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COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS

Strengthening the EU through ambitious reforms and investments

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Strengthening the EU through ambitious reforms and investments

This Communication marks the half-way point of the Recovery and Resilience Facility (RRF). Designed as a response to the economic and social fall-out from the COVID-19 pandemic and established in February 2021, the RRF is the centrepiece of NextGenerationEU (NGEU), the EU's recovery instrument. Set to last until end 2026, the RRF is unprecedented both in scale and ambition. It has the two-fold objective of helping Member States recover and emerge stronger from the devastating economic and social effects of the pandemic as well as boosting the EU's resilience and making our economies and societies fit for the future, especially by supporting the green and digital transitions. The RRF is the EU's first major performance-based funding programme, disbursing funds to Member States against the progress made towards the ambitious reforms and investments put forward in their national Recovery and Resilience Plans (RRP). These reforms and investments must be in line with the EU priorities identified in the RRF Regulation and address the national challenges identified in the European Semester for economic and employment policy coordination through country-specific recommendations (CSRs).

In the three years since the entry into force of the RRF Regulation, Member States have used the RRF strategically to advance their reform and investment agendas and tackle both long-standing and new challenges. EUR 225 billion have already been disbursed and around 75% of the milestones and targets planned to be achieved by end 2023 either have already been assessed by the Commission as satisfactorily fulfilled or are reported as completed by Member States. Furthermore, through their RRPs, Member States have made significant progress in addressing the CSRs issued in the context of the European Semester.

The RRF effectively supports the economic recovery in the EU. Around half of the increase in public investment expected in the EU between 2019 and 2025 is estimated to result from investments financed by the EU budget, particularly by the RRF[1]. Commission modelling[2] suggests that NGEU[3] has the potential to increase EU real GDP by up to 1.4% in 2026 above a no-NGEU scenario. The model simulations also suggest a sizeable, short-run increase in EU employment (by up to 0.8%). This is projected to be accompanied by persistently higher real wages in the medium term, reflecting potential productivity gains from investments carried out

1 See European Economic Forecast – Autumn 2023, available at: https://economy-finance.ec.europa.eu/economic-forecast-and-surveys/economic-forecasts/autumn-2023-economic-forecast-modest-recovery-ahead-after-challenging-year_en.

The RRF and Cohesion Policy funds together are the main source of financing for investment under the EU budget.

2 QUEST is the global macroeconomic model that the Directorate General for Economic and Financial Affairs (DG ECFIN) uses for macroeconomic policy analysis and research, see https://economy-finance.ec.europa.eu/economic-research-and-databases/economic-research/macroeconomic-models/quest-macroeconomic-model_en. See the Staff Working Document on the RRF Mid-term evaluation for further information on QUEST's results regarding the macroeconomic impacts of the RRF.

3 NGEU has a total budget of EUR 806.9 billion (2021 prices), of which EUR 723.8 billion is dedicated to the RRF (grants and loans). Other beneficiaries of NGEU are REACT-EU, which topped up 2014-2020 Cohesion policy programmes with EUR 50.6 billion, the Just Transition Fund (EUR 10.9 billion), Rural development (EUR 8.1 billion), InvestEU (EUR 6.1 billion), Horizon Europe (EUR 5.4 billion) and rescEU (EUR 2 billion).

by Member States. Between a quarter and a third of the total estimated GDP impact of the RRF is projected to be due to positive spillovers between Member States, which are generated by the simultaneous implementation of investments across Member States.

The RRF has proven to be an agile instrument, helping Member States face new challenges and circumstances. Russia's unprovoked aggression against Ukraine caused unimaginable hardship in Ukraine and led to global energy market and supply chain disruptions. Soaring prices, unseen in decades, of energy and consumer goods caused a 'cost of living' crisis for many households across Europe, hitting vulnerable ones the hardest. In this context, Member States were able to request changes to their existing RRPs to take into account new, objective circumstances, such as high inflation and supply chain disruptions. Furthermore, in the context of the REPowerEU plan, Member States could benefit from additional resources to introduce REPowerEU chapters and boost reforms and investments that diversify the EU's energy supplies, accelerate the green transition and support vulnerable households.

