

**12 February 2021**

# **Recovery and Resilience Facility (RRF) for reforms and investments 2021 - 2026**

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**Before the Committees on Budget of Italian Chamber of  
deputies and the Senate**



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# ECA audit in response to COVID-19

## **Publications relevant for the RRF:**

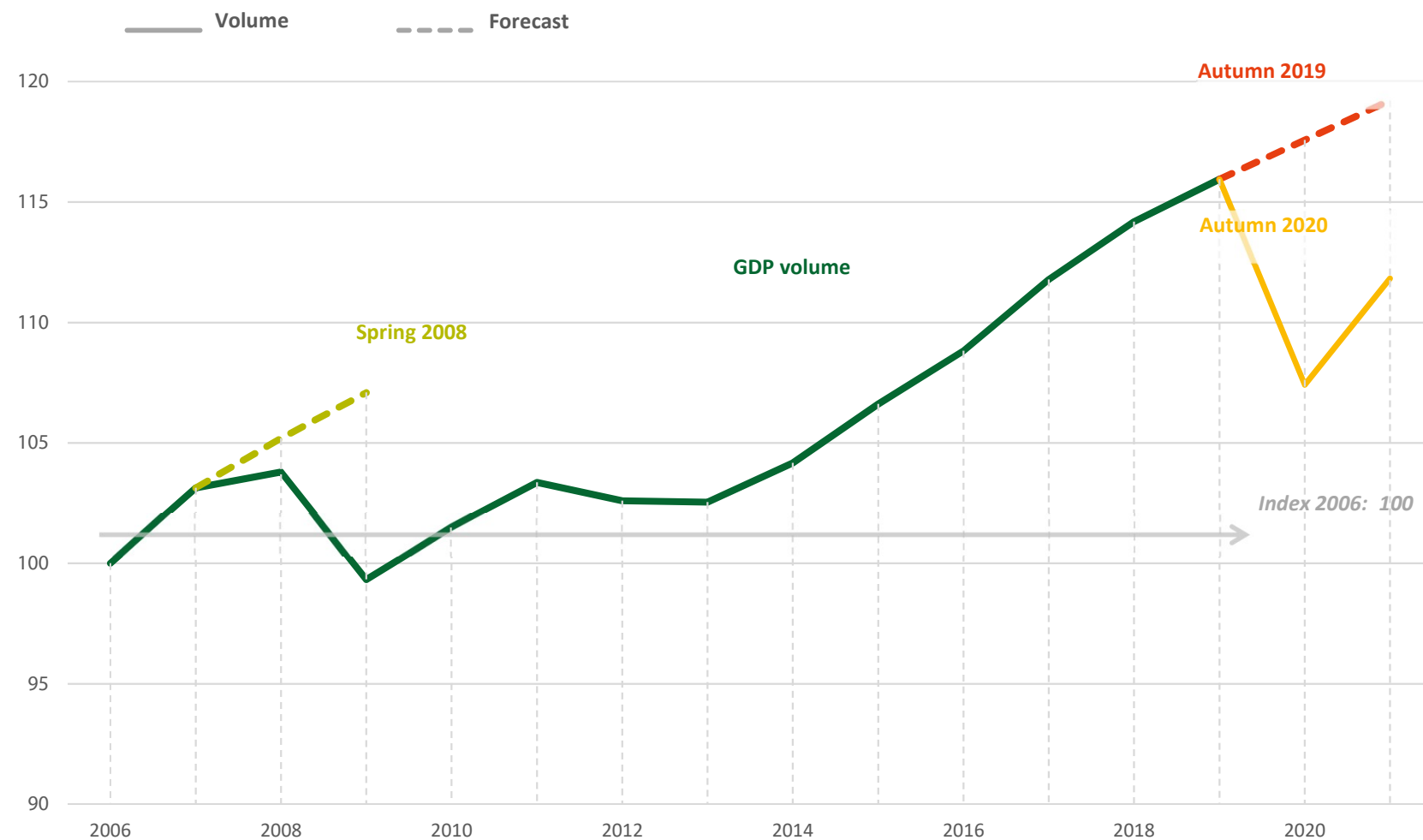
- Opinion No 6/2020: Opinion on the RRF
- Review No 6/2020: Risks, challenges and opportunities in the EU's economic policy response to the COVID-19 crisis
- Special Report XX/XX: National Recovery and Resilience Plans (NRRPs)

