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EGOV
ECONOMIC GOVERNANCE AND EMU SCRUTINY UNIT

ECONOMIC GOVERNANCE

Recovery and Resilience Dialogue with the European Commission

BUDG-ECON Committee meeting on 5 February 2024

Executive Vice-President Dombrovskis and Commissioner Gentiloni are invited to the 14th Recovery and Resilience Dialogue (RRD) under the Recovery and Resilience Facility (RRF) Regulation. The previous RRD took place on 11 December 2023. This briefing describes the state of play of the implementation of the RRF, and then focusses on the Commission's recent preliminary assessments of milestones and targets related to payment requests submitted by Portugal, Germany, France, Slovakia, and Italy.

1. Progress with the implementation of the RRF

1.1 State of play

Since the last Recovery and Resilience Dialogue with the European Commission in December 2023, according to the information in the RRF scoreboard, the Commission has disbursed additional seven payments (FR, GR, IT, PT, SK, SL, DE) and received six new payment requests (CY, RO, SK, ES in late December 2023 and FR and IT in January 2024). The Commission has also endorsed a partially positive preliminary assessments for Portugal in December 2023. The state of play of the implementation of the RRF is summarised in the Table 1.

As regards the update or **modification of initial Recovery and Resilience Plans** (RRPs): By now, 23 Member States have submitted modified RRPs that include a **REPowerEU chapter**. All of those are meanwhile endorsed by the Commission and adopted by the Council. A large batch thereof was adopted in early December, namely those of Belgium, Bulgaria, Croatia, Cyprus, Finland, Germany, Greece, Ireland, Italy, Latvia, and Romania, as well as those of Poland and Hungary. Apart from including a REPowerEU chapter, Member States also made other modifications to national RRPs, either to reflect an increase or decrease of the maximum financial contribution, or to make **changes required by "objective circumstances"** (for a more detailed analysis of changes made due to objective circumstances, please see section 1.2 in a previous EGOV briefing; in that briefing, we also point to the applied interpretation of the **cross-border dimension** in the REPowerEU chapters).

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Table 1: State of play re RRF implementation (as at 23/01/2024)

	BE	CY	DE	DK	EL	ES	FR	IT	LU	LT	LV	PT	SI	CZ	HR	AT	IE	SK	MT	RO	FI	EE	PL	HU	SE	BG	NL
21 pre-financing disbursed (EUR 56.6 bn grants and loans)																	No pre-financing requested						●	●	●	●	●
25 Operational Arrangements signed																											
55 payment requests submitted to the Commission		2x		2x	3x	4x	3x	5x	2x	2x	2x	3x	2x	2x	4x			4x	2x	3x		2x				2x	
36 payments disbursed (EUR 157.4 bn)					3x	3x	2x	4x				3x	2x		3x			3x		2x							
27 Member States submitted modified plans			2x					2x									2x				2x						
23 REPowerEU chapters submitted by Member States																											
REPowerEU pre-financing disbursed																											
EUR 127 bn additional loans requested with revisions + REPowerEU	EUR 264 mn				EUR 5 bn	EUR 84 bn				EUR 1.7 bn		EUR 3.2 bn	EUR 587 mn	EUR 818 mn	EUR 4.4 bn								EUR 23 bn	EUR 3.9 bn			

3

● Prerequisite to request pre-financing: CID was adopted by 31 December 2021.
- Prerequisite to request REPowerEU pre-financing: REPowerEU chapter was adopted by Council by 31 December 2023.

As regards the **speed of implementation**: The RRF Scoreboard, the Commission's information platform that documents the progress of the national RRPs, sets out that by end of 2023 a total of EUR 220 billion of grants and loans has been disbursed (including pre-financing), which represents **just 30%** of the total available RRF funds, although the programme reaches **half-time**. A recent Explanatory note indicates that the Council remains **sceptical whether** an **accelerated implementation** of the RRF – as recommended by the Commission – **is feasible**, instead finding a continued, swift and effective implementation more appropriate.

1.2 As regards Hungary

On 23 November, the Commission published a positive assessment of Hungary's modified RRP, which includes a REPowerEU chapter. On 15 January, the Commission published a press release according to which it **disbursed** to Hungary a second (and final) tranche of REPowerEU pre-financing in grants amounting to EUR 140.1 million, adding to the first pre-financing tranche of EUR 779.5 million that was disbursed to Hungary on 28 December. The press release argues that those **advance payments** will help to kick-start the implementation of the investment and reform measures outlined in the REPowerEU chapter, but also sets out that **no disbursements** can take place as long as the **27** "**super-milestones**" have not been satisfactorily implemented.

Over the past weeks, however, the question had emerged in the public domain whether any disbursement would be warranted. On 17 January, MEPs held a **key debate in plenary**, discussing the overall situation and the frozen EU funds (here link to the video-recording). And on 24 January, the BUDG and CONT committees of the EP hold debate with the European Commission on rule of law and release of EU funds to Hungary. In a **resolution adopted on 18 January** (here) with 345 votes for, 104 against and 29 abstentions, MEPs expressed strong concern about the further erosion of democracy, the rule of law and fundamental rights in Hungary. In the resolution, the Parliament notably "*Expresses its regret and reaffirms its serious concerns about the Commission decision considering that the horizontal enabling condition of the Charter had been fulfilled in relation to judicial independence, thus enabling the Hungarian authorities to submit reimbursement claims of up to EUR 10,2 billion without adequate control mechanisms or public* *procurement procedures in place to guarantee sound financial management and the protection of the EU budget",* also stressing that *"**no payments should be made** even if progress is made in one or more areas but deficiencies still persist in another"* (emphasis added), neither under the RRF nor under the Common Provisions Regulation.