At the half-way point of this unique and time-bound instrument, the Commission is publishing its mid-term evaluation. In line with the requirements of the RRF Regulation, the mid-term evaluation assesses how the RRF is delivering against its objectives, based on the evidence available so far. It does so by considering the five evaluation criteria of effectiveness, efficiency, relevance, coherence and European added value. The staff working document that accompanies this Communication provides further details on the Commission's mid-term evaluation. The evaluation is based on diverse sources, including an independent study conducted by a consortium of external contractors, which is published in parallel, and broad consultations[4].

This Communication presents the main insights from the mid-term evaluation and takes stock of the implementation of the RRF. Section 1 assesses the progress made so far in implementing the RRF, focusing on concrete results achieved on the ground. Section 2 looks at what has worked well and what could be improved, and identifies the key lessons learnt so far. Section 3 summarises and concludes, outlining the way ahead.

[4] Recovery and Resilience Facility (2020-2024) – mid-term evaluation (europa.eu)

1. **The implementation of the RRF has made visible progress**

1.1. Implementation has led to tangible results in Member States

Member States are delivering on the reforms and investments included in their RRPs. By the end of 2023, more than 1150 milestones and targets had already been assessed by the Commission as satisfactorily fulfilled[5]. Achieving these milestones and targets has led to concrete results on the ground, with clear signs that the RRF is making a real difference across the EU. Box 1 illustrates this, with telling examples of investments and reforms with tangible progress already achieved on the ground, for instance on aggressive tax planning, equal access to education, social inclusion, and support for sustainable mobility and transport.

Box 1: The RRF is delivering tangible results on the ground

Cyprus has strengthened its efforts in addressing aggressive tax planning. *To ensure that payments by Multinational Enterprises do not leave the EU untaxed, Cyprus adopted a reform which introduces a withholding tax on outbound payments to "non-cooperative" jurisdictions. This is an important step and will pave the way for future actions on this issue.*

Bulgaria has taken steps to improve the adequacy and coverage of its minimum income scheme. *Through the adoption of legislative amendments, Bulgaria introduced a gradual increase from 2022 to 2024 of the income thresholds for all potential beneficiaries of the minimum income scheme. This is a major step in addressing long-standing social challenges in the country.*

Austria has introduced the 'KlimaTicket', which is making climate-friendly mobility easy and affordable. *It introduces a single flat-rate ticket providing nearly unlimited public transport across Austria and has discounted prices for students, seniors, persons with disabilities and families. Since its launch in October 2021, more than 260,000 Austrians have already bought the climate tickets.*

Lithuania has adopted the Millennium School Progress Programme, to reorganise and improve school infrastructure and ensure equal access to education for Lithuanian children. *The programme aims to ensure that all children have access to high-quality schools, regardless of their background. This is crucial as Lithuania faces urban-rural disparities and a socio-economic gap in education outcomes above the EU average. At least 80% of Lithuanian municipalities will implement the Programme, resulting in 150 schools being supported by the end of June 2026.*

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[5] When Member States submit payment requests, the Commission assesses the evidence provided and establishes whether the requirements of the relevant milestones and targets laid down in the Annex to the Council Implementing Decision are met. This is a prerequisite to disburse funds.

In line with the progress made and the results achieved, EUR 225 billion have been disbursed in support of EU economies. Close to EUR 67 billion have been disbursed in pre-financing, which helped alleviate the short-term impact of the crisis on Member States budgets and kickstart implementation.[6] In addition, EUR 157.2 billion have been disbursed upon the satisfactory fulfilment of milestones and targets, reflecting the progress with reforms and investments on the ground. A large part of these disbursements is linked to progress made in the implementation of reforms, which have deliberately been frontloaded to lay the groundwork for successful investments in the second half of the RRF lifetime.

Around 75% of the milestones and targets planned to be achieved by end 2023 have already either been assessed by the Commission as fulfilled or reported as completed by Member States.[7] Even those Member States that have so far neither submitted payment requests nor received funds from the RRF have already recorded progress with implementing the reforms and investments set out in their RRPs.