## **Other publications related to the new MFF and NGEU:**

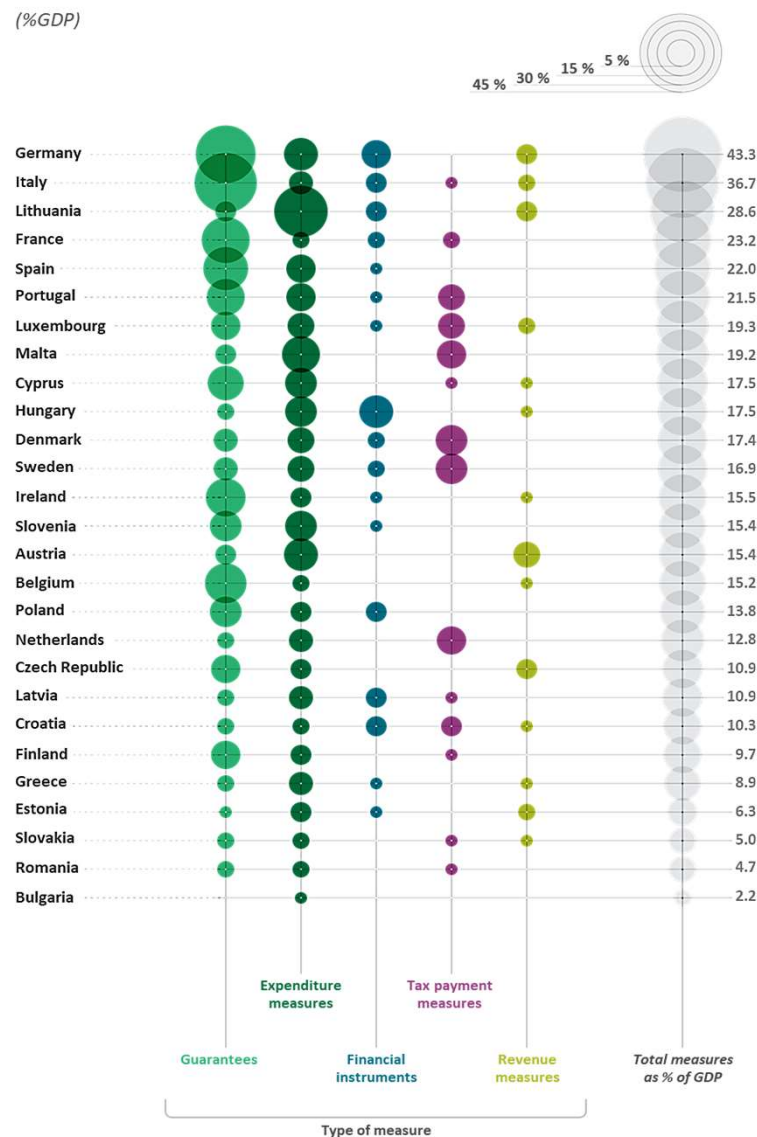
- Opinion No 2/2020: Amended proposal on the CPR
- Opinion No 4/2020: REACT-EU regulation and Common Provisions Regulation
- Opinion No 5/2020: Just Transition Fund
- Review No 05/2020: How the EU took account of lessons learned from the 2008-2012 financial and sovereign debt crises

# Unprecedented economic shock

EU GDP volume index (% , 2006-2021)