1.3 ECA work programme

In December 2023, the European Court of Auditors (ECA) published its "2024+ work programme", listing the institution's audit priorities for the next two years. The ECA notably plans to examine the RRF across all strategic areas, covering topics such as control systems in member states, and the instrument's green and digital pillars. The work programme lists 13 different audits related to the RRF that are planned for 2024 and 2025 (see Annex 1 for more details).

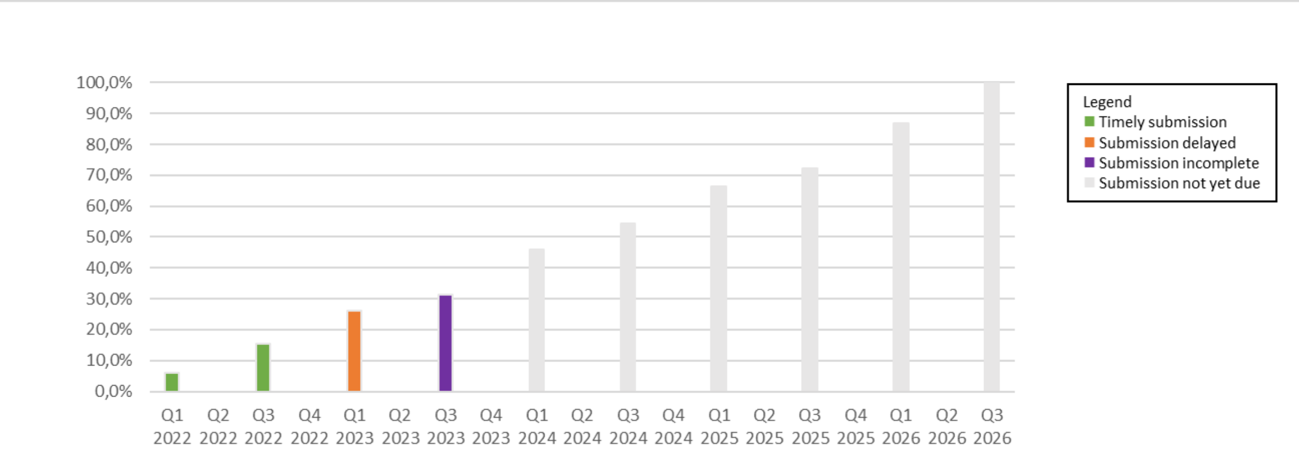
2. Latest Commission's preliminary assessment of milestones and targets

This section focuses on the Commission's recent **preliminary assessments** of payment request **that may be of interest from a scrutiny perspective**. Other preliminary assessments have been commented on in previous briefings (Italy in October 2023; Romania in July 2023; Lithuania, Spain, Czechia, Denmark, Slovakia, and Slovenia in April 2023; Greece, Malta, and Portugal in February 2023; Romania, Latvia, Cyprus, and Bulgaria in November 2022). In these short summaries of the Commission's assessments, we aim to highlight some elements that may warrant a closer look, notably due to limited information on the actual implementation.

Portugal: Commission's preliminary assessment of the third & fourth payment request

> Implementation profile

Figure 1: Portugal's payment requests - Actual submission vs. Indicative timeline in the Operational Arrangements (Y-axis: cumulative share of total RRF contribution; 10 instalments each for grants and loans)



(classification based on the modified version of the Operational Arrangements; original not in the RRF country page)

> Procedure

In October 2023, Portugal submitted payment requests for the third and fourth grant instalments (EUR 1.8 billion and EUR 0.8 billion) and third and fourth loan instalments (EUR 0.4 billion and EUR 0.2 billion), related to in total 47 milestones and targets, as set out in the Council Implementing Decision.

Mid-December 2023, the Commission published its Preliminary assessment of those payment requests, which is partially positive: After looking at the evidence, the Commission considered that only 44 out of the

47 milestones and targets had been achieved, while **three** – one milestone and one target concerning reforms of the health sector, respectively one milestone related to the reform of regulated professions – were considered **not yet satisfactorily fulfilled**. The Commission therefore applied the "payment suspension" procedure, as foreseen by Article 24(6) of the RRF Regulation, using the methodology it outlined in Annex II of the 21 February 2023 Communication. Portugal accordingly received a **partial payment** for milestones and targets considered satisfactorily fulfilled, while it has **additional time** - a period of six months - to fulfil the others; the Commission stated that it plans to engage in active dialogue with the Portuguese authorities during that period.

The exact **amount withheld** is not set out in the Commission's related press release (nor the Q&A). According to our calculation (comparing the amounts stipulated in the Operational Arrangements with the payments made), the amount withheld should be approximately **equal to 31%** of the amount otherwise due (in total numbers, the amount otherwise due - EUR 3.56 bn - was apparently reduced by EUR 1.10 bn).

