legislative process (Bulgaria).
- Reform to improve affordable housing (Latvia).

Some of the major investments with key steps already completed include:
- Investments to support the decarbonisation and energy efficiency of industry (Croatia EUR 91 million, France EUR 1.4 billion).
- Purchase of 600 000 new laptops to lend to teachers and pupils, and selection of Digital Innovation Hubs to support companies in their digitisation efforts (Portugal, EUR 600 million).
- Funds to increase the competitiveness of firms operating in the tourism sector, including 4000 SMEs (Italy, EUR 1.9 billion).
- Investments to support vulnerable people (Italy, EUR 1 billion).
- Digitisation of public administration towards digital, simple, inclusive and secure public services for citizens and businesses (Portugal, EUR 170 million).
- Broadband infrastructure development (Latvia, EUR 4 million).

[2] The list of examples covers the reforms and investments whose related milestones and targets have already been assessed as satisfactory fulfilled by the Commission following a positive opinion of the Economic and Financial Committee. The monetary amounts for each investment refer to the ex-ante estimation of costs at the time of approving each national recovery and resilience plans.

- Investment plan for high-tech equipment in the National Health System (Spain, EUR 796 million).

1.2. Delivering on the EU's post-pandemic recovery and building long-lasting resilience

Thanks to its unique design, the RRF can swiftly provide significant financial support to Member States to contribute to their economic and social resilience. The implementation of the RRF is now firmly underway, with all national plans in place and sixteen payment requests already fully processed, another three already positively assessed and eight with an assessment ongoing. To date, the Commission has disbursed a total of over (EUR 144 billion) under the Facility, in both grants (EUR 96 billion) and loans (EUR 48 billion). These figures include the pre-financing disbursed to Member States in 2021 (EUR 56.5 billion). Pre-financing provided fast direct support to Member States, playing a stabilising role in the aftermath of the unprecedented economic and social shock caused by the COVID-19 pandemic, thereby also helping to kick-start the recovery. The additional pre-financing agreed by co-legislators in the context of REPowerEU seeks to achieve the same goals.[3]

The RRF is already playing a visible role in supporting investment levels and the quality of investments and reforms. The EU economy closed the gap with its pre-pandemic output levels in summer 2021, supported by the unprecedented, coordinated response to the COVID-19 pandemic, including under NextGenerationEU. In 2022, the EU's GDP is forecasted to have grown by 3.5%[4], and the unemployment rate has reached a historic low of 6.1% in December, despite the additional shocks brought by Russia's illegal war of aggression against Ukraine. RRF disbursements and implementation are set to reach their highest level in 2023, supporting public and private investment and reforms. The public investment to GDP ratio is projected to increase from 3.0% in 2019 to 3.4% of GDP in 2023[5]. Half of this increase between 2019 and 2023 is supported by EU financing and RRF funding. In parallel, Member States are seeing an unprecedented delivery of structural reforms in response to the European Semester country-specific recommendations.

The transformative dimension of investments and reforms under the RRF is expected to support the EU's economic activity as well as increase its resilience. As regards its potential medium-term impact, the Commission estimated that the investments funded by NextGenerationEU could boost the EU's GDP by around 1.5% in 2024 and stimulate job creation.[6] The implementation of the national recovery and resilience plans triggers positive

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[3] Member States can request a maximum pre-financing of up to 20% (to be paid in two tranches) of the additional funding required to finance the measures in their REPowerEU chapters, subject to available resources. The additional funding eligible for pre-financing can encompass additional grants from Emission Trading System, Brexit Adjustment Reserve transfers, a, Cohesion Policy Funds transfers, increased allocation following the update in June 2022 and loans, to the extent that these sources finance the REPowerEU measures. To be eligible for pre-financing the Council Implementing Decision approving the relevant revised plan needs to be adopted before the end of 2023.

