BRIEFING

Implementation of Recovery and Resilience Plans - latest European Commission's assessment of milestone and targets (May 2023)

This overview provides a summary of the latest state of play on the implementation of the Recovery and Resilience Plans (RRPs). It focuses on the latest European Commissions' preliminary assessments of payment request from Austria and Luxembourg; the Commission attested that all related milestones and targets were satisfactorily fulfilled. It also provides some information available in the public domain regarding Italy's upcoming payment request.

A full briefing will again be provided in advance of the next RRD scheduled for June 2023.

For an overview of and comment on previous assessments of payment requests submitted by Spain, Slovakia, Slovenia, Denmark, Czechia, and Lithuania, see the briefing (here) provided in advance of the Recovery and Resilience Dialogue (RRD) in April 2023, and in relation to payment requests submitted by Greece, Portugal and Malta, see the briefing (here) provided in advance of the RRD in February 2023.

1. Overview of the latest developments

All 27 EU Member States have RRPs in place that were assessed by the Commission and adopted by the Council. The current focus is hence on the full implementation of the agreed reforms and investments, as well as on the introduction of the REPowerEU chapters.

Member States can submit payment requests once the milestones (qualitative achievements) and targets (quantitative achievements) for the respective payment tranche are achieved.

18 countries have so far **submitted in total 28 payment requests** (Spain, Italy and Greece submitted three payment requests each, Portugal, Croatia, Slovakia and Romania each two, and France, Latvia, Cyprus, Bulgaria, Slovenia, Czechia, Lithuania, Denmark, Malta, Austria and Luxembourg each one).

The Commission published in total 25 related preliminary assessments and made 23 disbursements to 17 Member States**,** amounting to approximately EUR 198.7 billion in total (all payment requests, preliminary assessments, and disbursements are listed in a separate EGOV document).

Please see **Section 2** for more details, notably covering some **examples of milestones and targets** as assessed by the Commission that may be **of interest from a scrutiny perspective**.

There are **no preliminary assessments** yet publicly available for the latest payment request that **Greece** submitted on 17 May 2023, the one that **Italy** submitted on 3 January 2023, and the one that **Romania**

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submitted on 16 December 2022. For an overview of some latest developments on the implementation of the Italian RRP, please see **Section 3**.

As regards **additional requst by Member States for RRR loans**, the European Commission provided in April an overview. Article 14(6) of the amended RRF Regulation introduced a notification requirement for Member States to communicate to the Commission their intention to request RRF loan support. It however also specified that such notification "*shall not prejudice the ability of Member States to request loan support until 31 August 2023*".

The Commission's overview illustrates that ten Member States currently plan to request loan support under the RRF, amounting to approximately EUR 147.5 billion in total. At this stage, Spain plans to request the whole EUR 84 billion in loan support originally allocated, and Italy and Greece indicated to ask for loan allocations in excess of 6.8% of their 2019 Gross National Income (GNI) – amounts exceeding the threshold could be made available in "exceptional circumstances". According to our calculation (see table 1), the **intention to request loans under the RRF strongly correlates with national refinancing conditions**.

While Italy has not specified the amount of resources it would request from this second round of loan allocation, this overview indicates that the other Member States would not request the whole set of resources available (EUR 225 billion), leaving approximately 77 billion euros untapped. During the latest RRD, Commissioner Gentiloni stated that this is "not the end of the story", as the formal requests will only be made in August. Nevertheless, the EUR 77 billion estimate, according to Commissioner Gentiloni, could still be useful in understanding how to possibly reorient untapped funds.

Table 1: National refinancing conditions and intentions to request additional RRF loans

Country	Yield	Spread	Loan request	Amount (EUR bn)
Germany (2.30% 15 Feb 2033)	2,41	-66	No	0
Denmark (2.25% 15 Nov 2033)	2,71	-35	No	0
Netherlands (2.5% 15 Jul 2033)	2,78	-29	No	0
Ireland (0.35% 18 Oct 2032)	2,83	-24	No	0
France (3.0% 25 May 2033)	2,98	-9	No	0
Finland (3.0% 15 Sep 2033)	3,04	-2	No	0
EU Next Gen (1% 06 Jul 2032)	3,07	0	n.a.	n.a.
Austria (2.90% 20 Feb 2033)	3,09	2	No	0
Belgium (3.0% 22 Jun 2033)	3,10	4	Yes	1
Portugal (2.25% 18 Apr 2034)	3,29	22	Yes	11,5
Slovenia (3.625% 11 Mar 2033)	3,29	23	No	0
Spain (3.15% 30 Apr 2033)	3,45	38	Yes	84
Slovakia (4% 19 Oct 2032)	3,76	69	No	0
Italy (4.40% 01 May 2033)	4,23	116	Yes	Not specified
Czech Republic (2.0% 13 Oct 2033)	4,66	159	Yes	11
Hungary (4.75% 24 Nov 2032)	7,88	481	Yes	6,6