Overall, as regards the other milestones and targets, the Commission found that significant progress was achieved in key policy areas, among those a set of reforms aimed at improving the quality and sustainability of public finances, healthcare reforms to increase efficiency and resilience of the national health system and secure the rights of people with mental illness, the improvement of the effectiveness of Portugal's tax system and tax courts, the regulation of platform work, the improvement of the land registry system and the promotion of circular economy in public procurement.

> **Example(s)** for the fulfilment of targets and milestones in Portugal's RRP that may be of interest from a **scrutiny perspective**:

Reform: Modernisation and Simplification of Public Financial Management (number: 17.7); Related Milestone: "*Entry into force of the **new model for analysing and disclosing the financial situation and performance of the state-owned enterprises***"

Context: The Commission's Staff Working Document for Portugal's initial RRP states that "*Improving the quality of public finances and the financial **sustainability of state-owned enterprises is central to the plan** because it is a necessary condition to strengthen Portugal's economic resilience*" (emphasis added); the non-insignificant degree of uncertainty related to the accumulation of public **contingent liabilities** from some state-owned enterprises (and the private sector) is one of the **risk** factors mentioned in that assessment. Portugal's RRP hence plans for a more timely, transparent and comprehensive monitoring, inter alia asking for a new report that details the financial situation and performance of state-owned enterprises on a regular and timely basis, incorporating the financial data collected through the new state-owned enterprise sector information system.

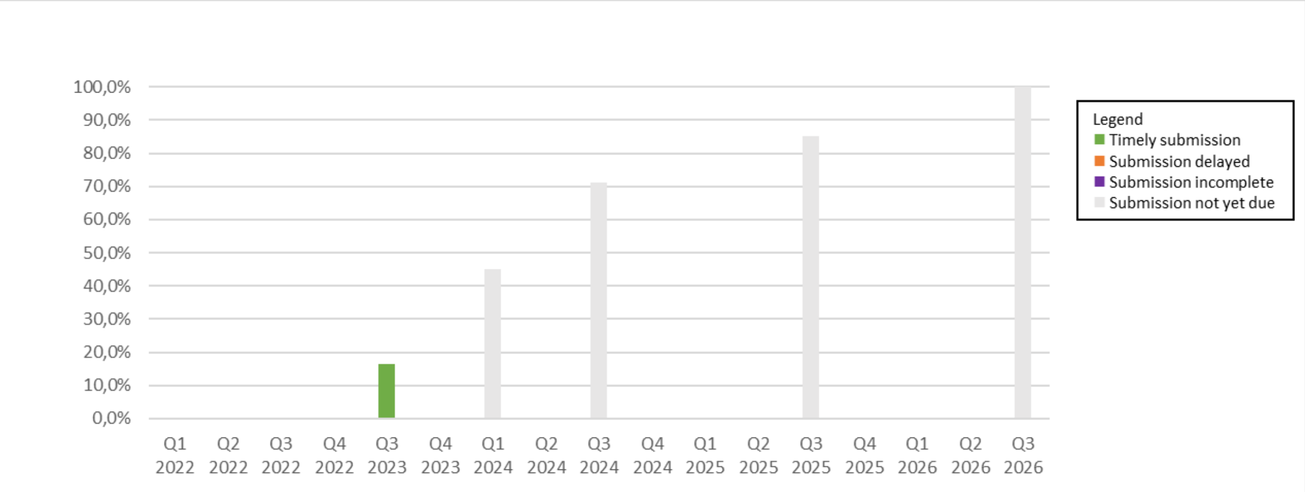
Based on the evidence submitted (among that the Annual report for 2022, and the second Quarterly report of 2023, both based on the new report model adopted by the Ministry of Finance), the Commission's Preliminary assessment finds that the milestone for that reform has been "***Satisfactorily fulfilled***".

There is, undoubtedly, a new reporting template in place. **On substance, however**, we would argue that the Commission's assessment could have discussed in more detail whether the new reporting template actually allows for a more timely, transparent and comprehensive monitoring of the state-owned enterprises in Portugal. As regards **timeliness**, for example, the Commission's assessment just states that the annual report has to be published until May of the following year, without an explicit judgement as to whether that is considered timely, given the specific reporting needs and improved technical possibilities. As regards **comprehensiveness**, the Commission's assessment just states that the report incorporates the financial data collected through the new state-owned enterprise sector information system, but it does not explicitly say whether the report is considered comprehensive. In this context we note, for example, that the annual report on state-owned enterprises apparently does not report on the volume and development of **arrears**, though this has been a recurrent matter of concern in the context of the Financial assistance to Portugal and is still mentioned in the Commission's recent own Post-Programme surveillance reports. There are more aspects regarding comprehensiveness of the annual state-owned enterprises report that from our point of view would merit a deeper analysis as part of the assessment (e.g. as regards the analysis of profit and loss drivers, ordinary versus extraordinary results, the use or rather absence of performance indicators/ratios for the analysis of debt affordability and leverage etc.), but for the sake of brevity we will here not go into further details on the report on state-owned enterprises itself.