[4] Data based on Commission Winter Forecast 2023

[5] Data based on Commission Autumn Forecast 2022

[6] See Pfeiffer P., Varga J. and in 't Veld J. (2021), "Quantifying Spillovers of NGEU investment", European Economy Discussion Papers, No. 144 and Afman et al. (2021), "An overview of the economics of the Recovery

spillover effects in the Single Market: according to the Commission's simulations, all Member States benefit from sizable cross-border spillover effects thanks to rising demand across the integrated EU economy. Joint action yields higher growth effects than the sum of individual effects of Member States' national plans.

Funding the RRF has contributed to making the EU one of the largest issuers of euro-denominated bonds. Driven by the RRF financing needs, in 2022 EU gross issuances amounted to EUR 119 billion in long-term instruments.[7] The recent changes in bond market conditions have not altered the EU's strong market access; the EU's high credit rating and the Commission's unified funding approach allow it to borrow on advantageous conditions and minimise the cost of the related debt.

The EU is well on track to be the largest issuer of green bonds worldwide. From October 2021 to December 2022, the Commission had raised EUR 36.5 billion in green bonds to support eligible green expenditure under the RRF, showcasing the EU's commitment to the green transition and the promotion of sustainable finance. To provide the utmost transparency to investors, the Commission has published the NextGenerationEU Green Bond dashboard and its first allocation report in December 2022[8].

2. Accelerating the RRF's implementation: a Covid-19 crisis response tool paving the way to a net-zero future

2.1. The RRF as an agile crisis-response tool: REPowering the Union for the net-zero age

The second anniversary of the RRF coincides with the first year of Russia's unprovoked military aggression against Ukraine. While Member States were recovering from the profound economic and social effects of the COVID-19 pandemic, Russia's war against Ukraine caused renewed pressures on supply chains, as well as on global energy and food markets, which have resulted in high levels of inflation, putting a strain on households and businesses.

The REPowerEU Plan, proposed in May 2022 as the EU's response to the global energy crisis, recognised the role of the RRF for achieving secure, affordable and green energy. Under REPowerEU, the RRF will support Member States in putting forward additional reforms and investments to rapidly phase-out the EU's dependence on Russian fossil fuels, accelerate the clean energy transition, support the reskilling of the workforce, and address energy poverty. These new or scaled-up measures, to be included in dedicated REPowerEU chapters, will come on top of the already ambitious green agenda of the existing recovery and resilience plans, which already include support to environmental priorities such as the circular economy.

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and Resilience Facility", Quarterly Report on the Euro Area (QREA), Vol. 20, No. 3 pp. 7-16. Both studies also highlight the sensitivity of the results to key assumptions.

[7] This includes borrowing for other programmes, such as SURE and MFA.

[8] NextGenerationEU Green Bonds Allocation Report, 16 December 2022, SWD(2022) 442 final (europa.eu)

The EU's Green Deal Industrial Plan[9] makes it clear that both the RRF and REPowerEU are at the centre of the Union's plans to enhance the competitiveness of Europe's net-zero industry and support the fast transition to climate neutrality. The reforms triggered by the implementation of the RRF, including on accelerating permitting, will have an enabling effect on investments necessary for the net-zero transition, including from the private sector. In addition, RRF funds will be available to Member States to finance further measures promoting the deployment and manufacturing of net-zero technologies in Europe, enhancing training and skills for all people to enable the green and digital transitions, supporting EU net-zero industry projects and the creation of quality jobs, incentivising R&I for new zero emission breakthrough technologies and assisting industries in the face of high energy prices, including through tax breaks. As large amounts of private capital will also be necessary, advancing the Capital Markets Union to ensure deep and integrated capital markets in the EU is an essential complement to the RRF.