1.2. All plans have been revised to maximise the RRF's impact in a changing context

In 2023, Member States focused on making their RRPs fit to address new challenges, while advancing with their implementation. Increased energy prices, high inflation and supply chain disruptions caused by Russia's unprovoked war of aggression against Ukraine, and, in some cases, natural disasters made it challenging for Member States to implement certain reforms and investments in their RRP. The Commission supported Member States[8] in their efforts to mitigate these external constraints and to revise the relevant measures in their RRPs using the flexibility embedded in the RRF Regulation. Revisions were also the occasion to update the RRPs to take account of the revised financial allocation to Member States[9] and tap into the remaining loan support[10] available under the RRF.

Plan revisions ensured that RRPs remain both ambitious and fit for purpose. All RRPs were updated in 2023, paying particular attention not only to the quality of the measures but also to their degree of maturity and their implementation horizon, given the timebound nature of the RRF. Commitments that were no longer achievable due to objective circumstances were adjusted and, in many cases, replaced by more suitable alternatives, while keeping the original ambition of the RRP intact. The RRF's broad scope has provided the necessary flexibility for Member States to allocate resources according to their evolving priorities, in line with the RRF objectives. Box 2 provides examples of how the revisions have maximised the RRF's impact in areas such as disaster prevention, quality of public services or financial instruments to support SMEs.

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6 Out of the EUR 67 billion in pre-financing, EUR 10.4 billion has been disbursed at the end of 2023 and in early 2024 upon the approval of the REPowerEU chapters.

7 The data on completed milestones and targets is self-reported by Member States in the context of the bi-annual reporting.

8 Guidance on Recovery and Resilience Plans in the context of REPowerEU - European Commission (europa.eu)

9 In line with Article 11(2) of the RRF Regulation, the maximum financial contribution for non-repayable financial support of each Member State was updated in June 2022 on the basis of Eurostat outturn data on the change in real GDP growth over 2020 and the aggregate change in real GDP for the period 2020-2021.

10 Member States could request (additional) loan support until 31 August 2023, as stipulated in Article 14(2) of the RRF Regulation. Of the overall envelope of EUR 385.8 billion available for loan support under the RRF, close to EUR 291 billion have been committed by end-2023.

Through the revisions, the size of EU support to Member States has grown significantly. Close to EUR 150 billion in financial support was made available to EU economies in 2023 through both additional grants for the REPowerEU chapters and EUR 125.5 billion of loans. The large uptake of loan support demonstrates the continued attractiveness of the RRF as an instrument in supporting and transforming EU economies for the future. In total, and provided that all milestones and targets will be met, the RRF will inject EUR 650 billion in financial support to our EU economies.[11]

Box 2: RRPs have been revised to maximise their impact in a changing context

Slovenia has requested additional loan support to cater for the devastating effects of the floods that hit the country in August 2023. *The additional loans will further support Slovenia's resilience against the effects of climate change and boost its green transition, for example by investing in the sustainable renovation of buildings and the reconstruction of two regional railway lines, affected by the floods and storms.*

Italy has introduced targeted actions to reinforce the tools to reduce backlog in the civil justice system. *This includes measures to strengthen the office of the trial and the set-up of incentive schemes for judicial offices to reach their objectives in terms of reducing the number of pending cases. The ultimate objective is to create a more business friendly environment, attracting more investments and fostering growth.*

Croatia has used additional loan support to cater for the effects of high inflation on its project on the public water supply network. *Increased construction prices made part of the target on constructed or reconstructed kilometres of the public water supply network unattainable. However, Croatia decided to request additional loan support not only to cater for the increased construction costs, but even to increase the ambition of the measure. The revised RRP now increases the final target from 956 to 1087 kilometres of constructed or reconstructed public water supply network. This will further increase the number of citizens that benefit from improved access to water supply.*

Spain has included financial instruments to improve SMEs' access to finance. *Given that SMEs play a key role in the Spanish economic landscape, Spain requested additional loans to improve SMEs' access to capital markets and incentivise private investment, notably for SMEs operating in the green and digital sectors.*

[11] By end-2023 (the deadline for committing NGEU-related RRF funds), close to EUR 650 billion in financial support to EU economies have been committed. This breaks down in EUR 357 billion in grants and EUR 291 billion in loans.