Germany: positive preliminary assessment to the first payment request

> Implementation profile

Figure 2: Germany's payment requests - Actual submission vs. Indicative timeline in the Operational Arrangements (Y-axis: cumulative share of total RRF contribution; 5 instalments for grants)



(classification based on the original version of the Operational Arrangements, signed in Q3 2023, see RRF country page)

> Procedure

On 28 November 2023, the Commission endorsed a favourable preliminary assessment encompassing 28 milestones and 8 targets addressed in **Germany's first payment** request for non-repayable assistance. The first instalment covers reforms that for example promote the digitalisation and efficiency of the public administration as well as the acceleration of the planning and approval procedures in the transport sector. Investments focussed on projects related to electro-mobility and charging infrastructure, research in hydrogen and the rollout of hydrogen related projects, support for microelectronics, the digitalisation of railways, the development of vaccines as well as support for childcare and apprenticeships. Having analysed the information provided by Germany, the Commission gave a positive preliminary evaluation, affirming the satisfactory fulfilment of all 36 milestones and targets.

In the assessment of two targets with a very large beneficiary base, the Commission examined a sample of 60 individual files each, claiming that this approach would ensure a confidence level of at least 95%.

> **Example(s)** for the fulfilment of targets and milestones in Germany's RRP that may be of interest from a **scrutiny perspective**:

Investment: **Apprenticeship support**; related milestone (#90): "Entry into force of the revised funding guidelines for the federal programme "Ausbildungsplätze sichern"

Context: That milestone is related to Germany's efforts to protect the well-established **vocational training programmes** from the effects of the pandemic. In Germany, an apprenticeship in the "dual system" is (still) the main pathway into employment for young people. The name "dual system" indicates that one part of the multi-year training takes place in (private) companies, while the other part is provided by public vocational schools. In order to ensure that companies won't scale back their participation in those apprenticeship programmes during the pandemic, businesses – in particular small and medium-sized enterprises – were offered financial support to make sure they keep on offering apprentice places, despite the dampened economic outlook.

The project aims for an investment of approximately EUR 650 million in total. Milestone 90 was the first qualitative objective to be reached, subsequently followed by two quantitative targets, one related to the disbursement volume, the other related to the number of eligible applications.

On substance, the qualitative objective to be reached was merely to provide **evidence** that the (revised) **funding guidelines** that describe the whole federal programme ("Ausbildungsplätze sichern") **have been formally published** in the Federal Gazette (Bundesanzeiger).

While the **Commission's assessment** delves into the question whether the published funding guidelines reflect the underlying ministerial cabinet decision, it **does not analyse whether the funding guidelines were well drafted and well communicated** to potential participants and beneficiaries, it gives hence no consideration to the guidelines' practical contribution to effective implementation.

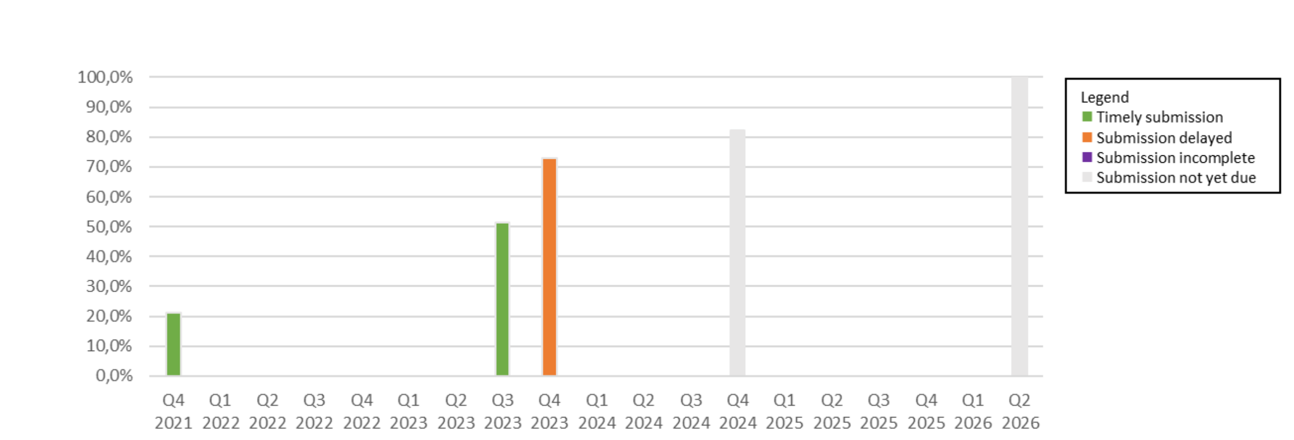
We note in this context that there may have been room for better communication of that programme: A statistical report issued by the **German Federal Employment Agency** on the program shows that 78.200 applications were approved, while 24.400 were rejected, which translates into an overall **rejection rate of 24%** for the entire program. A more in-depth examination of the statistical annex reveals that the rejection rate for a key component of the programme (one of four), the so-called "training bonus", was even higher, **exceeding 34%.**

In short, the Commission's assessment of the milestone is in line with the evidence requested by the Operational Arrangements, but it is a **verification mechanism that checks "form over substance".**