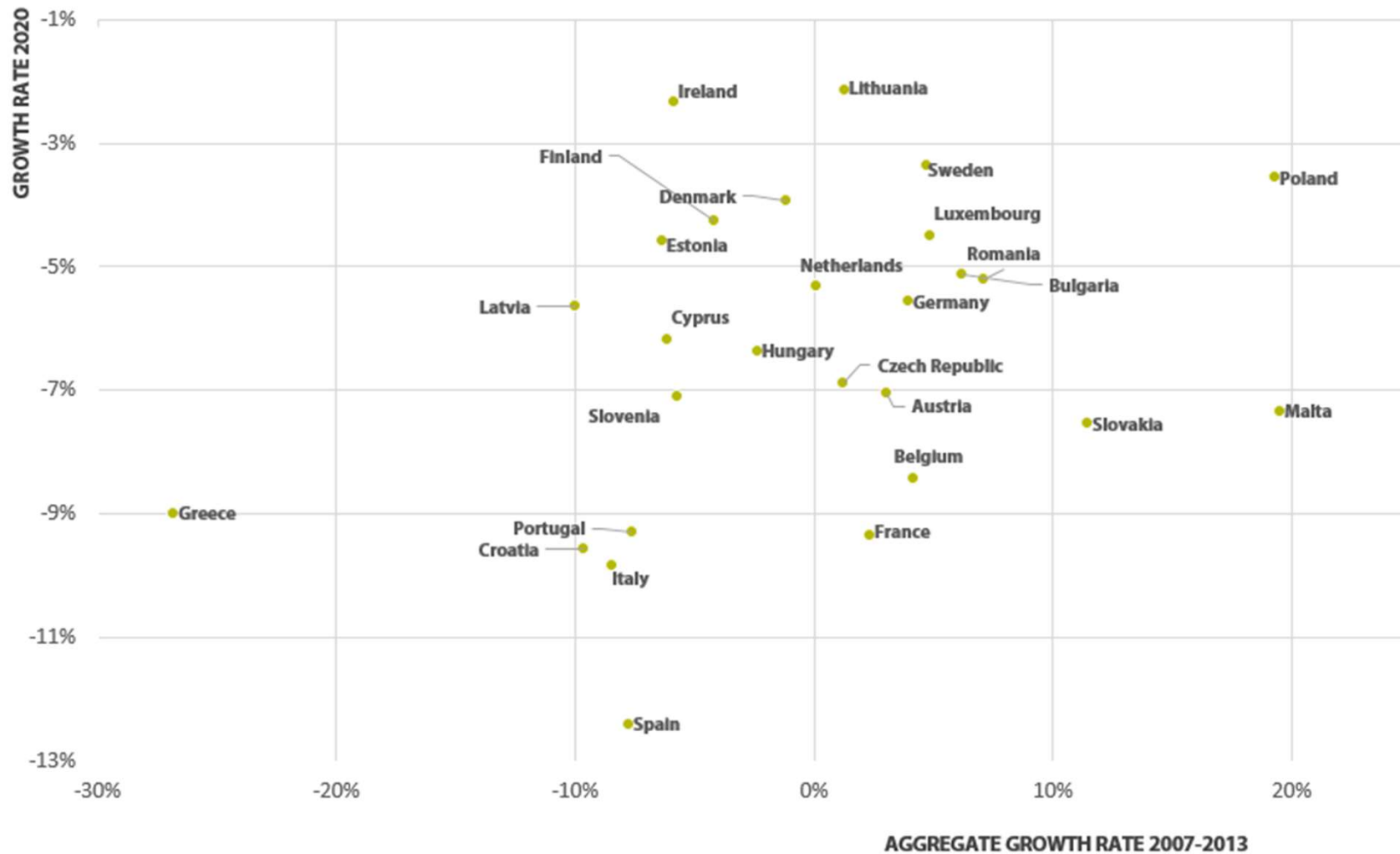


# Fiscal measures in MSs as a share of respective GDP



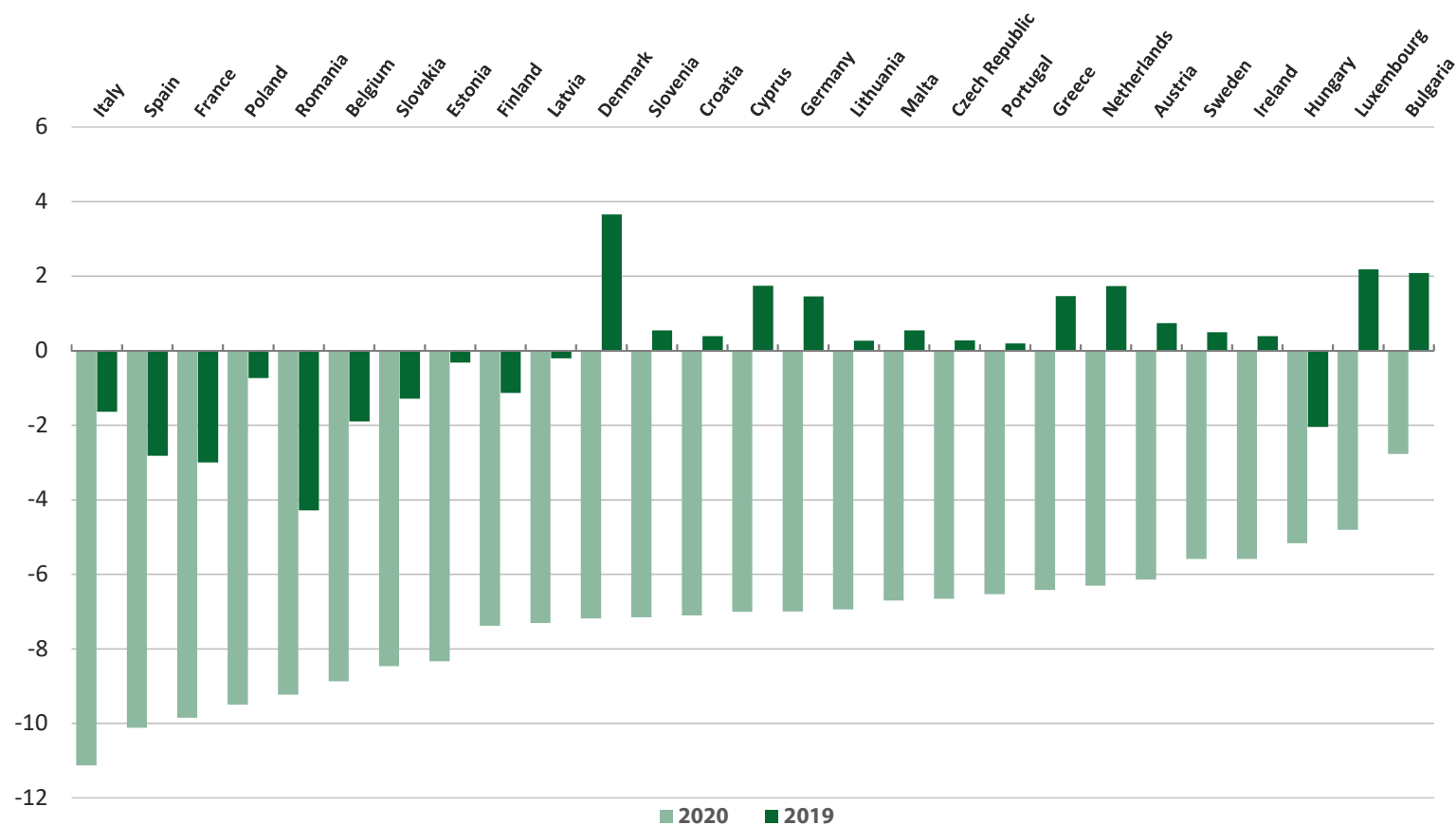
# Some countries have been more vulnerable than the others

