BRIEFING

EU Legislation in Progress
2021-2027 MFF

European Parliament

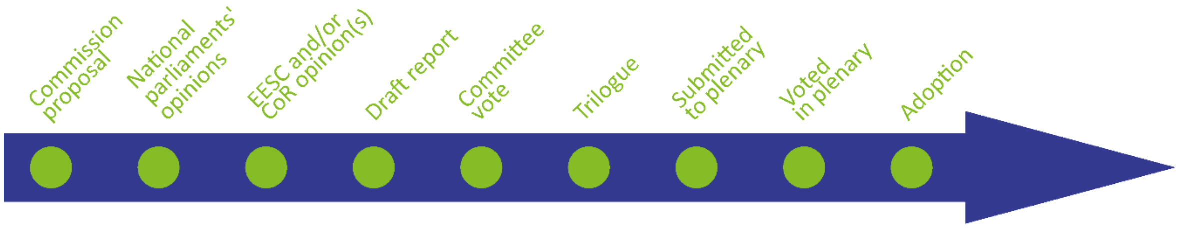
Recovery and Resilience Facility

OVERVIEW

In response to the coronavirus pandemic, on 28 May 2020 the Commission adopted a proposal for a regulation of the European Parliament and of the Council establishing a Recovery and Resilience Facility (the Facility). The Facility will provide €672.5 billion in loans and grants over the coming years to help mitigate the consequences of the pandemic across the EU and to make EU economies more sustainable. The Facility will disburse funds based on the achievement of a set of milestones and targets.

The Parliament's Committees on Budgets and on Economic and Monetary Affairs have been working jointly on the file, and adopted their report in November 2020. In December 2020, the Parliament and the Council reached an agreement on the Facility in trilogue. The Parliament approved the agreed text at first reading on 9 February 2021. The act was then formally adopted by the Council, and published in Official Journal on 18 February 2021, entering into force the following day.

Proposal for a Regulation of the European Parliament and of the Council establishing a Recovery and Resilience Facility		
Committees responsible:	Budgets (BUDG) and Economic and Monetary Affairs (ECON), jointly under Rule 58	COM(2020) 408 final 28.5.2020
Rapporteurs:	Siegfried Mureşan (EPP, Romania); Eider Gardiazabal Rubial (S&D, Spain); Dragoș Pîslaru (Renew, Romania) José Manuel Fernandes (EPP, Portugal)	2020/0104(COD) Ordinary legislative procedure (COD) (Parliament and Council on equal footing – formerly 'co-decision')
Shadow rapporteurs:	Costas Mavrides (S&D, Cyprus) Luis Garicano (Renew, Spain) Joachim Kuhs (ID, Germany) Antonio Maria Rinaldi (ID, Italy) Damian Boeselager (Greens/EFA, Germany) Ernest Urtasun (Greens/EFA, Spain) Johan Van Overtveldt (ECR, Belgium) Roberts Zīle (ECR, Latvia) José Gusmão (The Left, Portugal) Dimitrios Papadimoulis (The Left, Greece)	
Procedure completed.	Regulation (EU) 2021/241 OJ L 57, 18.2.2021, pp. 17–75.	