To effectively sharpen Europe's competitive edge, REPowerEU strengthened the RRF's financial firepower. Additional RRF grants (EUR 20 billion) funded by the EU Emissions Trading System will be available to Member States to promote REPowerEU objectives. Member States may transfer a part or the whole of the Brexit Adjustment Reserve allocation (up to EUR 5.4 billion) as well as up to 5% of the cohesion policy funds (up to EUR 17.9 billion) to dedicate grants to these objectives. Furthermore, Member States will be able to use the remaining RRF loans (EUR 225 billion) with substantial pre-financing for the investments and reforms Member States are now invited to present in their REPowerEU chapters by 30 April 2023.[10]

2.2. Pathway towards a successful implementation

As the Facility enters into the second half of its lifetime, adhering to the timelines outlined in Member States' plans is increasingly important. Member States should make their best efforts to fully use the opportunities provided by the RRF, by delivering the investments and reforms within the timelines foreseen in the Council Implementing Decisions approving the assessments of national recovery and resilience plans. Respecting these timelines is very important to ensure efficient planning of funding operations on the capital markets and timely disbursements.[11]

Global instability, supply chain disruptions, the energy crisis and inflation are putting a strain on national authorities, making the implementation of recovery and resilience plans at times more challenging. Yet, at the same time, they also make the successful and timely implementation of those plans even more crucial. The Commission stands by its commitment to fully support all Member States to accelerate the implementation of the plans. From the outset, one of the important features of national plans has been to strengthen the administrative capacity of Member States. Now, with new challenges requiring a new policy

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[9] COM(2023) 62 final

[10] Guidance on Recovery and Resilience Plans in the context of REPowerEU, 1 February 2023

[11] In this regard, Member States must accurately forecast and update the Commission on any deviations from the timeline of expected payment requests.

response, this capacity needs to be further enhanced, including through the Technical Support Instrument[12].

The revision of the plans and the addition of REPowerEU Chapters in spring 2023 is also an opportunity to take into account the experience gained during the first years of RRF implementation. The Commission will support Member States to optimise the implementation and monitoring of the plans while increasing their level of ambition with the additional funding available.

The Commission will also continue to play its role in protecting the financial interests of the Union. To this end, the Commission ensures that national control systems are robust and implements its ambitious audit strategy, in line with its duties and responsibilities under the RRF Regulation. Member States submitting revised plans will be asked to justify precisely how the control structures put in place are still appropriate and, where necessary, how they will be reinforced to ensure appropriate resources and structures.

2.3. Increasing transparency and engagement with stakeholders

The accelerated implementation goes hand in hand with a high level of transparency on the functioning of the Facility. Since the inception of the RRF, the Recovery and Resilience Scoreboard[13] has served as a key transparency tool. It displays the contribution of the Facility under the six policy pillars, including granular data on common indicators and thematic analyses, while also providing real-time information on the disbursements. The RRF webpage[14] contains the details of all 27 national plans as well as the detailed assessments of the satisfactory fulfilment of each of the milestones and targets pertaining to the reforms and investments relevant for each payment request. In addition, to increase public awareness about the individual projects financed by the RRF, the Commission is working to produce an interactive map that will provide a visual interface to explore a selection of RRF measures and their locations in the Member States.

The transparency of the RRF framework will be further strengthened by the REPowerEU Regulation, on which a political agreement was reached in December 2022 between the European Parliament and the Council, requiring Member States to publish information on the 100 final recipients receiving the highest amounts of RRF funding. While the beneficiaries of RRF funds are the Member States, the information on the largest final recipients of RRF funding in each Member State will provide an updated overview of the entities and individuals supported the most from the measures contained in the national recovery and resilience plans. This will enhance the transparency and accountability of the Facility.

The European Parliament has a pivotal role in the implementation of the RRF. Since the beginning of 2021, the Commission has actively participated in a series of Recovery and

[12] Recovery and Resilience Plans (europa.eu)
[13] Recovery and Resilience Scoreboard (europa.eu)
[14] Recovery and Resilience Facility (europa.eu)

Resilience Dialogues, as well as a variety of working group meetings and plenary debates organised by the European Parliament. During each of these meetings, the Commission provided detailed presentations and answered the questions posed by the Members. The Commission diligently took note of the points raised by the Members and, to the best of its ability, addressed them in its ongoing work. This close collaboration between the Parliament and the Commission has significantly contributed to the successful rollout of the RRF during its first two years.