GDP contraction during 2008 – 2013 crisis and 2020 crisis



# Fiscal positions drastically deteriorated

## Fiscal balances in 2019 and 2020



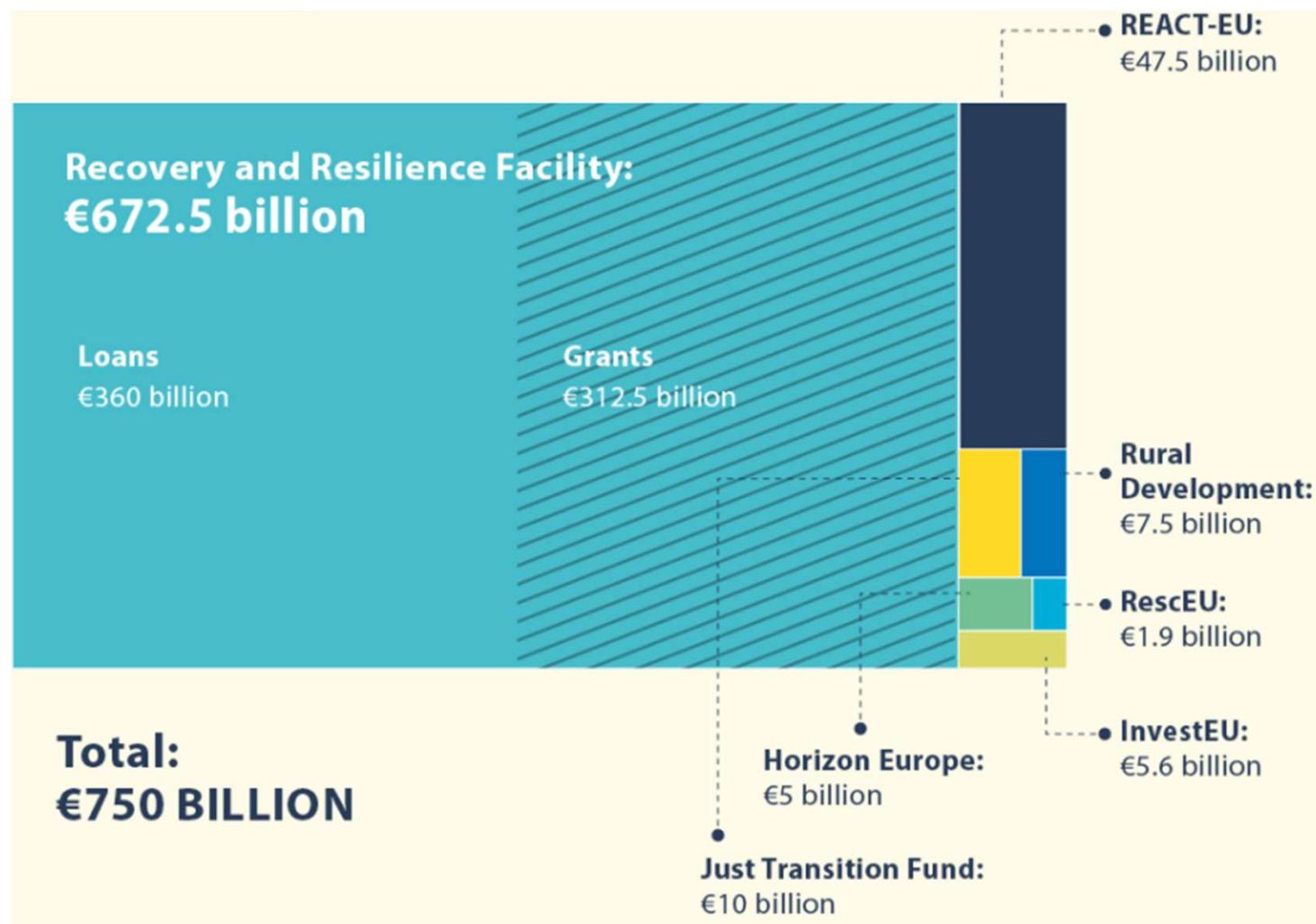
Source: Commission spring forecasts (2020).



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# Next Generation EU (NGEU), 2018 prices



Source: European Commission.



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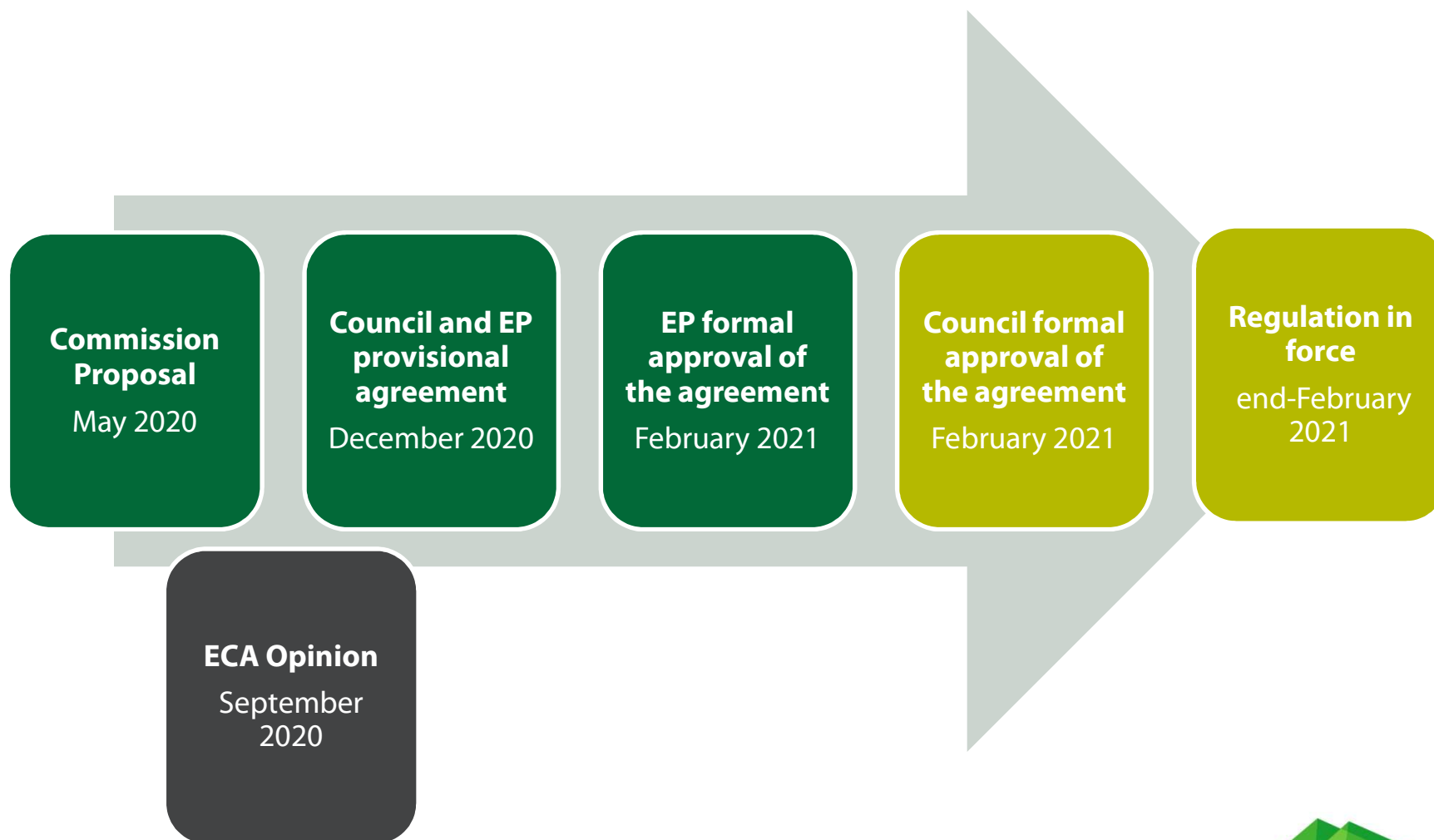
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# General features of the RRF

