IN-DEPTH ANALYSIS

The main building blocks of the Recovery and Resilience Facility

This note presents the main features of the Recovery and Resilience Facility relevant for scrutiny by the European Parliament, namely its financing; the Recovery and Resilience Plans and the framework for their assessment; and EU level governance of the RRF, in terms of both its implementation and monitoring and oversight. It also highlights the changes the Facility is bringing to the European Semester.

1. The Recovery and Resilience Facility: background and main features

On 27 May 2020, the Commission proposed a Regulation on Recovery and Resilience Facility (RRF), in the context of the "European Union Recovery Plan", a wide package of initiatives aimed at meeting the calls by the European Parliament and by the European Council for coordinated and decisive action at the EU level to cater for the negative consequences of the COVID-19 crisis. As part of the same package, the Commission also proposed the European Union Recovery Instrument (EURI) and an amendment to the Own Resources Decision (ORD). EURI and the ORD provide the basis for financing the RRF (see Section 2).

The RRF was agreed by the co-legislators in December 2020 and published as Regulation 2021/241 (Annex 2 presents the structure of the Regulation). The regulation is based on article 175 of the Treaty on Functioning of the European Union (TFEU), which links the Facility to achieving Member States' objectives of economic, social and territorial cohesion as set out in article 174 of TFEU. It also seeks to contribute to allowing Member States to attain their objectives under article 148 of the TFEU (on employment policies).

The Facility's general objective is to "*promote the Union's economic, social and territorial cohesion (...) thereby contributing to the upward economic and social convergence, restoring and promoting sustainable growth and the integration of the economies of the Union, fostering high quality employment creation, and contributing to the strategic autonomy of the Union alongside an open economy and generating European added value.*" (article 4(1)). This is complemented by a specific objective (article 4(2)), which is "*to provide Member States with financial support with a view to achieving the milestones and targets of reforms and investments as set out in their recovery and resilience plans.*".

> An opinion of the Council Legal Services on the Commission proposals addressed its compatibility with the Union's principles of budgetary balance and discipline under article 310 TFEU, with the integrity of the system of own resources (article 311 TFEU), the suitability of article 122 TFEU as legal basis for the EURI proposal and the compatibility of the package with article 125(1) TFEU (no bail-out clause). It concluded, in short, that the Commission proposals were legally sound (with some caveats and recommendations to address specific concerns by amending some texts).

The RRF Regulation allows for offering EU Member States grants (up to EUR 312.5 bn) and loans (up to EUR 360 bn), (both in 2018 prices) for public investments and reforms aimed at addressing structural weaknesses and making Member States' economies more resilient. The identification and preparation of the relevant

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investment and reform projects needs to be detailed in specific national plans (the "Recovery and Resilience Plans"; RRPs) (see Section 3).

The Regulation (article 11) foresees a maximum allocation of grants established by two sets of criteria: 70% is determined on the basis of population, the inverse of the GDP per capita and the relative unemployment rate of each Member State (as defined in annex II of the Regulation). The remaining 30% of the maximum amounts for grants are based on the population, the inverse of the GDP per capita, and, in equal proportion, the change in real GDP in 2020 and the change in real GDP during the period 2020-2021. All maximum amounts for grants will be revised by June 2022, based on actual outturn data from Eurostat. Loans can be requested for up to 6.8% of a Member State's 2019 Gross National Income.

Support is granted through an implementing decision of the Council, on the basis of positive assessment of the RRPs and a proposal by the Commission. The Commission is asked to assess, in particular, the relevance, effectiveness, efficiency and coherence of the RRPs (article 19 and annex V). Once the plans are adopted, Member States may obtain up to 13% of the grants and loans as pre-financing (article 13).

Disbursements may be requested by Member States twice a year, upon request by Member States. Disbursements are authorised by the Commission (see Section 4), based on the achievement of targets and milestones identified in the RRPs.

Lack of compliance with the economic governance framework may lead to the suspension of all or part of the payments or commitments. Article 10 foresees for such a possibility in a limited set of circumstances. The decision rests with Council, on a proposal from the Commission. This differs from the initial Commission proposal for the RRF, which, besides allowing suspension of payments, also linked the timeframe for adoption of the RRPs to Member States respecting the EU economic governance framework[1] (article 9 of Commission proposal) [2].

The RRF empowers the Commission to further develop the Regulation through delegated acts. Such acts cover the RRF scoreboard (article 30(2)); common indicators for reporting (article 29(4)(a)) and a methodology for reporting social expenditure (article 29(4)(a)) (see Section 5).

1 Insofar the Commission could have proposed to Council the adoption of an implementing act to suspend the time period for the adoption of the plans ("*In the event of significant non-compliance in relation to any of the cases laid down in Article 15(7) of the Regulation laying down common provisions on the […)][CPR], the Council shall, on a proposal from the Commission, adopt a decision by means of an implementing act to suspend the time period for the adoption of the decisions referred to in Articles 17(1) and 17(2) (...).*"

2 The Commission proposal referred to its proposal for a new Common Provisions Regulation (CPR) as the basis for assessing whether the economic governance framework was being complied with. This is often referred to as "macro-economic conditionality" (see here,). The CPR list in article 15(7) five circumstances allowing the Commission to propose to Council to suspend all or part of the commitments or payments for one or more of the programmes of a Member State:

(a) no effective corrective action taken by a Member State as decided by Council under article 126(8) or article 126(11) TFEU (excessive deficit procedure);

(b) insufficient corrective action plan by a Member State as assessed by Council in two successive recommendations in the same imbalance procedure, in accordance with article 8(3) of the MIP regulation;

(c) no corrective action taken by a Member State, as assessed by Council through two successive decisions in the same imbalance procedure in accordance with article 10(4) of MIP regulation;

(d) insufficient compliance with required measures and decision of non-disbursement under a financial assistance programme for Member States' Balance of Payments, as assessed by Council under Council Regulation (EC) No 332/2002;

(e) non-compliance with a macro-economic adjustment programme referred to in article 7 of Regulation (EU) No 472/2013, or with the measures requested by a Council decision adopted in accordance with article 136(1) TFEU.