1.3. REPowerEU will further accelerate the green transition

The RRF helps accelerate the EU's green transition. The RRF Regulation requires that all RRPs dedicate at least 37% of the total allocation to measures supporting the green transition. All Member States have exceeded this target (40% on average) with some Member States dedicating over 50% of their total plan to climate objectives. In total, the estimated climate expenditure amounts to around EUR 275 billion. On top of that, all measures supported by the RRF must respect the principle of 'do no significant harm' (DNSH), making the RRF the first EU instrument where this principle is a horizontal general eligibility criterion. In addition, the RRF, together with the European Social Fund Plus and the Just Transition Fund, supports employment and social policies, helping to make the green transition fair.

REPowerEU contributes further to saving energy, speeding up the production of clean energy, and diversifying the EU's energy supplies. In March 2023, the amended RRF Regulation entered into force, requesting Member States to introduce REPowerEU chapters in their RRPs. Since then, 23 REPowerEU chapters[12] have been approved. They include reforms and investments that will help save energy, contribute to renewable energy production, and reduce our dependency on Russian fossil fuels by establishing more resilient energy networks.

Through the REPowerEU chapters, an additional EUR 60 billion will be dedicated to speeding up the green transition. Newly requested loans for REPowerEU chapters make up EUR 40 billion of that, while additional grants for REPowerEU measures from resources under the Emission Trading System and the Brexit Adjustment Reserve make up the remainder. The reforms and investments introduced with the REPowerEU chapters complement and accelerate those already included in the RRPs. Box 3 provides examples of how the REPowerEU chapters accelerate the green transition. The REPowerEU measures will bring forward substantial investments with the aim, for example: to deploy renewable energy capacity, including more recently maturing technologies such as offshore wind; to install electricity storage capacity; to decarbonise heating systems; to develop capacity for hydrogen production; and to support measures to alleviate energy poverty. Moreover, Member States have included ambitious reforms in their REPowerEU chapters, for instance to simplify administrative procedures and to facilitate the deployment of renewable energy sources, or to develop green skills which should facilitate the transition for workers and SMEs.

REPowerEU will also promote the objectives of the Green Deal Industrial Plan[13] and provide a more supportive environment to boost the EU industry's competitiveness and to scale up the manufacturing capacity of net-zero-tech industries. RRPs, including their new REPowerEU chapters, can and should be used to support clean tech manufacturing. Examples of investments or reforms directly targeted at the net-zero industry can be seen in Spain, Croatia, Italy, Poland or Portugal. Examples of support to the decarbonisation of industry can be seen in Belgium, Germany, Greece, France, Hungary, Italy, Portugal or

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[12] The remaining four Member States (Bulgaria, Germany, Ireland and Luxembourg) have not submitted a REPowerEU chapter to the Commission so far.

[13] Communication: A Green Deal Industrial Plan for the Net-Zero Age | European Commission (europa.eu)

Slovenia. All in all, EUR 68 billion from the RRF will support clean tech, clean energy and the decarbonisation of Europe's industries.

Box 3: REPowerEU accelerates the green transition

The RRPs, with their unique mix of reforms and investments, significantly contribute to the decarbonisation of the European power system. Taking into account the EU goals of achieving climate neutrality by 2050 and the intermediate target of at least 55% GHG emissions reduction by 2030, as well as the ongoing dialogue on setting a reduction target for 2040 (see the recent Commission Communication on the 2040 climate target, COM (2024)63), the decarbonisation of the electricity markets will require not only a technological shift to renewable energy sources, but also to build the necessary infrastructure to ensure energy security and affordability for all citizens. To this end, Member States included further measures in their REPowerEU chapters.