- **Purpose:** to provide large scale financial support to public investments and reforms in Member States in order to:
  - accelerate the **recovery** of Member States;
  - make Member States' economies more **resilient**;
  - reduce economic and sustainable **divergences** between the Member States; and
  - enhance the **green and digital transitions**.
- **Other programmes:** implementation of the RRF alongside other programmes within the NGEU and other EU instruments related to the COVID-19 response (e.g. Support to mitigate Unemployment Risks in an Emergency (SURE), the EIB and the ESM financing for businesses and Member States, and the ECB Pandemic Emergency Purchase Programme).



# Negotiations on the Regulation



# Financial envelope (in 2018 prices)

- **Total: €672.5 billion** → more than half of the new MFF (€1.074 trillion) and almost 90% of the NGEU (€750 billion).
- **Breakdown:** payment in instalments, upon fulfilment of **milestones and targets (M&T) set in the Recovery and Resilience Plan (RRP)**.

## Grants €312.5 billion

- Investments and reforms up to 2026
- Maximum allocation per Member State
- 70% of max. allocation to be committed by end-2022 and the remainder of 30% until 2023
- Pre-financing of up to 13% available in 2021
- All payments will be made by 31 December 2026

## Loans €360 billion

- Additional reforms and investments justified by higher financing need
- Capped at 6,81 2019 GNI of each Member State (can be increased in exceptional circumstances)
- Deadline for commitment is end-2023

# ECA Opinion No 6/2020 – allocation key (grants)

## What did we say?

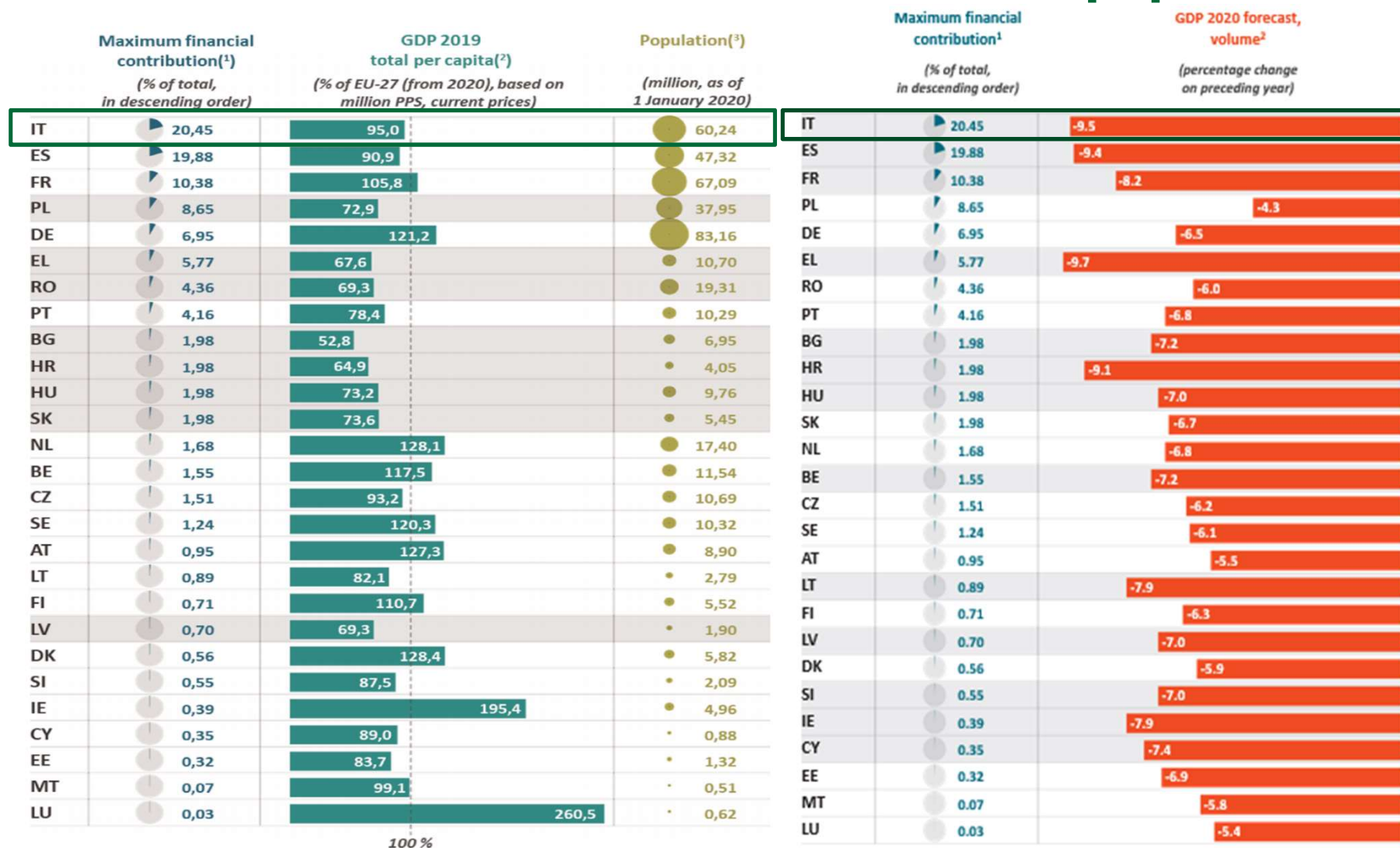
- Grants only partly reflect the impact of COVID-19.
- The proposed formula does not fully reflect the objectives of the RRF to improve resilience and support recovery.