The RRF delinks macro-conditionality from the CPR and establishes its own set of "macroeconomic" conditions for suspending commitments or payments (article 10(1) and (2)). These are likewise linked to non-compliance with the Stability and Growth Pact, with the macro economic imbalances procedure and with commitments under the EU financial assistance framework. In May 2020, the Commission revised its 2018 CRP proposal. The CPR is pending finalisation in Parliament and Council. Progress can be followed here.

2. Financing the Recovery and Resilience Facility

The RRF is the centrepiece of NextGenerationEU (NGEU), which is financed through funds borrowed on financial market - as allowed by the new Own Resources Decision (ORD) - and whose details are specified in the Council Regulation establishing the European Union Recovery Instrument (EURI), which details the scope and the criteria to allocate the borrowed amounts.

The new ORD provides for a temporary increase of the maximum level of resources in the EU budget ("own resources ceiling") that can be called from Member States, thereby guaranteeing that the funds borrowed will be repaid. EU institutions also agreed on a roadmap to propose by mid-2021 a set of new resources (see below and a separate note on "Reform of the EU own resources"). The temporary increase in the own resources ceiling by 0.6% of the EU Gross National Income (from 1.4% to 2.0%) enables the Commission to borrow on financial markets on a much larger scale than it has done so far, while preserving the Union's favourable credit rating. Such exceptional and temporary empowerment to borrow is limited to addressing the consequences of the coronavirus pandemic and will last until all the resources borrowed have been repaid, i.e. at the latest by 31 December 2058. The Commission may start borrowing, as all Member States have ratified the new Own Resources Decision, in line with their constitutional requirements: on 31 May 2021, the Council announced that all Member States have completed the ratification procedures (here the calendar and here for detailed information on the procedure). On 1 June, the Commission announced that it would start issuing *"around €80 billion of long-term bonds in 2021, to be topped up by tens of billions of euros of short-term EU-Bills to cover the remaining financing requirements"*.

The EURI regulation assigns to the RRF grants up to EUR 312.5 billion and loans up to EUR 360 billion (in 2018 prices). Its article 3 specifies that at least 60% of the grants must be committed by the Commission before 31 December 2022, and that the total amounts for grants must be committed before 31 December 2023. Analogously, decisions on loans must be adopted by 31 December 2023. Furthermore, all payments must be made by 31 December 2026.

During the negotiations on the 2021-2027 Multiannual Financial Framework (MFF), the EU institutions discussed the terms of cooperation between them in light of the new instruments introduced with the NGEU. They concluded that the "*Interinstitutional Agreement between the European Parliament, the Council of the European Union and the European Commission on Budgetary Discipline, on Cooperation in Budgetary Matters and on Sound Financial Management, as well as on New Own Resources, Including a Roadmap Towards the Introduction of New Own Resources*" (IIA).

Interinstitutional cooperation on budgetary procedure and protection of Union budget

Annex I of the IIA sets out provisions on the interinstitutional cooperation during the budgetary procedure, with Part H focusing on cooperation as regards the EURI and the RRF. The EURI establishes that the amounts allocated to grants under the RRF are to be considered as "external assigned revenue" of the EU[3], whose oversight by the European Parliament is limited.

Given the need to ensure an appropriate involvement of the European Parliament and of the Council in the governance of external assigned revenue under the EURI, the Institutions agreed on a procedure that ensures the provision of regular, updated and detailed information, as well as on the organisation of

[3] Assigned revenue is used to finance specific items of expenditure and is defined in article 21 of the Financial Regulation. Assigned revenues can be either "internal" or "external". Assigned revenues constitutes an exception to the budgetary principle of universality, whereby all revenues should finance the whole budget and not be earmarked. In accordance with the Financial Regulation, internal assigned revenues are items such as revenue from the activities of a competitive nature conducted by the Joint Research Centre, whilst external assigned revenues are, for instance, specific additional financial contributions from non EU Member States to specified actions or programmes.

dedicated interinstitutional meetings, at least three times a year. The first of such meetings took place on 29 April 2021.

In line with the requests of the European Parliament and in response to point 24 of the European Council conclusions of July 2020, the Institutions agreed on the introduction of standardised measures to collect, compare and aggregate information and figures on the final recipients and beneficiaries of Union funding, aimed at enhancing the protection of the Union budget, of the EURI and of the RRF against fraud and irregularities[4]. The rules related to the collection and processing of such data will allow the Commission to build up an integrated and interoperable information and monitoring system, including a single data-mining and risk-scoring tool, with a view to a generalised application by Member States. That system would ensure efficient checks on conflicts of interests, irregularities, issues of double funding, and any misuse of the funds. The Commission, the European Anti-Fraud Office (OLAF) and other Union investigative and control bodies will have the necessary access to that data, in order to exercise their supervisory functions in relation to the controls and audits that are to be carried out in the first place by the Member States, to detect irregularities and conduct administrative investigations into the misuse of the Union funding concerned, and to get a precise overview of its distribution.