Decarbonise and make energy markets renewables-based: Member States accelerate and massively deploy renewable energy sources

- ***Czechia** has introduced far-reaching reforms that will remove permit requirements for renewable power installations of up to 50 KW, shorten permit granting processes and provide a digital one-stop shop to help applicants with the permitting processes.*
- ***Belgium** will develop an "energy island" in the Belgian North Sea that will enable the connection of at least 3.15 GW of future offshore wind energy to the onshore electricity grid.*

Ensure security of energy supply and affordable energy: Member States secure energy grids by improving infrastructure and addressing bottlenecks

- ***Slovakia** will upgrade 250 km of transmission lines, enhancing electricity trade with neighbouring Member States and optimising the use of electricity from renewable sources.*
- ***Latvia** will increase the security and stability of energy supply to accelerate the cross-border project currently being implemented by Latvia, Lithuania, Estonia and Poland aimed at ensuring the synchronisation of the Baltic States' electricity networks with the Continental Europe network.*

Boost the EU industry's competitiveness: Member States are scaling up the manufacturing capacity of net-zero-tech industries

***Portugal** will support investments in net-zero technology manufacturing projects with the goal of enhancing the competitiveness of the Portuguese industry. A total of EUR 50 million is allocated to support individual companies or projects to invest in technologies aligned with the Net-Zero Industry Act such as solar PV, onshore and offshore wind, and batteries and storage.*

1.4. Implementation and disbursements are expected to pick up going forward

Disbursements under the RRF slowed down in the first half of 2023 before catching up again in recent months. During much of 2023, Member States focused on revising their RRPs and adding REPowerEU chapters, notably in light of the external developments mentioned above, leading to a slowdown in the submission of payment requests. As revisions of RRPs advanced, the submission of payment requests significantly picked up pace in the second half of 2023. Specifically, between May and December 2023, 26 payment requests were submitted and EUR 60.9 billion was disbursed. Most of these disbursements took place in the last quarter of 2023. By the end of 2023, eight Member States had already received more than 40% of their grant allocation and overall, more than 34% of the total envelope of the RRF had been disbursed.

This positive momentum is expected to continue with a faster pace of implementation during the second half of the RRF's lifetime. With 18 payment requests submitted towards the end of 2023, over 650 milestones and targets are currently under assessment by the Commission. Should these milestones and targets be assessed as satisfactorily fulfilled, an additional EUR 41 billion would be disbursed, bringing total disbursements by June 2024 to over 40 % of the RRF envelope This momentum is expected to continue in the second half of the year. Overall, according to current planning, based on the information provided by the Member States, the Commission expects to receive more than 20 further payment requests this year, which would correspond to the disbursement of more than EUR 100 billion in 2024.

Member States are expected to push ahead with implementation given that the RRF lasts until 2026. Implementation must accelerate for all reforms and investments included in the plans. The revisions of the plans in 2023 paved the way for this acceleration.

2. The RRF has supported the recovery and brought innovation in EU spending

2.1. The RRF effectively supports economic recovery in the EU

While it is too early to assess the full extent of its impact, the RRF paved the way for the EU's economic recovery. The determined and coordinated action at EU level under NGEU gave a strong signal of European unity that boosted economic confidence and helped stabilise market expectations. Following the creation of the RRF, most initial RRPs were prepared remarkably quickly by Member States in 2021 and implementation started rapidly. Economic activity bounced back to pre-pandemic levels by the third quarter of 2021. Employment rates reached record-high levels, while unemployment declined to record-low levels of around 6% in May 2023 and has remained close to these record lows ever since. This is even more remarkable given the two "once-in-a-generation economic shocks" of COVID-19 and the energy crisis. The long-time scars on EU labour markets that they risked creating have been avoided. These positive economic and employment outcomes are of course not solely attributable to the RRF. Other EU instruments – such as cohesion policy funds or the SURE instrument of support to mitigate unemployment risks in an emergency – and actions by Member States and other EU institutions played a key role as well.

The RRF has provided financial support to Member States, many of which lacked fiscal space to mitigate the social and economic impact of the COVID-19 crisis. The RRF delivered a swift response, disbursing EUR 56.5 billion as pre-financing in 2021 and 2022, and an additional EUR 10.4 billion of pre-financing in 2023 and early 2024, upon the approval of the REPowerEU chapters. This provided fast and direct support to Member States, in addition to the flexibilities and additional funding made available under the cohesion policy funds, playing a vital stabilising role in the aftermath of the crisis. These disbursements reduced urgent financing needs in Member States, supported early action to help businesses and citizens, and enabled Member States to implement much-needed immediate investments that otherwise might not have materialised. The considerable narrowing of EU sovereign bond spreads following the historic agreement to issue common EU bonds to finance NGEU and the RRF further contributed to reducing fiscal pressure.