## What has been agreed?

- Allocation key for 70% of maximum grant allocation based on three parameters: past data on GDP per capita, population and unemployment.
- Allocation key for the remainder of 30% based on **additional two criteria**: decline in GDP in 2020 and decline in GDP in 2021 (currently based on economic forecast).

As the final data for fall in GDP for 2020 and 2021 will only be known in 2022, Member States may, if necessary, submit an updated RRP by end-2023 based on new data.

# Maximum allocation in relation to GDP and population



Note: Member States in grey have reached a 2019 GDP total per capita of 75 % of EU-27 GDP or less.

Note: Member States in grey are projected to reach a decline in GDP of 7 % or more in 2020, according to the European Commission's Spring forecast.



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# ECA Opinion No 6/2020 – commitments and capacity

## What did we say?

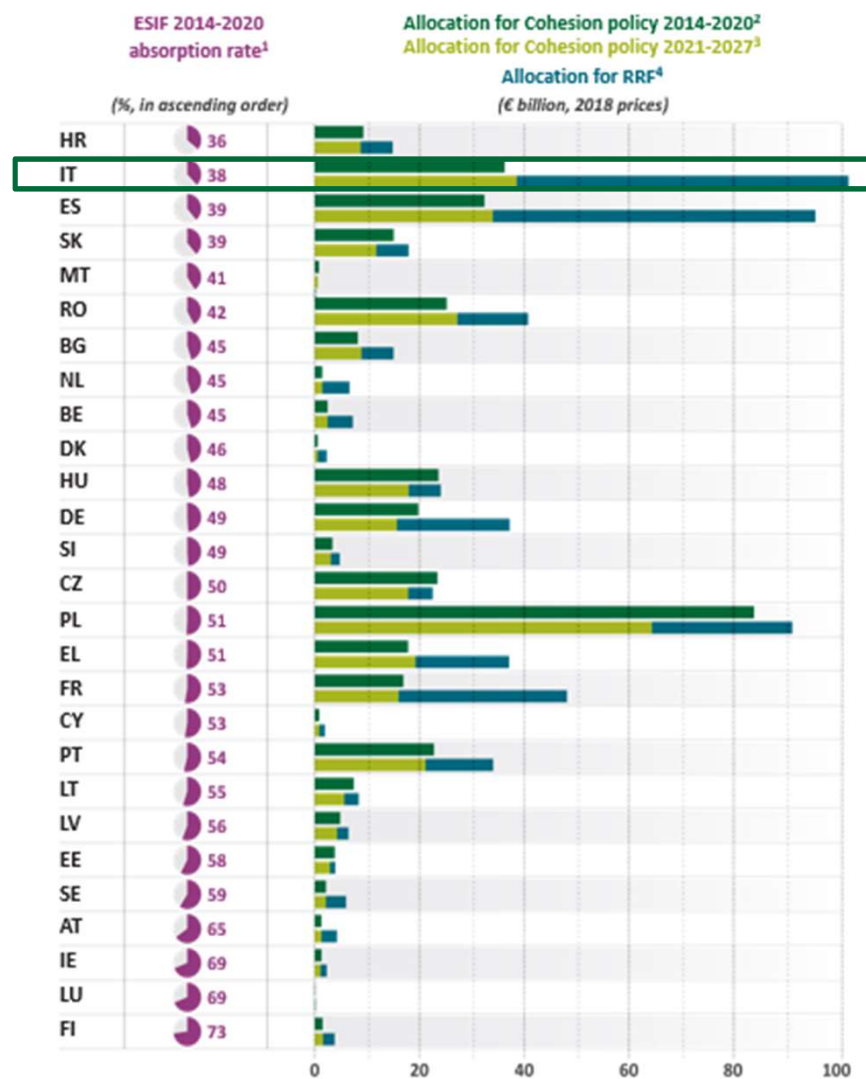
- Tight deadlines for commitment of funds ensure a rapid response but may hinder the overall effectiveness of the RRF.
- Issues with absorption capacity might prove a bottleneck for Member States.