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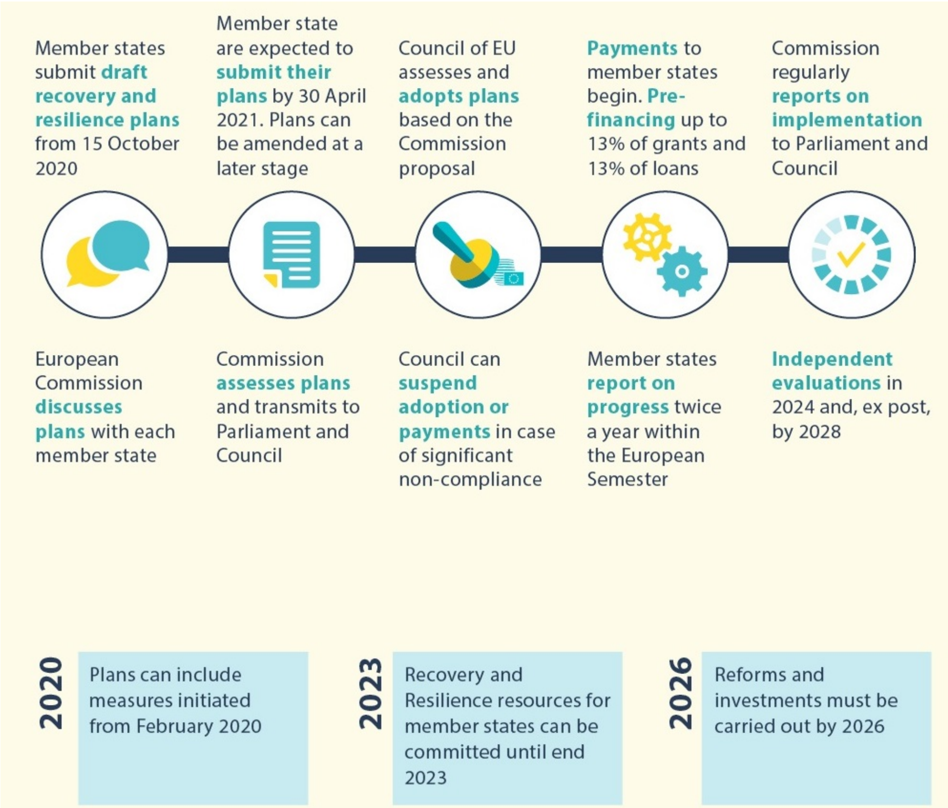
Introduction

In the context of the coronavirus crisis, which has had a huge social and economic impact, the Commission proposed the creation of a new recovery instrument, Next Generation EU, supported by a modern long-term EU budget. The Recovery and Resilience Facility is the flagship instrument of Next Generation EU and aims to promote economic, social and territorial cohesion as well as securing lasting recovery. The policy areas it covers are economic, social and territorial cohesion, health, education and skills, research and innovation, jobs and investments. Its aim is to facilitate competitiveness, resilience, green and digital transformation, smart, sustainable and inclusive growth, and the stability of the EU's financial systems.

The European Council agreed on an envelope of €672.5 billion for the Facility, to support the implementation of investments and reforms in the Member States. Grants will amount to €312.5 billion (in 2018 prices), while a further €360 billion (in 2018 prices) will be available as loans.

Figure 1: Timeline



Source: Council of the EU.

Existing situation

Given the unprecedented crisis and with a view to reaching an agreement as soon as possible, the Commission withdrew its proposal of May 2018 for a Reform Support Programme[1] and replaced it with the proposal for a Recovery and Resilience Facility. The Facility is closely aligned with the Commission's priorities of ensuring long-term, sustainable and inclusive recovery that promotes the green and digital transitions.

According to the Commission, in the short term, the impact of the pandemic in a given Member State will depend on the duration and severity of the confinement measures and on the results of the economic measures adopted in response to the crisis. In the medium and long term, the impact will depend on the degree of harm to economic activity in all sectors and on the country's capacity to implement efficient measures. In this context, the absence of decisive strategic measures would pose risks to the principles of fair competition in the single market, lead to an increase in economic divergences in the EU, and increase the challenges for growth in the long run.

Parliament's starting position

In its resolution of 27 April 2017 on the Structural Reform Support Programme for 2017-2020, the Parliament made proposals on the reform objectives and the budget of the programme. It insisted that the aim of the reforms should be territorial cohesion, enhancing fair competition, quality job creation, equal opportunities and social inclusion. It furthermore asked for the involvement of the local and regional authorities and the social partners in the design and implementation of structural reforms.

On 20 April 2020, the Committees on Budgets (ECON) and on Economic and Monetary Affairs (BUDG) published a joint draft report on the earlier proposal for a regulation of the European Parliament and of the Council on the establishment of a Reform Support Programme. The co-rapporteurs, Eider Gardiazabal Rubial (S&D, Spain) and Dragoș Pîslaru (Renew, Romania), emphasised 'the need for a coherent and fast response to major external shocks such as pandemics that require preparedness of health systems, of essential public services and of key sectors, and the existence of resilient economies, developed research and innovation sector, efficient labour markets and adequate social protection measures'. To that end, they encouraged investment and implementation of structural reforms that can put the EU's economic recovery on a solid and sustainable path.

