Questions and answers: Commission presents next steps for €672.5 billion Recovery and Resilience Facility in 2021 Annual Sustainable Growth Strategy

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What is the strategic guidance for the implementation of the Recovery and Resilience Facility as set out in the Annual Sustainable Growth Strategy?

The 2021 Annual Sustainable Growth Strategy launches the next cycle of the European Semester and sets out strategic guidance for the implementation of the Recovery and Resilience Facility. It confirms the EU's aim to pursue a new growth strategy based on the European Green Deal and on the concept of competitive sustainability. The four dimensions of competitive sustainability, namely the environmental sustainability, productivity, fairness and macroeconomic stability identified in last year's ASGS should remain the guiding principles for the implementation of the Facility.

The Facility is a central pillar of NextGenerationEU. The Commission proposed NextGenerationEU as an emergency temporary recovery instrument to help repair the immediate economic and social damage brought about by the coronavirus pandemic, support an economic recovery and build a better future for the next generation. Together with the EU's next long-term budget for 2021-2027, it would bring the total financial support channelled through the EU budget at over €1.8 trillion.

The European Council agreed on an envelope of €672.5 billion in loans and non-repayable financial support (grants) to support the implementation of investments and reforms. It will help Member States to address pre-existing challenges identified in the context of the European Semester and to achieve the EU's policy objectives, especially the green and digital transitions, which are crucial to building a prosperous and sustainable future.

The Commission is working hard with the European Parliament and the Council to finalise the design of the Facility and ensure its fast entry into force to help the economic recovery.

How will the Recovery and Resilience Facility be integrated into the European Semester?

The European Semester and the Recovery and Resilience Facility are intrinsically linked. The assessment of the recovery and resilience plans will be checked against the country-specific recommendations.

Given that the deadlines within the European Semester and the Facility will overlap, it is necessary to temporarily adapt the Semester.

Member States will be encouraged to submit their National Reform Programmes and their recovery and resilience plans in a single integrated document. This document will provide an overview of the reforms and investments that the Member State will undertake in the coming years, in line with the objectives of the Facility.

For Member States submitting plans in 2021, the Commission will accompany the proposals for the Council implementing decisions with analytical documents assessing the substance of the recovery and resilience plans. These documents will replace the European Semester country reports in 2021.

Given the comprehensive and forward-looking policy nature of the recovery and resilience plans, there will be no need for the Commission to propose country-specific recommendations in 2021 for those Member States that will have submitted plans.

The Commission will nevertheless propose recommendations on the budgetary situation of the Member States in 2021 as envisaged under the Stability and Growth Pact.

How much funding will be provided under the Recovery and Resilience Facility?

The Recovery and Resilience Facility will provide a total of €672.5 billion to support investment and reforms. Grants worth a total of €312.5 billion will be provided to Member States under the Facility and the remaining €360 billion will be provided in loans.

Funding under the Facility will be made available in accordance with the estimated costs of the proposed reforms and investments contained in recovery and resilience plans to be submitted by the Member States. The estimated cost should be in line with the expected impact of the reforms and investments.

How will grants be allocated by Member State?

An allocation key will fix a maximum possible amount for the grant component of the Recovery and Resilience Facility per Member State.

For 70% of the total of €312.5 billion available in grants, the allocation key will take into account the Member State's population, the inverse of its GDP per capita, and its average unemployment rate over the past 5 years (2015-2019), always compared to the EU average. For the remaining 30%, the formula will replace the 2015-2019 unemployment rate indicator by the observed loss in real GDP over 2020 and the observed cumulative loss in real GDP over the period 2020-2021.

Member States may also request a loan under the Facility. The maximum volume of loans for each Member State will not exceed 6.8% of its Gross National Income. However, an increase will be possible in exceptional circumstances subject to available resources.

What are the Recovery and Resilience Plans?

Member States can prepare recovery and resilience plans that set out a coherent package of reforms and public investment projects to be implemented up to 2026 in order to be supported by the Recovery and Resilience Facility.