Source: EGOV, based on MTS market data on spreads and yields of European bonds as per 22 May 2023 (not covered: Croatia, Greece, Lithuania and Poland).

On 10 May, the European Parliament adopted the **following resolutions as part of the EU budgetary and discharge procedures**:

- A **resolution** of 10 May 2023 with observations forming an integral part of the decisions on discharge in respect of the **implementation of the general budget** of the European Union for the financial year 2021, Section III – Commission and executive agencies (2022/2081(DEC))
- A **resolution** on the impact on the 2024 EU budget of increasing European Union Recovery Instrument **borrowing costs** (2023/2037(BUI))
- A **resolution** of 10 May 2023 on **own resources**: a new start for EU finances, a new start for Europe (2022/2172(INI))

These resolutions signal the increased focus on **the transparency in the use of RRF funds in Member States**. The resolution of 10 May 2021 (the "discharge report") particularly emphasises the need for the Commission to "*take steps to* ***operationalise the new obligation on Member States to publish the 100 final recipients*** *receiving the highest amount of RRF funding and to take all appropriate measures if Member States fail to adequately implement this provision"*. In an additional step, the European Parliament has also recommended to the Commission to *"make the list of all final recipients and projects of RRF funding available to auditors and the discharge authority for all payments".* [1]

On a different note, a **delegation of Parliament's Budgetary Control Committee (CONT) concluded** on 17 May **a fact-finding visit to Hungary to discuss with national authorities and stakeholders issues with regard to the protection of EU budget**. Besides meetings with the Minister of Regional Development and the President of the State Audit Office, the delegation met with representatives from the Directorate General for Audit of EU funds and the National Tax and Customs Administration. The MEPs also exchanged views with their counterparts in the Hungarian National Assembly from the standing committees on Justice, Economics, European Affairs and Budgets, and met with investigative journalists, NGOs and representatives of the civil society.

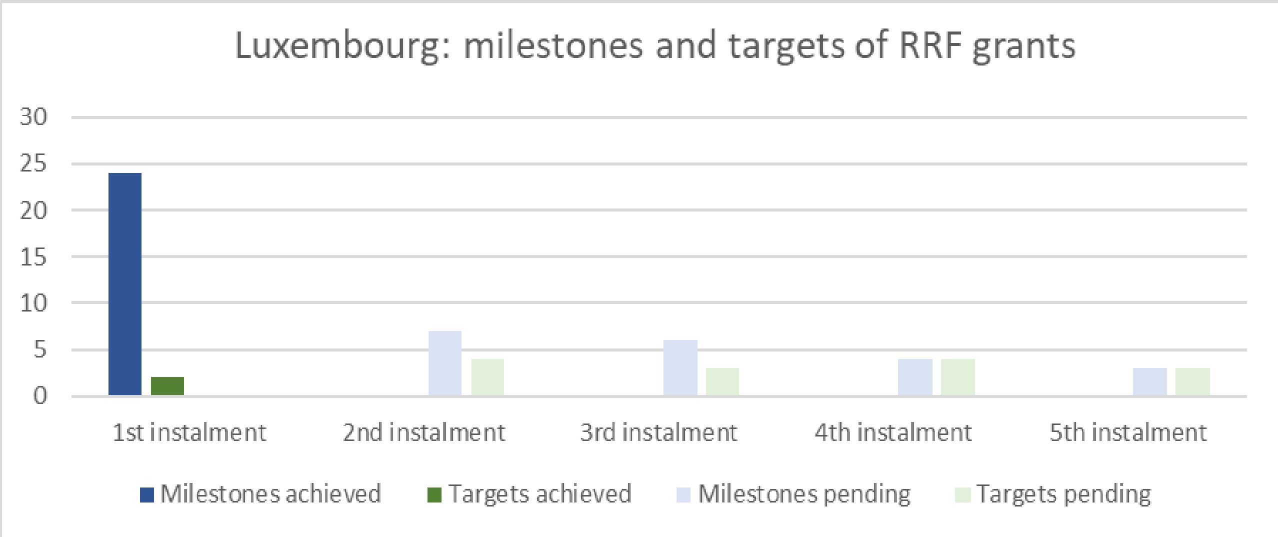
On 24 May 2023, the CONT committee will hold a **public hearing on the application of the rules on conflicts of interests in the management of EU funds in the Member States**.