Financial aspects and repayment of loans resulting from borrowing under the NGEU

The ORD (article 5) includes several provisions on the borrowing activities related to the NGEU/EURI. No new borrowing can take place after 2026. The Commission is responsible for the administration of the borrowing operations, and must regularly and comprehensively inform the Parliament and the Council about all aspects of its debt management strategy. The Commission must establish and regularly update an issuance calendar, containing the expected issuance dates and volumes for the forthcoming year, as well as a plan setting out the expected principal and interest payments, and communicate it to the EP and the Council.

On 14 April the Commission adopted a package[5] comprising of:

- A Communication on a new funding strategy to raise NGEU funds in capital markets[6];
- A Decision on the internal allocation of responsibilities for the implementation of relevant processes;
- An Implementing Decision on the arrangements for the administration of the borrowing and lending operations;
- A Decision on the establishment of the Primary Dealers network, with Annexes.

So far, the Commission has issued bonds and transferred the proceeds directly to the beneficiary country on the same terms that it received (in terms of interest rate and maturity - the so called "back-to-back

[4] In addition a Joint Declaration by the EP and the Commission on data collection for effective controls and audits (2021/C 58 I/02) was attached to the RRF regulation. The two institutions *"recall the need to ensure effective controls and audits for the purposes of avoiding double funding and preventing, detecting and correcting fraud, corruption and conflict of interests in relation to the measures supported by the Recovery and Resilience Facility. The two institutions consider essential that Member States collect and record data on final recipients and beneficiaries of Union funding in an electronic standardised and interoperable format and use the single data mining tool to be provided by the Commission."*.

[5] Commissioner Hahn presented the Communication to the BUDG Committee on 14 April 2021.

[6] The diversified funding strategy of the Commission will combine:

- The establishment of a set of banks (called "Primary Dealer Network") that will act as intermediaries;
- Multiple funding instruments (medium and long-term bonds, some of which will be issued as NGEU green bonds, and EU-Bills) to maintain flexibility in terms of market access and to manage liquidity needs and the maturity profile8;
- Communication of annual borrowing volumes and 6-monthly funding plan's key parameters, to offer clarity on Commission issuance intentions;
- A combination of auctions and syndications as methods for structuring the transactions, to ensure cost efficient access to the necessary funding on advantageous terms.

approach"). For loans granted under the RRF regulation, the Commission is empowered to manage maturity transformations (in derogation to article 220/2 of the Financial Regulation, see article 15(2)(b) of the RRF regulation). The Commission Implementing Decision specifies that Member States will bear "*All costs, inclusive those associated with the management of interest rate and other financial risk (...) calculated in accordance to a methodology laid down by the Commission in specific guidelines, in full respect of the principles of transparency and equal treatment*". For the time being, no further information is available on how such guidelines will be adopted.

The Commission expects to raise up to around €800 billion between now and end 2026 (in current prices), which would translate into borrowing volumes of on average roughly €150 billion per year. This will make the EU one of the largest issuers in euro. The diversified funding strategy of the Commission will combine:

- The establishment of a set of banks (called "Primary Dealer Network") that will act as intermediaries between the Commission and investors. The first members of the network were announced on 31 May[7];
- Multiple funding instruments (medium and long-term bonds, some of which will be issued as NextGenerationEU green bonds, and EU-Bills) to maintain flexibility in terms of market access and to manage liquidity needs and the maturity profile;
- Communication of annual borrowing volumes and 6-monthly funding plan's key parameters, to offer clarity on Commission issuance intentions;
- A combination of auctions and syndications as methods for structuring the transactions, to ensure cost efficient access to the necessary funding on advantageous terms.

Box 1: Statistical issues related to the RRF

In November 2020 (*), Eurostat published a note on the statistical recording of the RRF, outlining the functioning of the RRF and highlighting the aspects relevant for the statistical analysis and the compilation of statistics used in the context of fiscal surveillance (i.e. Stability and Growth Pact and Excessive Deficit Procedure). As regards the statistical recording, Eurostat identified and reached conclusions[1] on the three following issues:

a) Firstly, whether the RRF support via grants should be assimilated, from the national accounts perspective, to the EU funds regularly received by Member States under various common policies and, thus, whether the statistical rule on neutrality of EU flows with respect to government deficit/surplus could also be applied in this case. Eurostat concluded that, similarly to the 'traditional' EU grants, the principle of the EU flows neutrality on government budget balance should be applied also to the RRF grants.

b) Second, on the nature of the debt raised on the capital markets by the Commission on behalf of the EU to finance the RRF and other programs of the NGEU. Eurostat concluded that the borrowing on the markets undertaken by the Commission to finance the RRF grants should be considered as debt of the EU. The EU itself will absorb the liability, such that all the financing of the EURI is to be considered as a liability of the EU budget and a contingent liability for the Union budgetary planning.

c) Third, the statistical treatment of loans to Member States. Such loans should be assimilated to commercial loans, and therefore they will have to be recorded, at the moment they are provided, as Member States debt towards the EU.