Public consultation requirements have also been strengthened for the preparation of the REPowerEU chapters and remain key during the overall implementation of the plans. Member States will have to consult relevant stakeholders when drafting their REPowerEU chapters. When Member States request to revise their plans, they will have to submit to the Commission a summary of the consultation process, including information on the stakeholders consulted and a description of how their input has been reflected in the design of REPowerEU measures. Finally, Member States should ensure that relevant stakeholders, with a particular focus on local and regional authorities and social partners remain closely involved in the implementation of the RRF in a timely and meaningful way. In particular, the Commission will keep organising together with Member States joint Annual Events. These are key communication moments bringing together institutions, stakeholders (in particular social partners and civil society) and recipients of RRF support to discuss the progress and state of play of the implementation of the national recovery and resilience plans in each Member State. Member States should also continue their efforts in informing the general public about the concrete results of the RRF support on the ground. Overall, fostering joint ownership will further increase trust in the Facility, which is vital for a successful delivery.

3. An agile toolbox for the next phase of the implementation

The experience gained from the two first years of the RRF implementation shows that the Facility's continued success will depend on the ability of Member States to achieve, within the lifetime of the Facility, all milestones and targets included in their recovery and resilience plans. In that regard, it is essential that Member States continue to focus their resources and efforts to ensure a quick deployment of the measures, with the Commission providing hands-on support as needed to help the Member States.

While speed remains essential in the implementation of the RRF, so does the obligation for Member States to deliver on the mutually agreed milestones and targets. The implementation of the RRF requires flexibility on the means to achieve the milestones and targets while remaining firm on the delivery of the essential policy objectives of the measures agreed with the Member States. To this end, the Commission presents three implementation tools that will add predictability and transparency. These tools reflect more than a year of experience in the assessment of payment requests.

3.1. Framework for assessing milestones and targets under the RRF Regulation

The milestones and targets set in national plans are at the core of the RRF as they represent commitments made by the Member States to access RRF support. The assessment of these commitments is based on clear conditions and requires a detailed analysis to determine if the Member States have fulfilled their obligations in a satisfactory way. The

Commission is responsible for making this assessment, taking into account the opinions of the Economic and Financial Committee and under the control of Member States within the Committee on the Recovery and Resilience Facility. The status of fulfilment of the milestones and targets as well as the related payments is also a matter that the European Parliament and the Commission may discuss during the Recovery and Resilience Dialogues.

To foster transparency and equal treatment amongst Member States, the Commission has published all preliminary assessments[15] of the payment requests submitted by the Member States. Today, the Commission takes another step in this direction, by publishing its framework for assessing the satisfactory fulfilment of the milestones and targets (see annex I). The Commission strongly believes that by making this framework public, national authorities, stakeholders and the wider public will gain a better understanding of how the implementation of measures supported by the RRF is evaluated before each disbursement.

The framework will continue to guide the RRF's implementation for the period ahead. The Council Implementing Decisions approving the recovery and resilience plans are the basis for evaluating the satisfactory fulfilment of milestones and targets. The Commission relies on the description of each milestone and target in light of its context and purpose to determine the requirements that Member States must fulfil. It then establishes, based on the due justifications provided by the Member States, whether a specific milestone or target has been satisfactorily fulfilled. In a limited number of circumstances and in line with the application of the *de minimis* principle, minimal deviations linked to the amounts, formal requirements, timing or substance can be accepted.