## What has been agreed?

- 70% of of grants has to be committed by the end of 2022 and the remainder by the end of 2023. **Pre-financing of up to 13%** will be available already in 2021.
- If cost of a national RRP exceeds the maximum financial allocation, the Member State concerned will be attributed the maximum amount.

Member States may cumulatively ask for both grants and loans or may first ask only for grants and then later and separately submit requests for loans (as the deadline for commitment of the latter is end-2023).

# Allocations from the RRF and ESIF

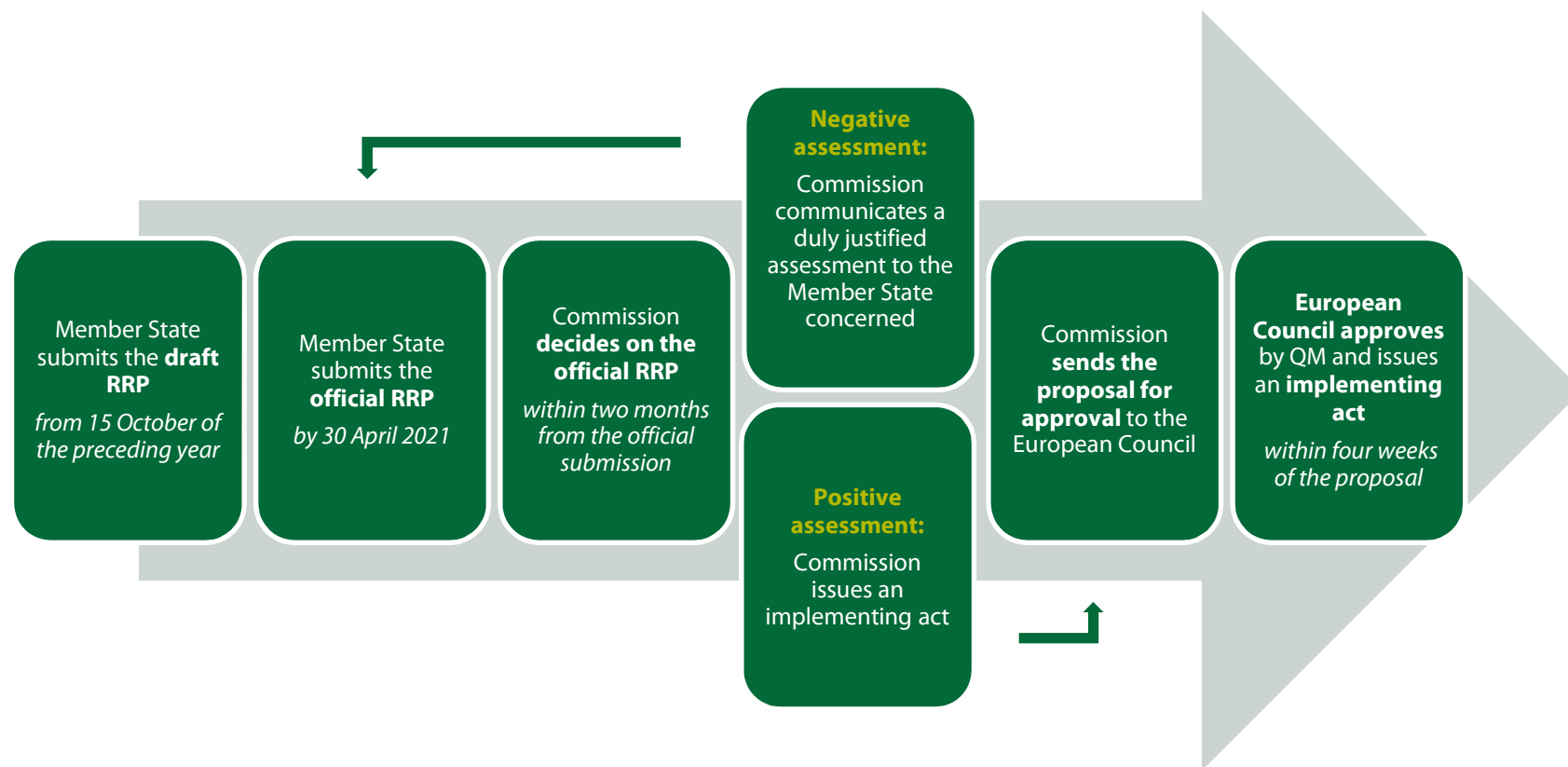


# Comparison of the RRF and ESI Funds

Coordination  
is key.

	RRF	ESIF
<b>Preparation</b>	Member State prepares a <b>Recovery and Resilience Plan</b> in addition to the National Reform Program prepared in the framework of the European Semester. The Plan sets out the main objectives and expected results.	Member State prepares a <b>Partnership Agreement and operational programs</b> defining the priorities and objectives to be met.
<b>Objective</b>	<ul style="list-style-type: none"> <li>• <b>General objectives</b> – to promote economic, social and territorial cohesion, mitigate the social and economic impact of the crisis, support green and digital transition.</li> <li>• <b>Specific objectives</b> – to achieve the reform and investment objectives as set out in the recovery and resilience plans.</li> </ul>	To strengthen <b>economic, social and territorial cohesion</b> by reducing disparities in development between Member States.
<b>Financial instruments</b>	<b>Grants and loans.</b>	<b>Grants and other financial instruments</b> (loans, guarantees, interest subsidies).
<b>Financing</b>	<b>Upon fulfilment of M&amp;Ts</b> agreed in the Recovery and Resilience Plan, the Member State submits a <b>request for reimbursement</b> (twice a year).	Member State <b>applies for reimbursement of eligible and certified costs</b> on the basis of the projects carried out and the funds paid.