(*) The Eurostat note was published before the finalisation and publication of the RRF Regulation. Therefore, Eurostat notes that its conclusions (reached in agreement with Member States representatives in a dedicated Working Group) are provisional.

[7] The application process to join the EU primary dealer network is open on an on-going basis.

3. Recovery and Resilience Plans and their assessment

In order to access financing from the Facility, Member States are required to prepare RRPs. These plans should address the objectives set out in the RRF Regulation and the challenges identified in the European Semester, particularly the 2019 and 2020 country-specific recommendations (please see separate EGOV document with an overview of the CSRs).

Each plan should comprise a coherent pack of reforms and investments along six policy ''pillars'' and outline measures linked to the digital and green transitions, with a minimum of 20% and 37% of expenditure earmarked for these objectives, respectively. RRPs should contain the expected milestones (qualitative), targets (quantitative) and a timetable for the implementation of the reforms and investments, with a deadline of 31 August 2026[8]. The plans should also address concerns such as gender equality and equal opportunities, contributing to mainstreaming such policies. Table 1 below summarises some of the relevant elements regarding the RRPs set out in the Regulation.

In addition to the framework set out in the Regulation itself, the Commission issued a number of guidelines to assist the preparation and assessment of the RRPs. Such guidance addresses:

- The preparation of national RRPs. In September 2020 the Commission published a guidance and a template for the national RRPs, then revised in January 2021[9];
- The application of the "do no significant harm" principle under the RRF (see annex 3); and
- State-aid related issues (see annex 4). In this context, the Commission issued guidance to Member States for a swift treatment of State aid notifications in the RRF framework and thirteen sector- and investment-specific guidance dealing with various policy areas (such as education and upskilling, public administration, etc.).

Article 19 and Annex V of the RRF Regulation set out the main framework for assessing RRPs. They outline the four criteria that allow the Commission to evaluate the plans: relevance, effectiveness, efficiency and coherence. A system of ratings (A, B, C) facilitates equal treatment, and criterion is complemented by a number of elements that relate, notably, to the specific situation of the Member State in question, whether the measures effectively contribute to addressing the identified challenges, and whether the measures reinforce social cohesion or bring about structural changes.

[8] See RRF Regulation, article 18, and Chapter 3 more broadly.

[9] As proposed in the Commission guidance, the plans should cover four different sections: Part I covers the overall contribution of the plan to the Regulation's objectives and to the Semester priorities as well as the overall coherence of the plan and its components; Part II covers a description of the individual reforms and investments, structured through 'components'; Part III covers the implementation of the plan and the complementarity with other EU programmes; Part IV covers the expected impact of the plan.

Table 1: Some elements of the RRF Regulation relevant for the RRPs

<table>
<tr><th colspan="6">Policy areas ("pillars") to be addressed by the RRF investments and reforms - article 4 of RRF regulation</th></tr>
<tr><td>Green transition</td><td>Digital transformation</td><td>Smart, sustainable and inclusive growth, including economic cohesion, jobs, productivity, competitiveness, research, development and innovation, and a well-functioning internal market with strong SMEs</td><td>Social and territorial cohesion</td><td>Health and economic, social and institutional resilience, with the aim of, inter alia, increasing crisis preparedness and crisis response capacity</td><td>Policies for the next generation, children and the youth, such as education and skills</td></tr>
<tr><th colspan="6">Horizontal principles - articles 5, 9 and 28</th></tr>
<tr><td colspan="6">Support from the Facility shall not, unless in duly justified cases, substitute recurring national budgetary expenditure and shall respect the principle of additionality of Union funding.
The Facility shall only support measures respecting the principle of 'do no significant harm'.
Support under the Facility shall be additional to support provided under other Union programmes and instruments. Support from various instruments can be combined insofar such support does not cover the same cost.
The Commission and the Member States concerned shall, in a manner commensurate to their respective responsibilities, foster synergies and ensure effective coordination between the Facility and other Union programmes and instruments, including the Technical Support Instrument, and in particular with measures financed by the Union funds.</td></tr>
<tr><th colspan="6">Eligibility - article 17</th></tr>
<tr><td colspan="6">The RRPs shall be consistent with the relevant country-specific challenges and priorities identified in the context of the European Semester and (for Member States whose currency is euro) those identified in the most recent Council recommendation on the economic policy of the euro area. The recovery and resilience plans shall also be consistent with the information included by the Member States in the National Reform Programmes under the European Semester, in their National Energy and Climate Plans and updates thereof under Regulation (EU) 2018/1999, in the territorial just transition plans under a Regulation establishing the Just Transition Fund, in the Youth Guarantee implementation plans and in the partnership agreements and operational programmes under the Union funds.</td></tr>
<tr><th colspan="6">Assessment criteria of RRPs - article 19 and annex V</th></tr>
<tr><td colspan="6">The Commission assesses RRPs by rating them (into three categories) on the basis of the criteria of: relevance, effectiveness, efficiency and coherence.
The methodology is further detailed in the Regulation. In assessing the RRPs along these four criteria, consideration should be given to whether the RRP presents a balanced response to the Member State challenges, whether it addresses the concerns identified in Country Specific Recommendations, whether it contributes to strengthening growth, resilience and social impact, whether the measures respect the "do no significant harm" principle, whether it addresses the green and digital agendas, whether it brings about lasting impacts and is coherent. Robust control systems, effective monitoring and implementation and reasonable and plausible cost estimates are also considered. In addition, Member States have to explain how their plans address gender equality, security concerns and undertaken consultations.</td></tr>
<tr><th colspan="6">Protection of the financial interests of the Union - article 22</th></tr>
<tr><td colspan="6">In implementing the Facility, the Member States, as beneficiaries or borrowers of funds under the Facility, shall take all the appropriate measures to protect the financial interests of the Union and to ensure that the use of funds in relation to measures supported by the Facility complies with the applicable Union and national law, in particular regarding the prevention, detection and correction of fraud, corruption and conflicts of interests. To this effect, the Member States shall provide an effective and efficient internal control system and the recovery of amounts wrongly paid or incorrectly used. Member States may rely on their regular national budget management systems.</td></tr>
</table>