Preparation of the proposal

The Commission proposed the Facility on 27 May 2020 as the centrepiece of Next Generation EU, a temporary recovery instrument that will allow the Commission to raise funds to help repair the immediate economic and social damage brought about by the coronavirus pandemic. Against this background, the Commission decided to withdraw its proposal for a Reform Support Programme[2] adopted in May 2018 as part of the proposed multiannual financial framework (MFF) for 2021-2027. The aim of the Reform Support Programme had been to provide financial and technical support for structural reforms, to increase the resilience of EU economies and to enhance social and economic convergence among them. In its place, the Commission submitted proposals for two standalone regulations of greater scope and financial ambition than their predecessor: i) for a Recovery and Resilience Facility, and ii) for a Technical Support Instrument. The aim of the Facility is to offer large-scale financial support for public investments and reforms seeking to reduce the economic and social consequences of the pandemic and to make EU economies more sustainable, resilient and better prepared for the challenges of the green and digital transitions.

Due to the urgency of the situation, no new impact assessment was carried out. However, the present proposal for a regulation builds on the original Commission proposal for the Reform Support Programme, which was based on an impact assessment, whose main findings remain valid *mutatis mutandis*.[3]

The changes the proposal would bring

The current extraordinary circumstances of the pandemic call for an urgent and coordinated response from the EU and at national level in order to address effectively the huge economic and social consequences. According to the Commission’s proposal, developing sound, sustainable and resilient economies as well as financial and welfare systems built on strong economic and social structures would help Member States to respond more effectively and in a fair and inclusive way to shocks. A lack of resilience can lead to negative spill-over effects of shocks between Member States or within the EU as a whole, thereby posing challenges to convergence and cohesion in the Union.

The proposal states that no instrument currently provides for direct financial support linked to the achievement of results and to the implementation of reforms and public investments by the

Member States in response to challenges identified in the European Semester. Hence, the Recovery and Resilience Facility establishes a dedicated instrument designed to tackle the adverse effects and consequences of the coronavirus crisis in the EU.

Advisory committees

At its plenary session of 16 July 2020, the European Economic and Social Committee (EESC) adopted an opinion strongly supporting the Commission proposal.

In October 2020, the European Committee of the Regions (CoR) adopted an opinion (CDR 3381/2020) welcoming the amount of the funding. It reiterated its proposal for a code of conduct to involve local and regional authorities in the European Semester and suggested that the recovery plans should dedicate at least 40 % of spending on climate action to enable the EU to meet its climate commitments.

National parliaments

The national parliaments had eight weeks for the submission of reasoned opinions on the grounds of subsidiarity. The deadline was 30 July 2020. On 3 July 2020, the Cortes Generales of Spain sent an opinion stating that the proposal is in conformity with the subsidiarity principle established in the Treaty on European Union.

The Czech Senate sent a resolution requesting that the period for the use of funding from the Facility coincide with the MFF's seven-year term. It also asked for the allocation key based on the unemployment rate before the pandemic to be replaced by an allocation key based on the socio-economic impacts of the pandemic in relation to the drop in GDP in 2020.

The Portuguese Parliament sent its opinion on 30 July 2020 evaluating the proposal and stating that it is in conformity with the subsidiarity principle established in the Treaty on European Union. It also considered the proposal to be in conformity with the principle of proportionality and to be an appropriate juridical instrument, ensuring the fair treatment of the individual Member States.

Stakeholder views[4]

Due to the urgency of elaborating the proposal for a Recovery and Resilience Facility, it was not possible to carry out a formal consultation with stakeholders for the purpose of evaluating the potential impacts of the proposal.

The Confederation of European Business (BusinessEurope), in its 2020 EU reform barometer, made some key policy recommendations on ways to improve EU competitiveness, including by implementing labour and capital tax reforms, public finance reforms and business-environment regulatory reforms. Specifically referring to the economic and social recovery from the pandemic, it suggested that the EU must put strong mechanisms in place to ensure that all expenditure is properly deployed to boost competitiveness and employment, available to all EU companies on a non-discriminatory basis[5] and available to companies of all sizes.[6]

For the financial support to make a difference, it should be accompanied by strong non-financial measures connecting digital, industry and services.

The European Trade Union Confederation (ETUC) called for a 'people's recovery', insisting that, rather than reverting to past models, efforts should be targeted at building a socially fairer, climate-friendly, digital future. It suggested that unions and employers should be involved in the design, implementation and monitoring of the national recovery plans.