In contrast to previous crises, public investment in the EU was maintained and even increased in the aftermath of the COVID-19 pandemic and the energy crisis, from 3.0% in 2019 to an expected 3.3% in 2023. The RRF has significantly contributed to this positive outcome. This encouraging trend is expected to continue in 2024 and 2025, as the aggregate public investment ratio is expected to rise to 3.5% of GDP by 2025. The Commission's Autumn Economic Forecast[14] finds that around half of the expected increase in public investment between 2019 and 2025 is related to investments financed by the EU budget, particularly by the RRF.

[14] Autumn 2023 Economic Forecast: A modest recovery ahead after a challenging year - European Commission (europa.eu)

The Commission's economic modelling[15] suggests sizeable macroeconomic effects of NGEU investment[16]. The model suggests that NGEU[17] has the potential to increase EU real GDP by up to 1.4% in 2026 above a no-NGEU scenario[18]. This is similar to the estimates of other organisations[19]. The model also estimates that NGEU could increase EU employment by up to 0.8% in the short run, delivering persistently higher real wages in the medium term that reflect potential productivity gains of productive investment[20].

The simultaneous implementation of the RRF by all Member States is estimated to generate a sizeable positive spillover effect that increases average GDP, compared with a world without joint and coordinated action. These spillovers are estimated to generate an added value for the EU that amounts to between a quarter and a third of the total impact of the RRF. While all Member States are estimated to benefit from sizeable cross-border spillover effects because of rising demand across the integrated EU economy, the joint investment impulse from the RRF is also supporting upward economic convergence in the EU. The results predict that Member States with below-average GDP specifically gain from these spillover effects, as they spur greater economic activity and cross-border trade.

The RRF has been designed to concentrate support on lower-income and more vulnerable Member States hit hardest by the pandemic. The RRF allocation key, which determines how much funding each Member State can receive, was tailored to the exceptional crisis circumstances at the time, including the significant uncertainty on the effects that the still evolving pandemic would have across the EU. Therefore, it considers both the socio-economic context at the onset of the pandemic and how Member States recovered from the crisis up until June 2022. At the same time, the RRF allocation key is still firmly grounded in the logic of economic cohesion, as it reflects the differences in GDP per capita across Member States. Thanks to this, the RRF helps to counteract economic divergence, fostering economic stability and growth where it is most needed. Based on the Commission's modelling, the increase in economic output in 2026 reaches up to 4.5% in Greece, more than 4% in Croatia, and around 3.5% in Spain and Bulgaria, compared with the EU average impact of 1.4%.

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15 QUEST model (cf. footnote 2).

16 To estimate the macroeconomic impact of the RRF, the European Commission has produced stylised ex-ante assessments of the macroeconomic impact of NGEU investment. These model simulations are not an ex-post evaluation of the actual impact, but rather an ex-ante model prediction based on stylised assumptions. Nonetheless, the simulations presented here integrate up-to-date information on loan requests, inflation, and expected spending profiles. They focus on investments as the macroeconomic effects of structural reforms is much more challenging to model. For further information, see in particular, Pfeiffer P., J. Varga and J. in 't Veld (2023) Quantifying spillovers of coordinated investment stimulus in the EU, *Macroeconomic Dynamics* (27), p. 1843–1865. See also the ECFN Discussion Paper (2021): https://economy-finance.ec.europa.eu/publications/quantifying-spillovers-next-generation-eu-investment_en.

17 The QUEST model results have been computed based on NGEU and not RRF investments. However, the investments (loans and non-repayable support) based on the RRF make up for around 90% of NGEU investments.

18 Please see Annex II of the Staff Working Document on the mid-term evaluation for a detailed discussion of the assumptions and model specifications.