The plans should demonstrate how the investments and reforms would effectively address challenges identified in the context of the European Semester, particularly the country-specific recommendations adopted by the Council. The plans should also include measures aimed at addressing the challenges faced by the Member States regarding their green and digital transitions.

When should Member States present their Recovery and Resilience Plans?

Member States can formally submit their recovery and resilience plans for assessment from the moment the Facility is legally in force. The Commission is expecting that the legislation will enter into force on 1 January 2021. The deadline for the submission of the plans is 30 April 2021. However, the Commission encourages Member States to submit their preliminary draft plans from 15 October 2020. Member States may finalise their plans following the initial presentation of the drafts to the Commission.

The Commission is already available at all levels to engage with Member States on the preparation of their plans.

What technical guidance has the Commission provided to Member States to help prepare their national Recovery and Resilience Plans?

The Commission presents today additional guidance and a template to help Member States prepare and present their recovery and resilience plans in a coherent way. The recovery and resilience plans need to reflect a substantive reform and investment effort; both aspects therefore must be coherent and adequately address the challenges in the individual Member State and the EU policy priorities mentioned earlier.

This guidance provides that an executive summary should outline the main narrative of the plan, enabling the European Parliament, the other Member States, the Commission and the public at large to have an overview of what the recovery and resilience plan will achieve. It also gives a detailed explanation of what the Member States are expected to provide when submitting the plan and suggests a template for doing so.

How will the Commission assess the recovery and resilience plans?

The Commission will assess the recovery and resilience plans based on transparent criteria. In particular, the Commission assessment will consider whether the investments and reforms set out in the plans:

- contribute to effectively addressing challenges identified in the relevant country-specific recommendations;
- contain measures that effectively contribute to the green and to the digital transitions; and
- contribute to strengthening the growth potential, job creation and economic and social resilience of the Member State.

The Commission's assessment of the plans will be approved by the Council by means of an implementing decision following a proposal from the Commission.

What will be considered as an 'investment' or 'reform' for the purpose of the Recovery and Resilience Facility?

The Recovery and Resilience Facility will support investments and reforms that will have a lasting, positive impact on the economy and society. The measures should address challenges identified in the context of the European Semester, facilitate the green and digital transitions and strengthening the growth potential, job creation and economic and social resilience of the Member State.

The Facility is consistent with a broad concept of investment as capital formation in areas such as fixed capital, human capital and natural capital. Fixed capital relates to investments in for example infrastructure, buildings, but also some intangibles like research and development, patents or software. Human capital is accumulated by means of spending on health, social protection, education, training and skilling. Natural capital is enhanced by actions aiming at increasing the share of renewable natural resources, protecting or restoring the environment, or by mitigating/adapting to climate change.

Reforms should also be read broadly as relating to actions or processes aimed at making lasting improvements to the functioning of markets, institutional structures, public administrations, or relevant policies, such as the green and digital transitions.

What are the flagship investment and reform projects the Commission is encouraging Member States to propose?

The Recovery and Resilience Facility is an opportunity to create European flagships with tangible benefits for the economy and citizens across the EU. These flagships should address issues that are common to all Member States, need significant investments, create jobs and growth and are needed for the twin transition.

The Commission therefore strongly encourages Member States to include in their recovery and resilience plans investment and reforms in the following areas:

1. *Power up* – The frontloading of future-proof clean technologies and acceleration of the development and use of renewables.
2. *Renovate* – The improvement of energy efficiency of public and private buildings.
3. *Recharge and Refuel* – The promotion of future-proof clean technologies to accelerate the use of sustainable, accessible and smart transport, charging and refuelling stations and extension of public transport.
4. *Connect* – The fast rollout of rapid broadband services to all regions and households, including fiber and 5G networks.
5. *Modernise* – The digitalisation of public administration and services, including judicial and healthcare systems.
6. *Scale-up* – The increase in European industrial data cloud capacities and the development of the most powerful, cutting edge, and sustainable processors..
7. *Reskill and upskill* – The adaption of education systems to support digital skills and educational and vocational training for all ages.

How will disbursements made under the Recovery and Resilience Facility be linked to progress with the implementation of investments and reforms?