SME United represents crafts and SMEs in Europe. Its secretary-general stated in January 2021 that SMEs' recovery and resilience for the future is their main priority for 2021. Regarding the implementation of the national recovery and resilience plans, the secretary-general suggested that a balance between reforms and investments should make economies more resilient for future.

Legislative process

On 28 May 2020, the Commission adopted the proposal for a regulation of the European Parliament and of the Council establishing a Recovery and Resilience Facility.

On 21 July 2020, the special European Council meeting on the recovery package and the 2021-2027 budget, agreed conclusions on the entire financial packages. As for the proposed Facility, while the Commission had proposed €310 billion in grants and €250 billion in loans, the Council agreed on €312.5 billion in grants and €360 billion in loans. The agreement set a ceiling for the maximum volume of loans for each Member State at 6.8 % of its GNI, as opposed to the Commission proposal of 4.7 %. The timeline for committing the funds was limited to the end of 2023.

The European Court of Auditors' opinion No 6/2020 of 9 September 2020 highlighted that the scope and objectives of the Facility are quite broad and may overlap with other funding instruments. It made some recommendations, such as ensuring coordination with other sources of EU funding and additionality; improving the link between recovery and resilience targets and allocation keys; simplifying procedures for the plans and payment requests; revising the frequency and timing of reporting and evaluation; and determining the role of Parliament in the budgetary process. It also emphasised the importance of effective measures against fraud and irregularities.

In the Council, there were more than 10 working party meetings on the Facility. At its video-conference meeting of 6 October, the ECOFIN Council reached political agreement on the proposal. In the Parliament, the Committees on Budgets (BUDG) and on Economic and Monetary Affairs (ECON) have been working jointly on the file under Rule 58 of Parliament's Rules of Procedure. More than 2 100 amendments were voted in BUDG–ECON. Their report was adopted on 9 November 2020. On 13 November 2020, the plenary confirmed the BUDG-ECON decision to open interinstitutional negotiations. Subsequently, nine trilogue meetings between the European Parliament, the Council and the Commission took place in November and December 2020. Parliament and Council negotiators reached an agreement on 18 December 2020.

Coreper endorsed the agreement on 22 December 2020. Subsequently, the BUDG and ECON committees approved the provisional agreement on 11 January 2021. Parliament adopted its legislative resolution on 9 February by 582 votes to 40, with 69 abstentions. Council adopted the act on 11 February, and it entered into force on 19 February 2021.

The scope of the Facility covers policy areas that are structured around six pillars (Article 3):

- **Green transition**. Reforms and investments in green technologies[7] will support the green transition, while contributing to the EU's climate targets, fostering sustainable growth, creating jobs and preserving energy security.
- **Digital transformation**. Implementing reforms and investments in digital technologies and infrastructure will increase the EU's competitiveness at the global level and make the EU more resilient, innovative and less dependent, by diversifying key supply chains.
- Smart, sustainable and inclusive growth, including economic cohesion, jobs, productivity, competitiveness, research, development and innovation, and a well-functioning single market with strong small and medium-sized enterprises. Reforms in these areas will seek to enhance the EU economies' growth potential and sustainable recovery. The reforms and investments will also promote entrepreneurship, the social economy and the development of sustainable infrastructure and reindustrialisation, while also mitigating the effect of the crisis on the economy.
- **Social and territorial cohesion**. Reduction of poverty and unemployment in the Member States will be addressed through the implementation of reforms and investments in social and territorial cohesion contributing to the creation of high-quality and stable jobs.[8]
- **Health, and economic, social and institutional resilience**. Reforms and investments in health and in economic, social and institutional resilience,[9] in particular, will improve

business and public service continuity and the accessibility and capacity of health and care systems.

- **Policies for the next generation, children and youth, including education and skills**. The promotion of education and skills, including digital skills, upskilling, reskilling and requalification of the active labour force will be achieved through reforms and investments in the next generation, children and youth.[10]

Furthermore, according to the agreed text, the Facility will contribute to mainstreaming climate actions and environmental sustainability by supporting measures that account for an amount representing at least 37 % of the Member States' resilience and recovery plans' total allocation. Furthermore, at least 20 % of the Member States plans' allocation will be dedicated to digital expenditure, which will contribute to accelerating digital transformation.