France: positive preliminary assessment to the second payment request

> Implementation profile

Figure 3: France's payment requests - Actual submission vs. Indicative timeline in the Operational Arrangements (Y-axis: cumulative share of total RRF contribution; instalments for grants)



(classification based on the modified version of the Operational Arrangements; original not in the RRF country page)

> Procedure

On July 31, 2023, France submitted to the Commission a payment request based on the 55 milestones and targets set out in the Council Implementing Decision for the second payment. The Commission published its positive assessment on November 17, 2023. After reviewing the evidence, the Commission determined that all 55 milestones, as well as all targets, had been satisfactorily fulfilled. According to the Commission's preliminary assessment, the milestones and targets demonstrate significant progress in the implementation of France's recovery and resilience plan.

The milestones and targets envisaged by this payment request are related to several domains, including the promulgation of the Law on climate and resilience, the entry into force of the Decree implementing the anti-waste and circular economy Law, the implementation of the Research Programming Law, the efficiency of public services, ensuring the quality and sustainability of public spending, energy renovation of private buildings, the digital upgrade of companies, the creation of places in higher education, the renovation of medical and social establishments, and the implementation of the very-fast broadband plan.

These achievements highlight the continuation of the reform momentum in key policy areas, confirming progress towards the completion of investment projects related to various sectors. The Commission considers that the comprehensive fulfilment of milestones and targets by France reflects a robust commitment to the objectives outlined in the Recovery and Resilience Plan.

> Example(s) for the fulfilment of targets and milestones in France's RRP that may be of interest from a **scrutiny perspective**:

Investment: **Support to demand for clean vehicles** (automobile plan); (measure number: 3-16)

> **Context: The evaluation committee for the French NRRP**, established in 2021 with a view of conducting an independent assessment of the socio-economic and environmental impact of Plan, **published its final report on 16 January 2024**. The report reveals a **mixed outcome**. It acknowledges that the objectives of timely territorial fund distribution and expenditure

engagement were largely achieved. However, the report also points out several deficiencies and areas requiring ongoing attention. One notable issue is the **uneven distribution of funds across various sectors and regions,** with industrial areas receiving more benefits compared to ultramarine and tourist regions. Moreover, the effectiveness of certain measures in achieving long-term objectives was questioned. For example, support for industrial modernization seemed to lack incentives for investing in the latest technologies, and the MaPrimeRénov' program struggled to stimulate comprehensive renovations.

Broadly speaking, given the evolving macroeconomic context since the plan's inception in 2020 and uncertainties around productivity trends, there are emerging questions about the French NRRP's capacity to address structural challenges independently. The report underscores the necessity for continuous, rigorous policy evaluations and adjustments based on these evaluations, to effectively support the economy's transformation in the coming years.

Additionally, the report highlights **inefficiencies in specific initiatives**, such as the electric vehicle bonus, which was found to reduce CO2 emissions at a cost of €600 per ton, indicating a need for higher efficiency in some cases. The evaluation also faced challenges due to insufficient data and the complexity of assessing over a hundred interlinked measures. The mixed results in terms of cost per job created and impact on CO2 emissions reduction further underscore these challenges.

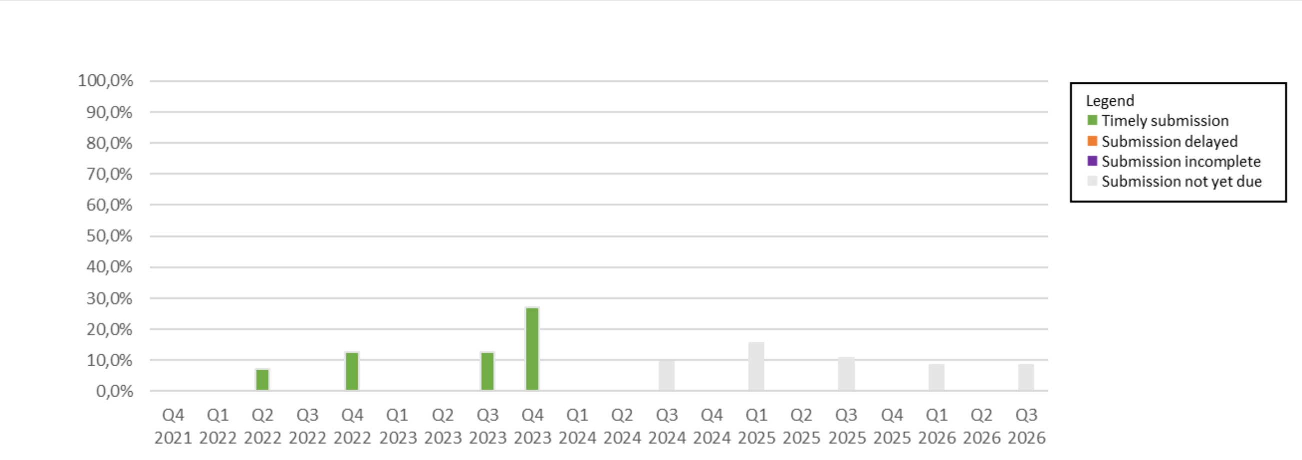
The European Commission's assessment of targets 3-15 and 3-16, which focus on **ecological bonuses for light vehicles (since June 2020 for target 3-15, since June 2021 for target 3-16), presents a structured yet potentially narrow approach.** The methodology employed for target involved a verification mechanism that included a summary document and a comprehensive list of over 263,000 bonuses granted within a year provided by the French authorities. Sampling evidence helped verify the list but sample size (60 out of 263,251) is small for robust statistical conclusions and could potentially skew the assessment's accuracy.