3.2. Revision of the plans

In 2023, most Member States will revise their plans to add REPowerEU chapters and access additional funding opportunities. The revision of the plans also represents an opportunity to reflect on the lessons learned from the implementation phase and take them into account in the design of both new and revised measures, increasing the level of ambition of the plans. The Commission Guidance[16] on the revision of the recovery and resilience plans in the context of REPowerEU adopted on 1 February 2023 explains how to apply various elements of the Regulation to optimise the design of the revised plans and incorporate measures that can contribute the most to the RRF objectives. The Commission will support Member States to identify and tackle potential bottlenecks in the implementation of existing measures.

The Commission also strongly encourages Member States to include in their REPowerEU chapters simple and effective measures to provide support to strategic net-zero industries and boost their competitiveness in the context of the net-zero transition.

[15] Once a Member State submits a payment request to the Commission, the Commission has two months for assessing the satisfactory fulfilment of the relevant milestones and targets. To conclude its assessment, the Commission provides its positive **preliminary assessment** to the Economic and Financial Committee. Within 4 weeks, the Economic and Financial Committee provides an opinion on these findings, after which the Commission implementing decision that authorises the disbursement is adopted.

[16] Guidance on Recovery and Resilience Plans in the context of REPowerEU (europa.eu)

This in particular could include one-stop shops for permitting processes for net-zero projects or tax breaks for businesses undertaking clean-tech manufacturing investments. The Facility can also finance investments to equip the workforce with the skills necessary for this industrial transition. Also, REPowerEU can finance investments in zero-emission mobility to help decarbonising the transport sector.

At the same time, Member States should maintain the level of ambition of each recovery and resilience plan and avoid backloading measures. In assessing the modifications put forward for each plan, the Commission will pay specific attention to ensuring that the existing ambition of reforms and investments playing an important role in addressing the country-specific recommendations, as well as the priority actions for fair green and digital transitions, are preserved. Furthermore, the Commission will promote the scaling up of measures already in the pipeline to reduce the risk of delays in the implementation of the plans and, at the same time, ensure continuous consistency between disbursements and an effective and efficient funding planning.

3.3 Payment suspension methodology

The RRF Regulation caters for adverse and unexpected developments and allows partial or full suspensions of payments to address implementation shortcomings. Member States might be confronted with delays in the implementation of measures, affecting the timely fulfilment of some milestones and targets. These situations should be exceptional and corrected as soon as possible. They should not, where justified, prevent payments from being made for milestones and targets that have been fulfilled. The RRF Regulation caters for such a situation where implementation issues for one or more of the milestones or targets of a payment request cannot be addressed in time before the submission of a payment request. More specifically, the Regulation provides for the possibility for the Commission to suspend payments partially or fully, thereby also ensuring compliance with the principles of sound financial management as foreseen in the Financial Regulation. Partial suspension is not possible in case of non-fulfilment of milestones or targets related to a Member State's control system, which are necessary for the protection of the financial interests of the Union. Such a case always leads to the suspension of the full instalment and all future instalments, until the non-fulfilment is remedied.

The payment suspension procedure favours the continued implementation of the plan and provides time for Member States to lift the suspension by fulfilling the relevant milestone(s) or target(s) within a period of six months. The partial suspension of a payment will give additional time to a Member State to tackle specific implementation issues while, in the meantime, benefitting from a partial payment linked to the milestones and targets that have been satisfactorily fulfilled. The suspension decision opens a period of six months where the Member State has the opportunity to complete the relevant milestone or target. When this happens, the Commission will lift the suspension through a positive assessment and subsequently pay the suspended amount following the positive opinion of the Economic and Financial Committee. Should there be a negative assessment, following the six months period, then the respective amount will be permanently suspended and deducted from the budget of the plan.

The Commission will determine the amount to be suspended if a milestone or target is not satisfactorily fulfilled, in full respect of the principles of equal treatment and proportionality. The Commission's methodology (detailed in Annex II) is necessary to underpin and justify its decisions as regards payments suspensions. It provides a clear and consistent approach to determine the relevant amounts, while retaining a margin of discretion.