The Facility will also contribute to mainstreaming biodiversity action in the EU policies. Reforms and investments included in the Member States' recovery and resilience plans will include a 'do no significant harm' principle, meaning that they should not be to the detriment of climate and environmental objectives. (Article 2(6)).[11]

For 70 % of the total of €312.5 billion available in grants, the allocation key will be based on each Member State's population (the inverse of its per capita GDP) and its average unemployment rate over the past five years (2015 to 2019) against the EU average. For the remaining 30 %, instead of the unemployment rate (2015-2019), consideration will be given to the observed loss in real GDP over 2020 and the observed cumulative loss in real GDP over the 2020-2021 period.

Member States may submit their recovery and resilience plans by the end of April. These plans should propose a congruent set of reforms and public investment projects to be implemented until the end of 2026. Funding will be available for three years (up to 13 % of pre-financing will be available upon approval of the plans). Projects started from 1 February 2020 are eligible for support.

The Parliament's scrutiny has been enhanced by introducing regular Recovery and Resilience Dialogues. Furthermore, Parliament has been given a say on the Recovery and Resilience Scoreboard, and a requirement obliges the Commission to transmit information to both the Parliament and the Council simultaneously and envisages that the Commission has to take the Parliament's opinions and resolutions into account.

On 22 January 2021, the Commission published its updated Guidance to Member States – Recovery and resilience plans, which underline that milestones and targets should be clear, realistic, specific, measurable, achievable and time-bound. The guidance includes examples of objectives relating to the green and digital transition, the labour market, education, health and social policies, sectoral policies, public administration, public finances and taxation, and the business environment. The second part of the updated guidance also includes information on the general objectives and coherence of the plans, a description of the reforms and investments, and information on the complementarity and implementation of the plans. The guidance document includes an annex for collecting structured data on the plans, with a view to transferring them to a web-based application for updates by Member States in the future.[12]

EP SUPPORTING ANALYSIS

Hagelstam K. and Dias C., The European Semester during the Pandemic, EGOV Briefing, Directorate-General for Internal Policies, European Parliament, December 2020.

Kramer E., Initial Appraisal of a European Commission Impact Assessment: Reform Support Programme, Briefing, EPRS, European Parliament, October 2018.

Sapala M., Pari M. and Kresnichka-Nikolchova N., EU financing for 2021-2027 - The 2021-2027 Multiannual Financial Framework (MFF), the Next Generation EU (NGEU) recovery instrument and new own resources, EPRS Briefing, December 2020.

Spinaci S., Technical Support Instrument, Briefing, EPRS, European Parliament, November 2020.

Widuto A., Reform Support Programme 2021-2027, Briefing, EPRS, European Parliament, March 2019.

OTHER SOURCES

Recovery and Resilience Facility, European Parliament, Legislative Observatory (OEIL).

ENDNOTES

1 The Reform Support Programme was intended to provide support for priority reforms in all Member States. The budget envisaged for it was €25 billion. It included: a Reform Delivery Tool for financial support of reforms, a Technical Support Instrument for technical expertise and a Convergence Facility to support Member States preparing to join the euro. The Structural Reform Support Service would have coordinated the programme.

2 The impact assessment accompanying the new legislative proposal (SWD(2018) 310) provided evidence of a very high take-up of the Structural Reform Support Programme among Member States, with requests for support significantly exceeding the amount of funding available for its annual cycles.

3 See page 5 of the Commission's proposal.

4 This section aims to provide a flavour of the debate and is not intended to be an exhaustive account of all different views on the proposal. Additional information can be found in related publications listed under 'EP supporting analysis'.

5 Regardless of their home Member State.

6 With the exception of a small number of SME-specific schemes.

7 Including biodiversity, energy efficiency, building renovation and the circular economy.

8 The inclusion and integration of disadvantaged groups also enable the strengthening of the social dialogue.

9 Including with a view to increasing crisis reaction capacity and crisis preparedness.

10 These actions should ensure that the next generation of Europeans is not permanently affected by the impact of the coronavirus crisis and that the generational gap is not deepened further.

11 Article 17 of Regulation (EU) 2020/852 of the European Parliament and Council (EU Taxonomy Regulation).

12 A Recovery and Resilience Task Force (RECOVER) was set up on 16 August 2020 to guide the implementation of the Facility and the coordination under the European Semester.

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