Moreover, the assessment's coherence with the targets' objectives does not necessarily equate to comprehensiveness. The use of additional ecobonuses to meet target 3-16, while ensuring target 3-15's fulfilment, seems more like a reactive measure rather than a proactive strategy. This approach might overlook the broader nuances and realities on the ground, suggesting a somewhat limited scope in evaluating the targets' true impact and effectiveness.

Slovakia: positive preliminary assessment of third payment request

> Implementation profile

Figure 4: Slovakia's payment requests - Actual submission vs. Indicative timeline in the Operational Arrangements (Y-axis: cumulative share of total RRF contribution; nine instalments for grants)



(classification based on the modified version of the Operational Arrangements; original not in the RRF country page)

> Procedure

In September 2023, Slovakia submitted its third payment request, providing due justification of the satisfactory fulfilment of in total 27 milestones and targets. In November, the Commission published its positive preliminary assessment, confirming that in its view all 27 milestones and targets have been satisfactory fulfilled.

According to the Commission, the request is another significant step in the implementation of Slovakia's RRP, which highlights the continuation of the reform momentum in key policy areas, including reforms to promote renewables, the green renovation of buildings, a strategy to guide the economy's digital transition, the launch of new calls to enhance the cooperation between academic researchers and private companies, and the improvement of the accessibility and quality of the education system.

> **Example(s)** for the fulfilment of targets and milestones in Slovakia's RRP that may be of interest from a **scrutiny perspective**:

Milestone: National Digital Skills Strategy; related measure: A strategic approach to education in digital skills (number SK-C[C17]-R[R6])

> **Context:** As the Commission's assessment sets out, the objective of the reform is to introduce a strategic approach in the development of digital skills in Slovakia through life-long learning, focussing on people in productive and post-productive age.
>
> The milestone subject to the Commission's assessment is notably the only milestone of that reform. It is meant to deliver a suitable strategy for persons in productive and post-productive age, including an analysis of the state of play, a definition of existing barriers, a vision of education for the next period, as well as recommendations on how to improve the status quo and meet the targets set.
>
> The Commission's assessment of the document that describes the strategy ("National Digital Skills Strategy of the Slovak Republic and the Action Plan for the years 2023 – 2026") overall finds that all related requirements have been satisfactorily fulfilled.

On substance, however, we would argue that the **document describing the strategy leaves room for improvement**, and that the Commission's assessment could have been stricter on the necessary information provided.. As regards the exact focus of the strategy, for example, the Commission finds that it takes a widely encompassing approach, covering all population groups, all age groups, including **people at risk of digital exclusion**. People at risk of digital exclusion are therefore **one of five priority areas**, and the respective section in the strategy document sketches some causes and consequences of digital exclusion. The section also lists those who might be most affected and comes up with a **very diverse group**, namely seniors over the age of 65, persons from marginalised communities and individuals with lower education, children and youth from socially and economically disadvantaged backgrounds, some specific public administration employees, immigrants, persons with disabilities, persons serving a prison sentence, and persons with low education. There is, however, **no breakdown** as to how large those subgroups are (e.g. seniors vs. imprisoned people), **no detail** as to what their specific training needs could be or how that training could be provided, nor what the overall aim of any specific training should be. The strategy document, however, just sets a **single primary strategic goal** for the whole group of disadvantaged people (i.e. to train at least 250,000 persons from that group), leaving room for a more detailed description of how to best serve people at risk of digital exclusion.

Italy: Commission's preliminary assessment of the fourth payment request

Box: Press article on the use of RRF funds to finance current expenditure in Italy

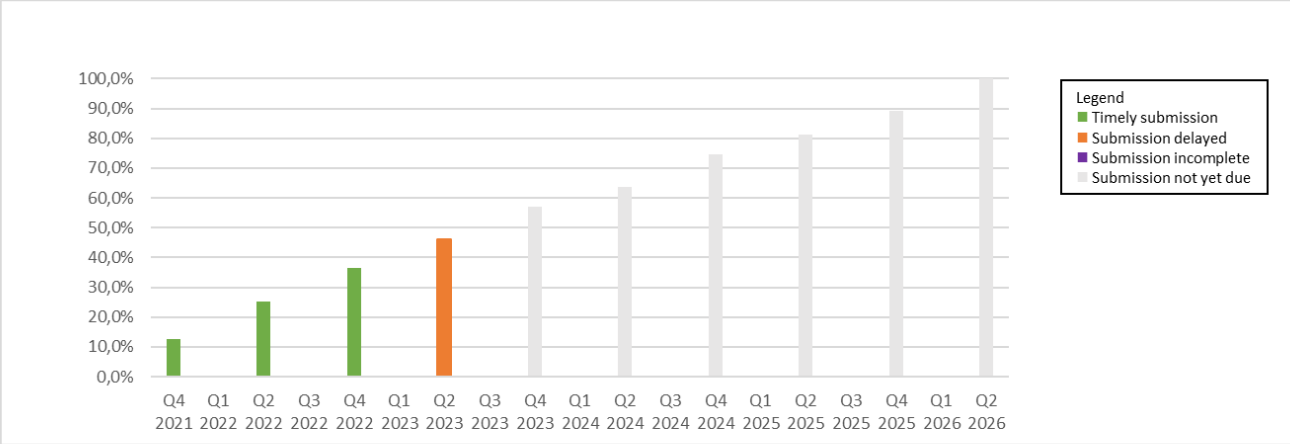
A recent article on the Italian press investigated the relationship between the RRF funds and public debt levels. **Quoting research from the economist Luigi Guiso**, the article reports that without the disbursement of the fourth payment under the RRF, Italy would have been in line with the EU fiscal rules.