The payment suspension methodology reflects the performance-based nature of the RRF and the unique combination of reforms and investments. Payments under the RRF are not linked to the estimated or actual costs of the relevant measures but rather reflect the relative importance attributed to each group of measures, and the corresponding milestones and targets, in view of the challenges experienced by the Member State. The same principles must therefore be applied when determining the amount to be suspended when a milestone or target is not met.

The calculation of the suspended amount will reflect the fact that not all measures contribute equally to the realisation of the objectives of an RRP. For instance, a relatively minor individual investment cannot be attributed the same value as a large investment, or as the entry into force of a major reform. In addition, the relative significance of each milestone and target in the implementation of the measure will be taken into consideration. For example, a final milestone or target will count more than an intermediary milestone followed by subsequent milestones or targets related to the same investment. This explains the differentiation in the methodology (detailed in Annex II) between investments and reforms, as well as the coefficients and the upward or downward adjustments applied to the amount to be suspended to reflect the importance of the milestone or target at stake.

A contradictory procedure will ensure that the Member States can submit observations regarding the negative assessment by the Commission underpinning the suspension decision. The Member State will be invited to provide its observations regarding the Commission's negative assessment on the satisfactory fulfilment of a milestone or target. Similarly, should the Commission conclude that the Member State has not taken the necessary measures to ensure a satisfactory fulfilment of the milestone or target within six months from the suspension decision, Member States may also present their observations. Finally, Member States will have the opportunity to discuss and vote on the amount suspended in the context of the Comitology procedure regarding the disbursement decision.

The implementation framework presented in this Communication aims to create the best conditions for fast absorption of RRF funding, while ensuring the continued delivery of quality investments and reforms. The Member States should continue to ensure their full commitment to deliver timely on the milestones and targets of their plans. The Commission will remain vigilant to ensure that plans continue to address country-specific recommendations and fulfil the green and digital targets.

Conclusions

The RRF has been a vital response to the COVID-19 pandemic. It is a significant financial and policy effort, designed to support the EU's recovery. It provided a powerful boost to the EU economy, fast-forwarded the twin green and digital transition and strengthened the EU's resilience for future challenges. It provides a unique approach, combining investments with reforms and giving Member States flexibility in implementing measures that best suit their national circumstances. With only two years since its inception, the RRF has already delivered significant financial support and kick-started the EU's economic recovery.

With newly emerging challenges, the RRF must remain agile to continue to efficiently support a fair and inclusive recovery of Member States and EU regions from the COVID-19 crisis, while leading the EU towards a more sustainable and resilient future through ambitious investments and reforms. Thanks to its unique design and the strategic foresight embedded in its priorities, the RRF is able to address newly emerged pressing challenges linked to the EU’s energy security, sustainable industrial competitiveness, and the industrial transition to a net-zero economy while contributing to upwards social and economic convergence.

Building on the valuable lessons learned in the past two years, the Commission stands ready to support Members States to ensure the continued success of the RRF implementation. The application of the methodologies for assessing the satisfactory fulfilment of milestones and targets and the suspension of payments will also serve this purpose and continue to ensure the sound financial management of the Facility.

The mid-term evaluation of the RRF next year will serve as another opportunity to take stock and assess the progress made with and lessons learnt from the implementation of the RRF.

ANNEX I - Framework for assessing milestones and targets under the RRF Regulation

The release of funds under the Facility is contingent on the satisfactory fulfilment of the relevant milestones and targets by the Member States set out in the Council Implementing Decisions. Such an assessment is conducted in accordance with Article 24(3) of Regulation (EU) 2021/241 ('the RRF Regulation'). The Commission has two months to assess on a preliminary basis whether the relevant milestones and targets have been *satisfactorily* fulfilled. The Commission shares afterwards those findings with the Member States in the Economic and Financial Committee for their opinion. The status of fulfilment of the milestones and targets as well as the related payments is also a matter that the European Parliament and the Commission may discuss during the Recovery and Resilience Dialogues.