Progress towards the achievement of a reform or an investment will be measured through targets and milestones. Milestones and targets should be clear, realistic, well defined, verifiable, and directly determined or otherwise influenced by public policies.

Upon completion of the relevant agreed milestones and targets indicated in its recovery and resilience plan, the Member State will present a request to the Commission for a disbursement of financial support. The Commission will prepare an assessment and ask the opinion of the Economic and Financial Committee on the satisfactory fulfilment of the relevant milestones and targets. In exceptional circumstances where one or more Member State considers that there are serious deviations from the satisfactory fulfilment of the relevant milestones and targets of another Member State, they may request that the President of the European Council refer the matter to the next European Council.

The Commission will adopt the decision on disbursement under the "examination procedure" of comitology.

If the Member State has not satisfactorily implemented the milestones and targets, the Commission will suspend all or part of the financial contribution to that Member State.

When will Member States begin to receive disbursements under the Recovery and Resilience Facility?

Member States will be able to officially submit their plans after the regulation enters into force, which is expected to be from 1 January 2021. This requires that certain legal steps are completed, notably that the basic act for the Recovery and Resilience Facility is approved, as well as the legal basis to enable the Commission to borrow the funds on the markets.

In line with the conclusions of the European Council, a pre-financing of 10% of the financial contribution to each Member State should be paid. This payment could be made upon the approval of the plan through the Council implementing decision and adoption of the legal commitment by the Commission, meaning that the funds could start flowing in the first half of 2021 already.

How will the Recovery and Resilience Facility support the green transition?

In the context of Europe seeking to achieve climate neutrality by 2050, and significantly increasing its greenhouse gas emissions reduction ambition for 2030, Member States should consider reforms and investments to support the climate transition as a matter of priority. All national recovery and resilience plans will therefore need to focus strongly on both reforms and investments supporting the climate transition. To follow the commitment of the European Council to achieve a climate mainstreaming target of 30% for both the multiannual financial framework and Next Generation EU, each recovery and resilience plan will have to include a minimum of 37% of expenditure related to climate. Progress towards other environmental objectives is also important, in line with the European Green Deal.

The Commission encourages Member States to propose flagship investment and reform initiatives aimed at, for example, accelerating the development and use of renewables, improving the energy and resource efficiency of public and private buildings, and accelerating the use of sustainable, accessible and smart transport.

All reforms and investments included in the recovery and resilience plans will need to respect the 'do no harm' principle, meaning that they should not be to the detriment of climate and environmental objectives.

Member States will need to factor in the need to ensure a just and socially fair transition, across green policy areas. This means, in particular, that national recovery and resilience plans should be developed in full coherence with proposed Territorial Just Transition Plans under the Just Transition Mechanism.

The Commission's assessment of each Member State's National Energy and Climate Plan which will be presented in October will provide important guidance for Member States to rely upon while drafting their plans.

How will the Recovery and Resilience Facility support the digital transition?

Member States should ensure a high level of ambition when defining reforms and investments enabling the digital transition as part of their recovery and resilience plans. To ensure effective implementation, the Commission proposes that each recovery and resilience plan should include a minimum level of 20% of expenditure related to digital.

This includes, for instance, investing in the deployment of 5G and Gigabit connectivity, developing digital skills through reforms of education systems and increasing the availability and efficiency of public services using new digital tools.

Will the use of the provided funds entail an ex-post control by the European Parliament and Court of Auditors?

Democratic scrutiny and oversight over the sound use of funds is essential. The use of the funds will be subject to annual reporting from the Commission to the European Parliament and the Council as foreseen by the regulation.

The Court of Auditors will have the possibility to carry out audits on the use of the amounts.

For More Information

Press release: Commission presents next steps for €672.5 billion Recovery and Resilience Facility in 2021 Annual Sustainable Growth Strategy

Communication: 2021 Annual Sustainable Growth Strategy

*Staff Working Document: Guidance to Member States on recovery and resilience plans

*Staff Working Document: Draft template for recovery and resilience plans

Recovery and Resilience Facility – Grants allocation

The European Semester

*This document will be available in due course.

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