4. EU level governance of the RRF

Implementation of the RRF

The RRF relies on EU funding for financing Member States' national projects and investments; therefore, the need for a European approach in its implementation, and governance, is recognised in its legal framework (the RRF Regulation and IIA).

The Commission is responsible for the overall implementation of the Facility [10] and for the disbursement of funds to Member States, including pre-financing [11]. The Commission is responsible for assessing whether the conditions for grants and loans are met, and the administration thereof[12].

Member States are required to submit RRPs to the Commission[13], which then assesses the plans according to the criteria outlined in article 19 of the RRF Regulation (see graph in Annex 1). Within two months from submission, the Commission will give either a negative assessment (communicating the reasons for such a negative response), or a proposal for a Council implementing decision[14]. The Council should then adopt the implementing decision, by qualified majority voting, within four weeks of the adoption of the Commission's proposal. Once the Council adopts the implementing decision, the Commission will conclude an agreement with the Member States, constituting an individual legal commitment. The same procedure is to be followed in case a Member State modifies or updates its RRP (article 20).

The Commission is also responsible for assessing whether the relevant milestones and targets contained in the Council implementing decision have been met, following a request for disbursement from a Member States (these requests can be submitted twice a year) [15]. If a positive preliminary assessment is made, the Commission must ask the Economic and Financial Committee for its assessment, and take its opinion into account for its own assessment. Following a positive assessment, the Commission will ensure the disbursement of funds as soon as possible. Article 24 RRF Regulation also outlines the procedure to be followed should the Commission make a negative assessment in this regard. Recital 52 of the RRF Regulation further states that: "...*If, exceptionally, one or more Member States consider that there are serious deviations from the satisfactory fulfilment of the relevant milestones and targets, they may request the President of the European Council to refer the matter to the next European Council. The respective Member States should also inform the Council without undue delay, and the Council should, in turn, without delay inform the European Parliament. In such exceptional circumstances, no decision authorising the disbursement of the financial contribution and, where applicable, of the loan should be taken until the next European Council has exhaustively discussed the matter...*"

The Commission will adopt the decision on the disbursement of RRF funds under the "examination procedure" of comitology[16]. As noted by Commissioner Gentiloni in response to a parliamentary question on the RRF, *"The comitology is the way to ensure the oversight of the Member States over the Commission's exercise of implementing powers conferred on it, notably for the implementation of a spending programme. An involvement of the Parliament under the examination procedure is not foreseen under the comitology regulation."* Recital 69 recognises the possible need for a prompt payment of financial support under the Facility, and thus allows for the Chair of the comitology committee to consider the possibility, for any draft

[10] See RRF Regulation, article 9.
[11] See RRF Regulation, article 12 and article 13.
[12] See RRF Regulation, article 14 and article 15.
[13] See RRF Regulation, Chapter 3.
[14] See RRF Regulation, article 20. Note that the Commission will also assess any Member States' proposal for an amended an or new RRPs according to article 21.
[15] See RRF Regulation, article 24.
[16] See recital 69 and article 35, RRF regulation, making reference to Regulation (EU) No 182/2011.

implementing act, of shortening the time limit for convening the committee and the time limit for the committee to deliver its opinion.

As aforementioned, the Facility is linked to the principles of sound economic governance. In the event that the Council decides that a Member State has not taken effective action to correct its excessive deficit[17], the Commission shall make a proposal to the Council to suspend all or parts of the commitments or payments to that Member States.[18] Should a Member State be subject to an excessive imbalance procedure, and certain criteria as outlined in article 10(2) are met, the Commission may also propose a suspension to the Council. The Council is also given the power to lift the suspension, following a proposal by the Commission, if certain conditions, as outlined in article 10 (6) RRF Regulation, are met.

In the event that the Commission makes a proposal to the Council to suspend all or part of the commitments or payments, as outlined in article 10 RRF Regulation, the Commission is required to immediately transmit such proposals to the Parliament, as well as to the Council. The EP may invite the Commission to discuss these proposals, and the Commission is required to give due consideration to the views expressed during these hearings[19].

Oversight and monitoring of the RRF

In terms of transparency, the Commission is required to provide the Council and the Parliament the same level of information, simultaneously, without undue delay. More specifically, this information sharing relates to the RRPs officially submitted by Member States and proposals for Council implementing decisions. Similarly, relevant outcomes of discussions held in Council preparatory bodies are to be shared with the competent committee of the EP. The Commission is also required to provide Parliament's competent committee with an overview of preliminary findings concerning fulfilment of the milestones and targets in the RRPs[20].