[1] As a reminder, with the entry into force of the REPowerEU Regulation on 1 March 2023, **article 25a of the amended RRF Regulation introduces a new reporting requirement on the 100 largest final beneficiaries of RRF funding**: "*Each Member State shall create an easy-to-use public portal containing data on the 100 final recipients receiving the highest amount of funding for the implementation of measures under the Facility. Member States shall update those data twice a year"*. While the Regulation does not specify the timing for such reporting, the Commission has published its Guidance on the RRPs in the context of REPowerEU recommending bi-annual reporting in April and October. Similarly, article 25a mandates the Commission to *"centralise the Member States' public portals and publish the data (...) in the recovery and resilience scoreboard"*. To date, the R&R scoreboard does not yet provide that information.

2. Latest Commission's preliminary assessments of milestones and targets[2]

Luxembourg: Commission's preliminary assessment of the first payment request

Disbursement profile



On 28 December 2022, Luxembourg submitted to the Commission a payment request together with a due justification of the satisfactory fulfilment of 26 milestones and targets related to the first instalment of the non-refundable support, as set out in the Council Implementing Decision of 13 July 2021 amended by Council Implementation Decision of 17 January 2023.

On 28 April 2023, the Commission published a positive preliminary assessment of that request.

The milestones and targets envisaged by this payment request are related to several domains, including supply of affordable rental housing offered by municipalities, the digitalisation of the public sector, green mobility measures, upskilling of the workforce, and the digitalisation of health.

Example for the fulfilment of targets and milestones in Luxembourg's RRP that may be of an interest from a **scrutiny perspective**:

Reform measure: Strengthening health system resilience

The agreed reform ("Gesondheetsdësch") overall aims to **modernise the governance of the health sector** and respond to a number of pre-identified challenges in six thematic work areas.

According to the underlying Recovery & Resilience Plan, Luxembourg only had to achieve two milestones for this reform: the first milestone was simply to organise an initial kick-off meeting with the relevant stakeholders (i.e. ministries, health insurance managers, doctors and health professionals), the second milestone was to publish a work programme for the implementation of the results of the Gesondheetsdësch process.

The Commission's preliminary assessment is that both milestones have been satisfactorily fulfilled: Luxembourg organised a kick-off meeting, and published the **work programme** on the **Gesondheetsdësch** website, listing 20 sub-projects (including the Plan National Santé) that shall be pulled off.

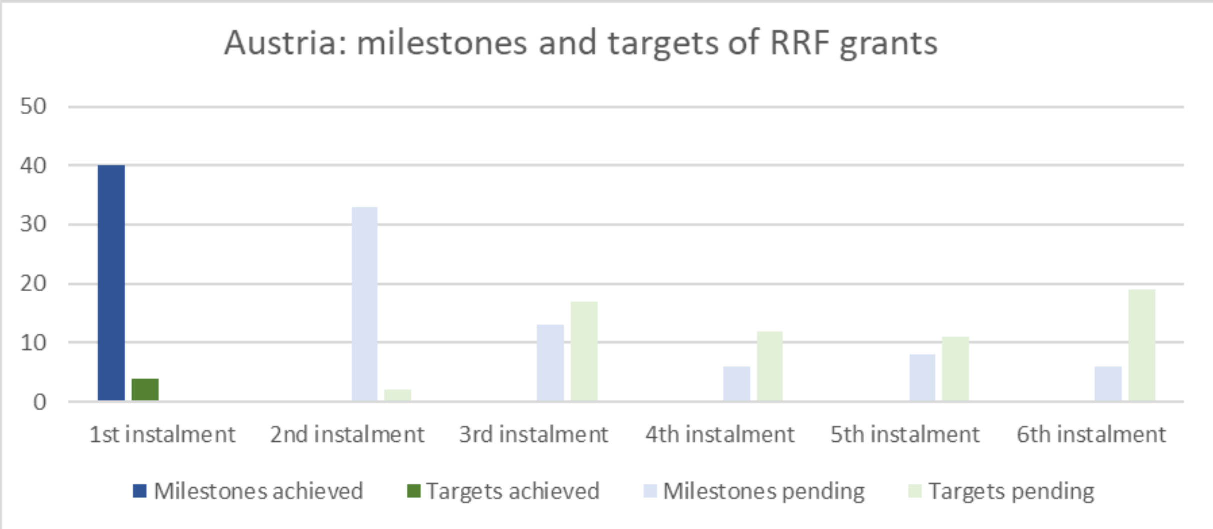
[2] See a separate EGOV document for all official documents related to the adoption of the Recovery and Resilience Plans.