From a scrutiny perspective, the article highlights the lack of data on actual spending from the central administration which makes it challenging to assess the real-time implementation of the plan. Overall, it is estimated that actual RRF payments should not represent more than EUR 30 or 40 billion, i.e. not more than 40% of the EUR 102 billion in RRF funds received by Italy at the end of the year. This leaves the country with a significant amount of excess funds that can be used to cover its current expenditure needs. Similiarly, La Stampa has reported how, according to Italian Treasury officials, only less than half (€46 billion) of these €102 billion received have actually been spent.

It appears that Italy is also backloading some of the investments and reforms foreseen for next year. The delays in implementation, with an advancement in the roll-out estimated at 40.3% instead of the 60.5% originally foreseen, further incentivise such type of liquidity management preventing the country from issuing further debt in 2023 and 2024. Nevertheless, Italy remains reliant on the market in the medium term as the country would have to issue more debt in 2025 and 2026, once the new economic governance framework is also expected to apply, to pay the bill for the actual NRRP works that are currently only at an inception phase.

> Implementation profile

Figure 5: Italy's payment requests - Actual submission vs. Indicative timeline in the Operational Arrangements (Y-axis: cumulative share of total RRF contribution; ten instalments each for grants and loans)



(classification based on the original version of the Operational Arrangements, as shown in the RRF country page)

> Procedure

On 22 September 2023, Italy submitted a fourth payment request to the Commission covering 21 milestones and 7 targets. On 28 November 2023, the Commission provided its positive preliminary assessment of the satisfactorily fulfilment of the 28 milestones and targets, allowing for the equivalent €16.8 billion to be paid by the end of the year. On 28 December 2023, Italy received its fourth instalment becoming the only Member State to receive the fourth tranche of funds in 2023.

Overall, **as of the end of 2023, Italy received roughly €102 billion of RRF funds, more than half of the envelop available under the facility (€191.6 billion).** A fifth payment request amounting to €10.6 billion in grants and loans, covering 52 milestones and targets, was also presented on 29 December 2023. The Commission's preliminary assessment is pending at the time of writing.

As a reminder, the fourth payment requests follows a targeted revision of the plan, which transferred €515.95 million related to the creation of additional student accommodations from the third payment request to the fourth instalment. The revision also brought about amendments to a number of measures that are no longer available, such as the deployment of hydrogen refuelling station and the roll-out of charging infrastructure for electronic vehicle (EV) measures.

The Commission has provided its greenlight to a broad revision of the Italian RRP (endorsed in Council) which implies a halving of the fifth instalment, with €10 billion being offloaded on a 10th payment request of (now) over €30 billion to be paid in 2026.

The milestones and targets envisaged by this payment request are related to several domains: reforms in the area of criminal and civil justice, public employment services, and simplification of public procurement procedures, long-term care, and investments in energy efficiency of building, hydrogen, charging infrastructure, affordable stoned housing, digital transition and social inclusion.

The Commission's positive preliminary assessment fourth payment request indicates that *"previously satisfactorily fulfilled milestones and targets have not been reversed"*. However, both parties in the government coalition and in the opposition have recently requested to roll-back the phase-out of regulated prices for micro-enterprises and households covered by the third payment request (M1C2-7 Annual Competition Laws). The reform would lead to a liberalisation of gas and electricity sector and is viewed as potentially rising prices on households. While at this stage nothing has been decided and a discussion between the Italian authorities and the Commission is ongoing, the spat relates to the governance structure of the RRF i.e. how to keep political ownership of reforms agreed by previous governments.

> **Example(s)** for the fulfilment of targets and milestones in Italy's RRP that may be of interest from a **scrutiny perspective**:

Investment: Plan for nurseries and preschools and early childhood education and care services (number: 1.1); Related Milestone: "*Award of contracts for building, renovating and ensuring the safety of nurseries, preschools and early childhood education and care services*" (M4C1-9).