Box 2: The role of the European Parliament

The European Parliament has a specific role to play in scrutinising the RRF and, through the Interinstitutional Agreement negotiated with the Council and the Commission, the European Union Recovery Instrument (EURI). Notably, the EP can launch the Recovery and Resilience Dialogues with the Commission and will be receiving information from the Commission on the RRPs, on the Commission assessments and on Member States meeting the agreed milestones and targets.

In terms of transparency, the Commission is required to provide the Council and the Parliament with the same level of information, simultaneously, without undue delay. More specifically, this relates to the RRPs officially submitted by Member States and proposals for Council implementing decisions. Similarly, relevant outcomes of discussions held in Council preparatory bodies are to be shared with the competent committee of the EP. The Commission is also required to provide Parliament's competent committee with an overview of preliminary findings concerning fulfilment of the milestones and targets in the RRPs. See the specific EGOV briefing for further details on the EP's scrutiny of the RRF.

The EP has additional powers under different frameworks, notably those relating to the European Semester, EU budgetary procedures, written or oral questions and discharge procedures.

[17] In accordance with article 126(8) or (11) TFEU, unless the Council has determined the existence of a severe economic downturn for the Union as a whole within the meaning of Articles 3(5) and 5(2) of Council Regulation (EC) No 1467/97

[18] See RRF Regulation, article 10 (1).

[19] See RRF Regulation, article 10(7).

[20] See RRF Regulation, Recital 60, article 25.

The RRF Regulation also provides for the establishment of a Recovery and Resilience Dialogue, whereby the Parliament may invite the Commission every two months to discuss issues related to the implementation of the RRF. The Parliament is empowered to express its views in resolutions regarding issues within the scope of the Dialogues, with the Commission required to take Parliament's views into account[21]. The first Dialogue took place on 10 May 2021 (see here and EGOV briefing). On 20 May, the European Parliament adopted a Plenary resolution on its right of information regarding the ongoing assessment of the national recovery and resilience plans. On 10 June, the Parliament adopted a resolution on the European Parliament's scrutiny on the ongoing assessment by the Commission and the Council of the RRPs.

The Dialogues are to be based on the Recovery and Resilience Scoreboard, which displays the progress of the implementation of the recovery and resilience plans of the Member States in each of the six pillars[22]. This Scoreboard will be operational by end December 2021, be updated by the Commission twice a year, and be made publicly available (see subsection below on delegated acts)[23].

On 4 March 2021, the European Parliament Conference of Presidents established a dedicated Working Group to support the scrutiny of the RRF. This Working Group is tasked with preparing for, and following up on, the Recovery and Resilience Dialogues, and to scrutinise upcoming delegated and implementing acts based on the RRF Regulation. The composition of the Working Group can be found here.

According to article 29, the Commission must monitor the implementation of the Facility and whether its objectives have been achieved. This includes reporting ex-post on the expenditure financed by the Facility under each of the six pillars. Progress will be assessed on the basis of common indicators, which will be set in Commission's delegated acts (see Section 6).

In accordance with article 31 RRF, the Commission is required to provide an annual report to the European Parliament and Council, which is to contain, inter alia, *"the progress made with the recovery and resilience plans of the Member States concerned under the Facility, including information on the status of the implementation of the milestones and targets, and the status of payments and suspensions thereof."*[24]

The Commission is also required to present a review report to the Parliament and Council by 31 July 2022, which incorporates the Scoreboard but also sets out an assessment of the extent to which the implementation of the RRPs is in line with the general objectives of the RRF Regulation and the six pillars; a quantitative assessment of the contribution of the RRPs to the climate and digital targets in addition to each of the six pillars; and the state of implementation of RRPs and observations and guidance to Member States. The EP may invite the Commission to present the main findings of the report within the context of the Dialogue.[25].

By 31 December 2024, the Commission will carry out a review of the application of article 10, RRF Regulation, regarding the measures linking the Facility to sound economic governance. It will submit the report to the Parliament and Council, accompanied by legislative proposals if needed. Should the economic and social situation in the Union change drastically, the Commission is further empowered to propose a review of article 10, or the Parliament or Council may request the Commission to submit such a proposal[26].

Given that the RRF is financed through EURI, monitoring and oversight of these funds are also of relevance. The IIA (see Section 2) outlines a number of additional reporting requirements and avenues for dialogue

[21] See RRF Regulation, Recital 29 and 61, article 26.
[22] Note that the first RRD held on 10 May 2021 took place before the publication of the Scoreboard, and therefore focused on other topics related to the RRF.
[23] See RRF Regulation, Article 30.
[24] See RRF Regulation Recital 67, article 31.
[25] See RRF Regulation, Recital 31, article 16.
[26] Acting in accordance with article 225 or 241 TFEU, respectively. See article 10(8) and (9).

related to EURI. The Commission is required to prepare an annual report on the implementation of the EURI. Acknowledging the need to ensure the involvement of the Parliament and Council in the governance of EURI funds, the Commission is required to provide detailed information on usage of funds under EURI, on loans given to Member States and detailed estimates of commitment appropriations and payment appropriations, as well as of legal commitments, broken down by heading and by programme that receive assigned revenue under EURI. The Commission will in particular inform about any significant deviations from initial forecasts. The Union budget will display transparently (in an Annex and in budgetary remarks) the external assigned revenues received by relevant budget lines. The three institutions are expected to meet regularly in the context of the budgetary procedure, including through dedicated interinstitutional meetings to be held at least three times a year[27].