What is noteworthy, though, is that the Commission accepts a **work programme** that **neither entails any timeline nor specific deliverables** of the sub-projects. It seems hence questionable whether the published work programme is actually useful to "*guide the implementation of the reform process*".

The Commission's preliminary assessment claims that more details on the process to implement the programme are given in the **project manual** (version of 22 August 2022, drafted by Muller Healthcare Consulting), which Luxembourg apparently shared with the Commission in addition to the work programme, but it seems that the project manual is **not publically available**, the claim therefore cannot be verified externally.

Austria: Commission's preliminary assessment of the first payment request

Disbursement profile



On 22 December 2022, Austria submitted to the Commission a payment request together with a due justification of the satisfactory fulfilment of the 44 milestones and targets related to the first instalment of the non-refundable support, as set out in the Council Implementing Decision of 13 July 2021.

On 10 March 2023, the Commission published a positive preliminary assessment of that request, which was replaced by a Corrigendum on 22 March 2023.

The milestones and targets envisaged by this payment request are related to several domains. They are linked to reforms in the area of energy efficiency, clean mobility, digitalisation, public administration, skills and education, as well social and labour market policy, and/or linked to investment projects providing digital devices to pupils, exchanging oil and gas heating systems, supporting community nurses as wells as the digital and green transformation.

Example for the fulfilment of targets and milestones in Austria's RRP that may be of an interest from a **scrutiny perspective**:

Reform measure: Strengthening Equity Capital

The reform intends to improve the equity position of certain Austrian companies, in particular companies that during the COVID-19 crisis had to take out additional government-guaranteed loans to stay liquid, by opening up the possibility to **convert debt - the government-guaranteed loans - into equity** (or equity-like instruments).

The Recovery and Resilience Plan sets out that Austria seeks to first evaluate the equity position of Austrian companies before taking any other action, to clarify whether the equity position is particularly low in certain sectors and/or in certain size categories.

To implement the reform, Austria needed to draft and **publish a decree** on the conversion of state guaranteed loans into equity, which is the first milestone that has now been assessed by the Commission. Austria shall achieve a second related milestone in due course later on, establishing in Austrian law a certain company form that allows for a variable capital basis.

The Commission's preliminary assessment finds that the Austrian authorities provided substantiating evidence covering all constitutive elements of the milestone, namely evidence that the decree on the possibility to convert state guaranteed loans into equity entered into force, and evidence that **Austria first evaluated the equity position** of Austrian companies in form of a study of the Austrian National Bank (OeNB) conducted in Q3 2021. The Commission's preliminary assessment cites findings from that study, for example that the equity position is very weak especially in the "accommodation and food service sector", far below peer countries. One substance, however, it seems **questionable** whether that study corroborates the perception that **certain sectors require preferential support**, as the intra-sector variation is apparently way larger than the inter-sector variation (the top and bottom equity position within the same sector show wider differences than the averages between different sectors). There is no description in the preliminary assessment that would explain which findings in the evaluation of the equity position of Austrian companies translate into concrete policy measures.

Irrespective of the question whether the starting point - the existing equity positions of Austrian companies - was well documented and analysed, it seems noteworthy that the Commission has not asked for a further **monitoring of the success of that reform**, not least it is also meant to address a country-specific recommendation ("*stimulating company growth and reducing regulatory barriers in the service sector*"; CSR 3 in 2019).

In 2022, the **Austrian Court of Auditors** published a report about its audit on the establishment of Austria's COVID-19 Federal Financing Agency (COFAG) and on the effectiveness of **COVID-19 related grants** and financial support measures to companies ("*COFAG und Zuschüsse an Unternehmen*"; Bericht des Rechnungshofes BUND 2022/31).