# RRP adoption timeline





# RRPs and the European Semester

## What did we say in the Opinion?

- The link to the European Semester is conducive to reducing the administrative burden but may imply challenges.

## What did we say on CSRs in our special report no. 16/2020?

- Not all Member States fully implement CSRs and the Commission has not always or not sufficiently used its powers to recommend specific measures where Member States have not addressed the CSRs.
- The use of EU funds supporting reforms and CSRs is not developed enough.
- In certain cases, the CSRs contain a mix of issues, and generally lack clear timeframes and costs.
- CSRs reflect risks identified in CRs, but prioritisation is not explained clearly enough in some cases.

# Overview of CSRs for Italy 2017 - 2020

Year / No.	2017	2018	2019	2020
1	<p>Pursue <b>fiscal policy</b> to strengthen recovery and ensure sustainability of public finances.</p> <p>Shift the <b>tax</b> burden from the factors of production, reform the cadastral system and reintroduce the first residence tax for high-income households.</p> <p>Broaden the compulsory use of electronic invoicing and payments.</p>	<p>Reduce the <b>nominal growth rate of net primary government expenditure</b> and reduce the <b>general government debt ratio</b>.</p> <p>Shift <b>taxation</b> away from labour (e. g. reducing tax expenditure and reforming the cadastral values).</p> <p>Strengthen the compulsory use of <b>e-payments</b>.</p> <p>Reduce the share of <b>old-age pensions</b> in public spending.</p>	<p>Ensure a nominal reduction of <b>net primary government expenditure</b> and reduce the <b>general government debt ratio</b>.</p> <p>Shift <b>taxation</b> away from labour (e. g. reducing tax expenditure and reforming the cadastral values).</p> <p>Fight tax evasion, including by strengthening the compulsory use of <b>e-payments</b>.</p> <p>Reduce the share of <b>old-age pensions</b> in public spending.</p>	<p><b>Sustain the economy</b> and support <b>recovery</b>.</p> <p>Achieve prudent medium-term fiscal positions, ensure debt sustainability and enhance investment.</p> <p>Strengthen the resilience and capacity of the <b>health system</b>.</p> <p>Enhance <b>coordination between national and regional authorities</b>.</p>
2	<p>Reduce the <b>trial length in civil justice</b>.</p> <p>Step up the fight against <b>corruption</b>.</p> <p>Complete reforms of <b>public employment</b> and improve efficiency of <b>public enterprises</b>.</p> <p>Adopt legislation and address the remaining restrictions to <b>competition</b>.</p>	<p>Reduce the <b>length of civil trials</b> at all instances.</p> <p>Step up the fight against <b>corruption</b>.</p> <p>Enforce the new framework for <b>public enterprises</b> and improve <b>local public services</b>.</p> <p>Address restrictions to <b>competition</b>.</p>	<p>Reform the <b>labour market</b> to tackle undeclared work, reach out to young people, vulnerable groups and women.</p> <p>Improve <b>educational outcomes</b>.</p>	<p>Mitigate the <b>employment impact of the crisis</b>.</p> <p>Strengthen <b>distance learning and skills</b>, including digital ones.</p>
3	<p>Accelerate the reduction of <b>NPLs</b> and step up <b>balance-sheet clean-up and restructuring</b>.</p> <p>Review the regulatory framework for <b>insolvency and collateral enforcement</b>.</p>	<p>Reduce <b>NPLs</b> and support further <b>bank balance sheet restructuring and consolidation</b>.</p> <p>Improve market-based <b>access to finance for firms</b>.</p>	<p>Focus on <b>research and innovation</b>, and the <b>quality of infrastructure</b>.</p> <p>Improve the effectiveness of <b>public administration</b>.</p> <p>Address restrictions to <b>competition</b>.</p>	<p>Implement measures to provide <b>liquidity</b> to the real economy.</p> <p>Front-load mature <b>public investment projects</b> and promote <b>private investment</b>.</p> <p>Focus investment on the <b>green and digital transition</b>.</p>
4	<p>Strengthen the <b>collective bargaining framework</b> and ensure effective <b>active labour market policies</b>.</p> <p>Rationalise <b>social spending</b>.</p>	<p>Implement the reform of <b>active labour market</b>.</p> <p>Foster <b>research, innovation, digital skills, infrastructure and vocational-oriented tertiary education</b>.</p>	<p>Reduce the <b>length of civil trials</b> at all instances.</p> <p>Step up the fight against <b>corruption</b>.</p>	<p>Improve the efficiency of the <b>judicial system</b> and the effectiveness of <b>public administration</b>.</p>
5			<p>Reduce <b>NPLs</b> and support further <b>bank balance sheet restructuring and consolidation</b>.</p> <p>Improve <b>non-bank financing</b> for smaller and innovative firms.</p>	

# Concluding remarks

- Preparation of the RRP's simultaneously with the OPs within the cohesion policy might be challenging. However, good coordination and complementarity are key.
- Well prepared and sufficiently detailed RRP's are crucial for success.
- ECA is preparing an audit on the assessment procedure of NRRPs by the Commission.

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