Qualitative indicator: Notification by the local authorities to the beneficiaries of the financing of award of public contracts for the first set of eligible interventions

Context: The objective of the investment is to increase the provision of childcare facilities in Italy with a view of creating at least 264,480 places for early childhood education and care facilities by the end of 2025. The Commission has indicated that the first milestone related to the award of contracts and territorial distribution of such facilities together with the notification of the beneficiaries of the financing of award public contracts for the first set of interventions has been satisfactorily fulfilled.

This milestone has been subject to public scrutiny as media reported of major shortcomings in the award procedure. As noted also by the Commission services, only a small portion of the projects that were deemed admissible as they foresaw the actual creation of new facilities as most of the original interventions consisted instead in the expansion or reconstruction of existing facilities. Similarly, the Commission has not deemed the "multifunctional centres" to be financed as real childhood care facilities. They represented roughly one third of the interventions. While a new call for projects was launched to find eligible projects, ultimately the **satisfactory fulfilment of the milestone has been possible thanks to the downward revision to the number of places to be created by 2025, which was brought down to 150,480**.

This amendment was already outlined in the Annex to the Council Implementing Decision that was transmitted by the Commission to the Council on 27 November 2023. The amended plan was adopted in Council only arrived on 8 December (following the Commission's greenlight on 24 November) whereas the Commission issued its positive preliminary assessment on the payment request on 28 November. However, the **preliminary assessment does not indicate the request of the Italian authorities to revise the final target for childcare facilities, which seems necessary for the purpose of fulfilling the assessment**. Similarly, **from the assessment it is not possible to estimate the number of projects that have been awarded and hence found eligible**. This would be necessary to assess the adequate satisfaction of the investment, even though the CID refers vaguely to a "first set" of eligible interventions.

On substance, also in light of the level of public scrutiny on this matter, the **Commission could have been more transparent** in linking the satisfactory fulfilment to the (at the time upcoming) approval of the revision of the Italian RRP as well as in providing clear indication of how many projects were found eligible. In lack of such information, it remains challenging to verify how the investment is being rolled out.

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ANNEX 1: RRF- related audits listed in the ECA 2024+ work programme

Strategic priority and planned publication year	Task name	Product type	Objective of the task
The Union's economic competitiveness **2024**	Recovery and Resilience Facility – **digital transformation**	Special report	To assess whether the implementation of the digital investments and reforms included in the national RRPs effectively contributed to the EU's digital strategy and the digital transformation.
The Union's economic competitiveness **2024**	Recovery and Resilience Facility – **labour market reforms**	Special report	To assess whether the design and implementation of the labour market reforms included in the RRPs address the main labour market needs.
The Union's economic competitiveness **2025**	Recovery and Resilience Facility – **business environment reforms**	Special report	To assess whether the design and implementation of business environment reforms included in the RRPs promote business development.
The Union's economic competitiveness **2025**	Recovery and Resilience Facility – **Public administration reform**	Special report	To assess whether the design and implementation of the public administration reforms included in the RRPs address the main public administration needs.
The Union's economic competitiveness **2025**	**Support for SMEs** financed by the Recovery and Resilience Facility	Special report	To examine whether the national RRPs support SMEs effectively to overcome the crisis. The audit also aims at reviewing whether the RRF and other EU funds with similar objectives are well coordinated.
Resilience to threats to the Union's security, respect for the European values of freedom, democracy and rule of law **2024**	**Rule of law** in the EU	Special report	To examine whether the new rule of law (RoL) Conditionality Regulation is an effective tool to protect the EU's financial interests in the event of breaches of the rule of law in the area of Cohesion policy funds and the RRF.
Climate change, the environment, and natural resources **2024**	**Green transition** (in the Recovery and Resilience Facility)	Special report	To assess whether the design and implementation of the measures included in national RRPs match member states' ambitions to deliver a green transition and their contribution to the relevant EU objectives.
Climate change, the environment, and natural resources **2025**	Recovery and Resilience Facility – **RePowerEU**	Special report	To assess the approval process for REPowerEU chapters included in updated national RRPs, from the member states' submission of their draft chapters to the Commission's checks and scrutiny until final approval by the Council.

Strategic priority and planned publication year	Task name	Product type	Objective of the task
The fiscal policies and public finances of the Union **2024**	Recovery and Resilience Facility – **absorption**	Special report	An early assessment of the extent to which the RRF design is appropriate and its implementation on track to facilitate the timely absorption of the funds destined to contribute effectively to member states addressing the economic and social consequences of COVID-19.
The fiscal policies and public finances of the Union **2024**	Member states' Recovery and Resilience Facility **control systems**	Special report	To assess whether member states' proposed control systems for managing funds received from the RRF are well designed to protect the EU's financial interests.
The fiscal policies and public finances of the Union **2024**	**Double funding**	Special report	To assess whether the Commission and member states put in place robust management and control systems to avoid double funding of expenditure financed from the RRF and Cohesion policy programmes.
The fiscal policies and public finances of the Union **2025**	**Review**	Special report	To take stock of the ECA's audit work on the RRF, and to flag risks, challenges and opportunities which could contribute to assessing such an instrument
The fiscal policies and public finances of the Union **2025**	Recovery and Resilience Facility **Control systems**	Special report	To assess whether member states' control systems for managing funds received from the RRF effectively prevent, detect and, where appropriate, correct fraud, corruption and conflicts of interest.

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