Delegated acts complementing the Recovery and Resilience Regulation

With a view of monitoring the implementation of the RRF, the Regulation introduces:

- A set of common indicators to be used by Member States for measuring the progress towards the achievement of its general and specific objectives (article 29(4));
- A common methodology for reporting social expenditure under the RRF (article 29(4)) by Member States;
- A Recovery and resilience scoreboard**,** showing the progress of the implementation of the national RRPs in each of the six pillars (article 30).

These tools must be adopted by the Commission through "delegated acts" (article 33). Delegated acts adopted by the Commission must be immediately notified to the EP and to the Council, and enter into force only if no objection has been expressed within one month by either institution. The Parliament's Rules of Procedure (Rules 111 to 113) regulate the formal procedure.

In accordance with the Interinstitutional Agreement on Better Law-Making (point 28), the Commission must consult experts designated by each Member State. To ensure equal access to all information, the EP and Council will receive all documents at the same time as Member States' experts. In addition, experts from the Parliament and from the Council systematically have access to the meetings of this Commission expert group. Furthermore, the Commission may be invited to meetings in the Parliament (or the Council) in order to have a further exchange of views on the preparation of delegated acts.

The Commission set up the Expert Group in May 2021, and some information can be found here.

[27] See IIA, Annex 1, Part H.

5. The relations between the RRF and the European Semester

The RRF Regulation establishes strong links between the Facility and the European Semester for economic policy coordination[28]. These connections relate, notably to:

- The Semester being considered, together with the European Pillar of Social Rights, the framework at EU level to identify national reform priorities and monitor their implementation (recital 4);
- The CSRs, as set out in the context of the Semester, being one of the criteria on which to assess the eligibility of reforms and investments for financing under the RRF (articles 17(3) and 19);
- The Semester being the framework where the Council discusses "*the state of the recovery, resilience and adjustment capacity in the Union*" (recital 36) on the basis of information obtained in the course of the Semester, and where Member States "*report on the progress made in the achievement of the recovery and resilience plan*" (article 27 and recital 58).

Therefore, the 2021 Semester cycle looks rather different than previous cycles[29]. The national RRPs become the main reference document for the Member States' forward-looking economic policy initiatives[30]. Other Semester documents and steps also have a different configuration, including:

- Member States were encouraged to present their National Reform Programmes and RRPs in one single document;
- Other than on fiscal matters, the Commission does not propose CSRs to Member States that present RRPs[31];
- In 2021, Country Reports are replaced by the analytical documents assessing Member States' RRPs.;
- Fiscal surveillance is limited, due to the activation of the general escape clause under the Stability and Growth Pact, and the Stability or Convergence Programmes (see here) detail how to maintain fiscal sustainability going forward;
- Euro Area Member States are required to take into account the Euro Area Recommendation (EAR) when preparing their RRPs and the EAR will be taken into account when the Commission assesses such plans.

Considering that the EAR also frames Member States' RRPs, the Eurogroup made clear as early as October 2020 that it will be involved in coordinating implementation of such plans. This specific "euro area dimension" of the RRF and the role the Eurogroup plays was further underlined in a background note for the 18 January 2021 Eurogroup[32]. The notes ascertains the role that the Eurogroup would take in assessing national RRPs and points to it being involved also in assessing national implementation of agreed reforms and investments: "*As regards the latter* [implementation], *the euro area recommendation on strengthening national institutional frameworks partly relates to this particular challenge. Cross-border projects can ensure synergies between national plans.*"

[28] RRF macroeconomic conditionality, as explained above, also links the RRF to the Semester.
[29] For further details, see specific EGOV briefing and four external papers commissioned by the European Parliament (summaries of which can be accessed here).
[30] The European Court of Auditors' opinion on the Commission proposed RRF Regulation, whilst recognising the positive impacts of linking the RRF to the European Semester, pointed as well to a number of shortcomings. These relate, notably, to the perceived limited implementation of Country Specific Recommendations and lack of effective enforcement; lack of effective timelines for their implementation and general vagueness in defining objective and policy measures.
[31] See Commission 2021 Spring package of 2 June 2021.
[32] For further details on the EAR and Eurogroup involvement in the RRF, see specific EGOV briefing.

Annex 1: RRF Roadmap

Information that COM transmits to Council or its preparatory bodies to be made available simultaneously to EP
Recovery and Resilience Dialogues with Commission in EP to take place every two months
EP able to issue resolutions and COM to take into account

Preparatory phase

Member States prepare RRPs, undertaking public consultation, and expected to submit to COM by 30.04
(Measures started from 1 February 2020 are potentially eligible).
COM informs EP and Council simultaneously of RRPs submitted.
Member States may submit an update of their RRP, once adopted, thus launching a new assessment process.

Adoption phase

Within 2 months of submission, COM assesses RRPs, and may require additional information from the Member States.
COM informs EP and COM of its assessment simultaneously

In case of a positive assessment of the RRPs, COM submits to Council its assessment and a draft Council implementing decision

In case of a negative assessment of the RRP, COM delivers a duly justified assessment to the Member State

Council adopts the implementing decision assessing the RRPs within 4 weeks of submission (qualified majority voting)

Implementation phase

Funding:

Once Council adopts the implementing decisions on RRPs:
- COM concludes individual commitments (and loan agreements, if applicable) with Member States
- Member States can request pre-financing
- Member States implement the RRPs

Within 2 months of receiving requests for payments, COM preliminary assesses whether milestones and targets are met.