The Austrian Court of Auditors' report refers to other COVID-19 related support measures, not the debt-to-equity conversion as such. However, one **key observation** seems directly **applicable by analogy**, as the Court criticised the fact that there was **no concept for a scientifically supported, regular assessment in the form of a systematic monitoring**. The Court therefore recommended that in future, there should be systematic scientific support in place to evaluate subsidy instruments with regard to their effectiveness and accuracy. That aspect seems to be missing as regards the reform to strengthen the equity capital of Austrian companies.

3. Focus on Italy's latest payment request

On January 2023, Italy requested the payment of the third tranche of EUR 19 billion in grants and loans under the RRF. To date, the Commission has not yet issued its preliminary assessment of this third payment request.

The Commission was expected to conclude a preliminary assessment by the end of the first quarter of 2023. However, the Italian government and the Commission have then agreed upon a one-month extension until end-April of the evaluation period on the grounds of a dispute on the satisfactory fulfilment of three measures agreed under Mario Draghi's tenure, namely concessions for ports, district heating and financing stadiums under the Integrated Urban Plans. In late April, the Commission services informed the Italian government that the financing of the stadiums in question in the context of the Integrated Urban Plans would not be eligible for RRF support (approximately EUR 148.5 billion).

While the third payment request has not yet been settled, the approaching June deadline for the achievement of the milestones and targets of the fourth payment request, which aims to unfreeze an instalment amounting to EUR 16 billion, is raising further complications.

The minister for EU affairs Raffaele Fitto has already anticipated that Italy could be missing the 30 June 2023 deadline for awarding tenders in the value of EUR 4.6 billion for childcare facilities due to "*significant delays in the selection* phase". Similarly, reportedly Italy could fail to meet the deadline to sign contracts for nine cinematographic studies by end-June. In the same vein, the Italian Court of Auditors has recently voiced concerns on the fulfilment of milestones for the upcoming fourth payment request.

In a first warning, the Court highlighted significant delays in the roll-out of at least 40 hydrogen-based recharging stations, noting the failure to meet the Q1 2023 deadline for awarding the projects. Importantly, the Court emphasises that only 35 tenders have been granted by the end of March 2023 (12.5% less than the minimum objective) and such tenders represent only 44% of the resources that could have been disbursed under the plan. The Court ascertains the lack of fulfilment of the milestone and warns that since the minimum objective has not been met *"we cannot speak about partial fulfilment"*. This could be due to a number of factors, such as the higher risk profile of the investment and the choice of publishing the tenders only on the ministry's website instead of also issuing a call for tenders in other Member States/EU platforms such as the Official Journal of the EU. The Court had also previously noted gaps in planning and monitoring capacity. Consequently, the Court considers that, given the impact on *"the lack of fulfilment of the European milestone (...) and concrete risk of a reduction in the EU's financial contribution",* these shortcomings could be considered as "*serious managerial irregularities"*, warranting a sanctioning of the responsible administrators.

In a second warning, the Court warned of delays in the fulfilment of the milestone for awarding tenders by 30 June 2023 for the installation of at least 6,500 electric vehicle charging points. The Court warns that the delay could be due to the lack of fulfilment of the necessary intermediate steps.

Minister Fitto has reportedly criticised the judgement of the Court on the fulfilment of the milestones, claiming that this would overlap with the competences of the Commission, the only body in charge of this assessment. The government, on its end, is currently suggesting a revision of the plan, including of the milestone on hydrogen-based recharging stations, reiterating that a dialogue with the Commission has already been launched. Fitto has not shied away from publicly calling for revisions of the plans to realistically achieve its milestones and targets without delays. Furthermore, the government recently praised the approval by the Italian Chamber of Deputies of a bill aimed at removing bottlenecks to the implementation of the plan.

Please see Box below for an overview on the state of implementation in Italy according to the semi-annual report by the Italian Court of Auditors.

Box: Report of the Italian Court of Auditors on status of RRF implementation in Italy

On 28 March 2023, the Italian Court of Auditors presented to the Italian Parliament its bi-annual report (see part 1 here and part 2 here) on the implementation of the Italian RRP. Among its highlights, the Court finds that:

- While all of the 55 objectives for the second half of 2022 have been achieved, progress in the first half of 2023 is slower. Italy has so far only achieved one target out of the 20 milestones and 7 quantitative targets that Italy has to meet by end-June 2023.
- Italy has successfully implemented 38 initiatives meeting their objectives in H2 2022. These initiatives comprise 31 reforms (49% of the total), and 7 Investments (3% of the total). Yet, the Court points out that further measures, beyond what was agreed at EU level, might be needed.
- Implementation seems to be delayed overall:
- By the end of 2022, spending from administrations stood at more than EUR 23 billion, equivalent to roughly 12% of the EUR 191.5 billion RRP.
- As of February 2023, administrations only transferred 70% (EUR 4.8 billion) of the funds received to final implementing subjects and other beneficiaries. The Court also noted that over half of the measures is either delayed or in a phase of "*substantial inception*".
- EUR 20 billion in commitments that were foreseen to be spent in 2020-22 have been postponed (as previously announced by the government). This implies an acceleration in the expenditure trend in 2023 by more than EUR 5 billion relative to the original framework. However, cumulative spending at the end of 2023 is forecasted to remain below the original framework by approximately EUR 50 billion.
- The spending peak is expected around 2024-25, with annual values above EUR 45 billion. The Court notes that a significant acceleration is needed to conclude all projects by 2026.
- With the exception of Mission 3 on infrastructure for sustainable mobility, all other missions are below 10% of financial implementation
- While many payments today refer to "pre-existing commitments" before the RRP, their rate of finalisation is stuck at 41% in 2022 (though it is growing).
- On the governance side, the temporary recruitment of staff responsible for RRF implementation was a key obstacle to "*operational continuity*" needed for the implementation of the plan.

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ANNEX: Some recent studies

Box: Recent study on the implementation of a set of RRPs

In his study **Miguel Lebre De Freitas** analyses a set of Recovery and Resilience Facility measures categorized under Pillar 3: "*Smart, sustainable and inclusive growth, including economic cohesion, jobs, productivity, competitiveness, research, development and innovation, and a well-functioning internal market with strong SMEs*".

The analysis is comparative, in the search for best practices, considering the cases of the design and implementation of the Recovery and Resilience Plans of Cyprus, Italy, Portugal, and Spain. These four member states have underperformed in terms of productivity growth, failing to catch up and even diverging relatively to the remaining EU27. A question that arises is whether the incentive structure underlying the facility has helped these countries to engage in a more pro-growth reformist stance. The study aims to provide some findings in this regard

With these qualifications in mind, the author concludes that the incentive structure underlying the facility revealed itself as successful in bringing important long-awaited reforms onto the member states' policy agenda. However, he also observes a considerable heterogeneity in the quality of the proposed reforms and measures. The fact that such important reforms for the completion of the single market have been addressed with so many different levels of ambition is an unexpected finding. He believes that an ex post evaluation comparing the effectiveness of the reforms that were well detailed and traceable by milestones and targets as compared to those that were poorly defined may help determine what the minimum acceptable level of detail in similar exercises should be in future.

The author finally makes the point that setting up a hierarchy of milestones and targets from the beginning could have helped in these assessments, and also in shaping the incentives of the policymakers to prioritize important reforms that are aligned with the single market as opposed to idiosyncratic RRP initiatives and discriminatory state aids that, although respectable, may not be so consensual.

Recent study: The tools for protecting the EU budget from breaches of the rule of law: the Conditionality Regulation in context

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The authors of that study find that due to its relatively recent adoption, several questions remain open related to the potential scope of application of the Conditionality Regulation. The Commission has published related guidelines, but there is still no jurisprudence by the Court of Justice of the European Union on that, there may hence still be different visions of what constitutes a link that would lead to the triggering of the mechanism.

The study explores the potential scope of application of the Conditionality Mechanism, in particular by analysing how this new mechanism can interact with the various other instruments and mechanisms available to the Commission to protect the Union's financial interests.

The study looks at the nature of and possibilities offered by the rule of law Conditionality Mechanism from a new angle. In the academic literature and in the press, this new mechanism is often portrayed as a means of last resort, a sort of new 'nuclear option' to deal with major and systemic threats to the rule of law in EU Member States. It aims to deconstruct this image, showing it as another instrument to protect the EU's financial interests. The Mechanism works alongside other instruments and may be used to support the Commission's continuous monitoring of the rule of law situation in all 27 Member States.

Treating it as a new 'nuclear option' in the EU's rule of law toolbox risks converting it into a toxic instrument, with a very high application threshold and with considerable political costs attached to it. Following the main argument presented in this study for treating it as another mechanism for the protection of the EU budget would go a long way towards helping avoid this situation. In this respect, clarifying what constitutes a 'sufficiently direct link' would be an important step forward.