To ensure transparency and equal treatment amongst Member States, the below methodology represents the framework that the Commission is relying upon for conducting the assessment. It is based on the experience that the Commission has gained so far in the assessment of milestones and targets under the RRF Regulation.

1. Establishing the requirements for a specific milestone or target

- All elements of the milestone/target and the description of the measure should be considered in order to identify the requirements for a specific milestone/target. The further specifications of the measure in the operational arrangements should also be considered, whilst other elements in the operational arrangements (such as verification mechanisms and monitoring steps) should not.
- Elements using non-obligatory language should not be considered as requirements.
- In relation to the description of the measure:
  - elements that are directly or indirectly linked to that specific milestone/target should be considered as requirements of that milestone/target;
  - elements that are not directly or indirectly linked to that milestone/target should not be considered as requirements;
  - elements that are not directly or indirectly linked to any milestone/target under that measure, if any, should be explicitly mentioned as such in the context of the preliminary assessment of the final milestone/target.
- To interpret the requirements of a specific milestone or target, it is necessary to consider their wording, in light of its context and their purpose. The context and purpose can be derived by reviewing various sources, such as the national recovery and resilience plans, recitals of the Council Implementing Decision approving the assessment of the recovery and resilience plan, the Staff Working Documents accompanying the Commission's proposals for such Council Implementing Decisions, notes to the file during the assessment, records of exchanges with the national authorities or the country specific recommendations adopted by the Council linked to that measure.

2. **Establishing on the basis of the due justification put forward by a Member State whether the specific milestone or target has been satisfactorily fulfilled**

- In line with the application of *de minimis*, minimal deviations from the established requirements of the milestone/target, will be accepted in the following circumstances:
    - **Amounts**: where there is a minimal deviation from amounts specified in that milestone/target. Such minimal deviation is defined as around a 5% or less deviation.
    - **Formal requirements:** where there is a minimal deviation from a formal requirement of the milestone/target related to the internal procedures of Member States, which does not affect the progress towards the achievement of the reform or investment that the milestone/target represents.
    - **Timing**: limited and proportional delays between the publication of regulatory measures and their effective entry into force, provided that the certainty of their application and the beginning of legal effects are respected[17]. Such a limited and proportional delay should be assessed considering the implementation steps that should be undertaken by the relevant authorities or the parties impacted by the reform to enable a reasonable application of the new regulatory measures, within the timeline of the Facility.
    - **Substance requirements**: where there is a minimal deviation from a substance requirement of the milestone/target, which does not change the nature of the measure, and which does not affect the progress towards the achievement of the policy objective of the reform or investment that the milestone/target represents.

The Commission will continue to transparently present its findings on the satisfactory fulfilment of milestones and targets by publishing on its website the preliminary assessments related to all payment requests received from the Member States.

[17] This is without prejudice to legislation that is necessary for compliance with Article 22 of the RRF Regulation, which, given its nature (necessary to ensure compliance with the RRF Regulation), cannot be considered grounds for a limited or proportional delay.

ANNEX II - Commission methodology for the determination of payment suspension under the Recovery and Resilience Facility Regulation[18]

I. Principles of the methodology

a) Unit value per RRP

The basis for the calculation of the suspended amount is the 'unit value' of a milestone or target. To ensure a clear relationship between the value that is attributed by the Union to the implementation of the Recovery and Resilience Plan (RRP) and the suspended amount, the unit value of every milestone and target is calculated by dividing, for each RRP, its total value by the number of milestones and targets (total RRP allocation/number of milestones and targets). *E.g.: RRP maximum financial contribution of EUR40 billion / 175 milestones and targets = unit value of EUR229 million for each milestone or target.* For those Member States that have also requested a loan, there will be two different unit values, one for the milestones and targets foreseen under the non-repayable support part of their RRP and one for those milestones and targets foreseen under the loan part.

b) Coefficients and upward and downward adjustments

To give due consideration to differences between the measures in the RRPs and between milestones and targets, the Commission will calculate 'corrected unit values'. To this end, the Commission will apply coefficients to the unit value. These coefficients are set by assessing the importance of each unfulfilled milestone or target and the depth of the implementation gap they represent.