In case of a preliminary positive assessment:
- COM submits assessment and requests EFC opinion on whether milestones and targets are reached (with possible involvement of the European Council)
- COM to submit to Comitology Committee a decision authorising disbursement (examination procedure; qualified majority voting)
- COM to submit its preliminary findings concerning satisfactory fulfillment of targets and milestones to Parliament

COM negative assessment shall lead to suspending payments
In case of a negative assessment, COM may suspend payments

If no or limited progress in implementing the RRPs within 18 months of the adoption of the Council implementing decisions, COM shall terminate the individual commitment and loan agreement (if applicable)

Reporting:

- COM to set up the recovery and resilience scoreboard (by December 2021)
- Member States to report on progress every six months as part of the European Semester
- COM to provide an annual report on implementation of the RRF and to report (ex post) on expenditure financed by the RRF

Review phase

Reforms and investments need to be completed by August 2026, payments by 31.12.2026.
Independent ex post evaluation by 20.02.2024 and by 31.12.2028

Annex 2: The structure/content of the RRF Regulation

Chapter	Heading	Articles
Chapter I	General Provisions	1-10
Chapter II	Financial Contribution, Allocation Process, Loans and Review	11-16
Chapter III	Recovery and Resilience Plans	17-21
Chapter IV	Financial Provisions	22-24
Chapter V	Institutional Provisions	25-26
Chapter VI	Reporting	27
Chapter VII	Complementarity, Monitoring and Evaluation	28-33
Chapter VIII	Communication and Final Provisions	34-36
Annex I	Methodology for the calculation of the maximum financial contribution per Member State under the Facility	
Annex II	Allocation key applied to 70 %	
Annex III	Allocation key applied to 30 %	
Annex IV	Maximum financial contribution per EU Member State	
Annex V	Assessment guidelines for the Facility	
Annex VI	Methodology for climate tracking	
Annex VII	Methodology for digital tagging under the Facility	

Annex 3: Commission guidance on “do no significant harm”

In accordance with the RRF Regulation, the assessment of the RRPs should ensure that each reform and each investment within the plan complies with the ‘do no significant harm’ principle (DNSH). The Commission guidance, which is required by the Regulation, aims to clarify the meaning of DNSH and how it should be applied in the context of the RRF, and how the Member States can demonstrate that their proposed measures in the RRP comply with the DNSH. Compliance with DNSH is to be integrated in the design of measures, including at the level of milestones and targets.

For defining the DNSH, the Commission guidance refers to Article 17 of the Taxonomy Regulation. The provision defines what constitutes ‘significant harm’ for the six environmental objectives covered by the Taxonomy Regulation (climate change mitigation and adaptation, sustainable use and protection of water and marine resources, circular economy, pollution prevention and control, protection and restoration of biodiversity and ecosystems).

The Commission further clarifies that the assessment of DNSH applies at the level of each measure (and not the overall plan). Such individual assessment is also relevant for each measure a Member State indicates as contributing to the green transition. Member States shall present specific justifications for each of the measures; for measures where the harmful impact is expected to be limited, such explanation can be simplified.

Compliance with EU environmental law is not considered sufficient for a measure to comply with the DNSH principle, but can be considered an indication of compliance. Impact assessments related to the environmental dimensions or the sustainability proofing of a measure should be taken into account for the DNSH assessment, but nevertheless may not exempt a Member State from providing a specific DNSH assessment.

Direct and primary indirect impacts of a measure, taking into account its life cycle, are relevant for the DNSH assessment. Measures promoting greater electrification are considered compatible for the environmental objective of climate change mitigation and therefore encouraged by the Commission. Accompanying measures might be required to avert harmful lock-in effects.

To demonstrate compliance with the DNSH, Member States are invited to follow a checklist (annex I to the guidance).

Annex 4: DG Competition Practical guidance for State aid in the context of the RRF

DG Competition published "Practical guidance to Member States for a swift treatment of State aid notifications in the framework of the Recovery and Resilience Facility" (not dated).

The **key messages** of that document are that:

- all reforms and investments included in the national RRPs need to comply with the relevant EU State aid rules and follow all State aid procedures,
- many measures likely to be proposed, however, are by their very nature not subject to State aid control, such as certain infrastructure investments and direct support to citizens (as a general rule, support for activities that are not of an economic nature, i.e., that are not used for offering goods or services on the market, is not considered State aid),
- those measures that fall within the scope of the so-called General Block Exemption Regulation ("GBER"* are in any case exempted from the obligation for a prior notification and can hence be immediately implemented by Member States,
- and, finally, those measures that actually constitute State aid in an RRP and require the Commission's approval prior to their implementation shall be assessed within six weeks.

* The GBER exempts certain categories of state aid, which are deemed to bring benefits to society that outweigh the possible distortions of competition, from the requirement of prior notification to the Commission. The details are set out in a Commission Regulation (EU) No 651/2014 that in July 2020, was prolonged until 2023. That regulation has subchapters for each of the following types of aid: regional aid; aid to SMEs; aid for environmental protection; aid for research and development and innovation; training aid; recruitment and employment aid for disadvantaged workers; aid compensating damages from natural disasters; social aid for transport for residents of remote regions; aid for broadband infrastructures; aid for culture and heritage conservation; aid for sport and recreational infrastructure; aid for local infrastructures; aid for regional airports; and aid for ports.

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