Once corrected unit values are established, upward and downward adjustments will be made in the specific cases outlined below.

The final amount to be suspended per unfulfilled milestone or target will be equal to the corrected unit value subject to any upward and downward adjustment ('suspension value').

Investments

Coefficients applied to the unit value

1) A coefficient of 2 is applied for milestones and targets of **large investments** (accounting for more than 10% of the non-repayable support or loan) **with a limited number of milestones and targets** (at or below 5).

2) A coefficient of 0.5 is applied to:

    - milestones and targets of **the smallest investments** (accounting for less than or equal to 0.1% of the non-repayable support or loan);

[18] Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility.

- **intermediary milestones** (i.e. not targets) that are followed by subsequent milestones and/or targets related to the same investment.

3) For all other milestones and targets, a coefficient of 1 is applied.

Adjustment of the corrected unit value

1) **Proportional reductions** to the corrected unit values are applied in the following cases:

   - In case an **investment target** has not been satisfactorily fulfilled, the progress made towards achieving the target is assessed. The amount to be suspended is determined proportionally to the distance to the target. Such an approach is particularly relevant for targets for which this can be assessed quantitatively.

   - For **investment milestones**, to the extent that it is possible to evaluate the share of what has been achieved.

2) **Upward adjustments** of the corrected unit values are **applied if the investment is of major importance to justify any of the ratings underpinning the positive assessment of the RRP'**.

Reforms

Coefficients applied to the unit value

1) A coefficient of 5 is applied for milestones and targets related to **the entry into force of a reform or the final step for the implementation of a non-legislative reform**.

2) A coefficient of 0.5 is applied **for any other milestones and targets,** such as the ones related to intermediary steps before a milestone related to the entry into force of a given reform (e.g. publication of a report) or to ex-post procedural steps (e.g. evaluation of a reform).

Adjustment of the corrected unit value

1) **Upward adjustments** of the corrected unit values are applied if:

   - The implementation of the reform is considered by the Commission **of particular importance to justify the rating for addressing all or a significant subset of challenges identified in the relevant country-specific recommendations**, including fiscal aspects thereof and recommendations made pursuant to Article 6 of Regulation (EU) No 1176/2011 where appropriate, addressed to the Member State concerned, or challenges identified in other relevant documents officially adopted by the Commission in the context of the European Semester.

2) **Downward adjustments** of the corrected unit values are applied in the following cases:

- The **reform is of less importance to justify any of the ratings underpinning the positive assessment of the RRP**.
- For reform milestones **covering one or more than one policy objective or dimension**, a <u>proportional adjustment</u> will be applied if the policy objective of the milestone is partly met or if some of the objectives/dimensions of the milestone are met and others are not. In considering such a downward adjustment, the substantive progress towards the achievement of the overall objective of the reform will be assessed.

<u>Measures related to audit and control</u>

To ensure the effective use of RRF funds and protect the financial interests of the Union, the non-fulfilment of milestones or targets related to a Member State’s audit and control system that were necessary for complying with Article 22 of the RRF Regulation shall lead to the suspension of the full instalment and all future instalments.

II. Final remarks

The suspension cannot go beyond the full amount of the instalment, except in the case of non-fulfilment of milestones and targets related to a Member State’s control system. The Commission can review and amend this methodology as it gathers more experience with its application.

In accordance with the RRF Regulation, measures that do not respect the principle of 'do no significant harm' (DNSH) are not eligible under the Facility. Moreover, the milestones and targets of measures found in breach of DNSH requirements would not be considered satisfactorily fulfilled, and this methodology would apply to determine the amount to be suspended.