19 See International Monetary Fund 2023 Article IV Consultation on the Euro Area (page 44), July 2023.

20 Note that because the simulations focus on public investment (without accompanying labour-market reforms), the employment effects are relatively short-lived and real wage increases reflect most medium and long-run labour market benefits in the simulations. By contrast, reforms targeting labour markets and increasing participation, which are included in numerous RRPs, can lead to large employment gains and higher potential growth in the medium and long run.

2.2. The RRF plays a key role in supporting structural reforms and common EU policy priorities

One of the most notable successes of the RRF is its proven ability to incentivise the implementation of structural reforms. Making RRF disbursements conditional upon the implementation of coherent packages of investments and reforms has created effective incentives for reform implementation. This notably includes reforms recommended for many years by the EU in the context of the European Semester. All plans had to address all or a significant subset of the relevant country-specific recommendations (CSRs). The European Court of Auditors (ECA) confirmed that the RRPs contribute to addressing a significant subset of CSRs[21]. In the two years preceding the RRF, the share of 2016-2017 CSRs reaching at least 'some progress' increased by only six percentage points from 53% in 2018 to 59% in 2020. In comparison, the share of 2019-2020 CSRs reaching at least 'some progress' increased by 17 percentage points from 52% in 2021 before the implementation of the RRF to almost 69% in 2023. Most progress has been made in the areas of access to finance and financial services, labour market functioning, anti-money laundering and the business environment. As Member States continue with the implementation of their plans, which address all or a significant subset of their CSRs, progress in addressing CSRs is expected to increase significantly going forward.

RRF-supported structural reforms and investments have fostered progress on common policy priorities and supported socio-economic convergence in the EU. Reforms and investments supported by the RRF notably foster the green and digital transitions, as well as socio-economic convergence and implementation of the European Pillar of Social Rights. The RRF also supports reforms that enhance institutional resilience, for instance to improve the functioning of public administrations as well as the effectiveness of judicial systems. Examples of relevant reforms and investments are showcased in Box 4. They include energy efficiency, digital public services, sustainable transport, research and innovation, social protection, and access to the labour market, promoting gender equality. Looking ahead, the implementation of reforms and investments in line with the EU's policy priorities will continue to be a key goal of the EU's policy framework, including as part of fiscal surveillance. In the context of the review of the EU fiscal rules, the Commission placed particular importance on the role of reforms and investments that enhance fiscal sustainability and address EU priorities and country-specific challenges.

There are major synergies between the RRF and other EU funds, notably in the area of cohesion policy. With the parallel implementation of the RRF and cohesion policy programmes, Member States had to make strategic decisions on which funds to use to finance qualifying investments. These decisions depended on the respective scope, timeline and eligibility criteria of the funds. Several Member States have used the possibility to finance, with both the RRF and structural funds, enabling reforms and investments to maximise the impact of EU funding. For example, the Italian RRP includes a reform to improve the effectiveness of public investments in the water sector, which is expected to help address barriers to cohesion policy investments in sustainable water management. Similarly, under the RRF, Slovakia updated its legal framework to facilitate connecting new renewables to the grid, which will support the implementation of investments under cohesion policy to develop smart

[21] Special report 21/2022: Recovery and Resilience Facility and the NRRPs (europa.eu)

energy systems, grid and storage. While it is too early to provide a comprehensive assessment of their impact on the ground, these synergies between the RRF and other EU funds are expected to increase as implementation of the RRF and cohesion policy progresses further. This will also require continued engagement and coordination between all stakeholders involved. At the same time, the focus on RRPs implementation, has, among other factors, contributed to delays in implementing structural funds in some Member States, and there is scope to exploit synergies between the RRF and other EU funds even further.

Box 4: The RRF accelerates the realisation of EU policy priorities

With its wide scope and large financial envelope, the RRF provides substantial funding to advance the implementation of common EU policies.

Enhancing energy efficiency in buildings *is an EU priority, in order to achieve the EU's climate and environmental goals, while reducing energy bills for households and businesses. Thanks to the RRF more than EUR 102 billion investment will be made in energy efficiency, together with ambitious reforms to tackle administrative barriers.*

- ***France invests EUR 1.9 billion through the RRF to support the energy renovation of social housing and the "MaPrimeRenov'" subsidy scheme for private housing.*** *Through the plan, more than 1.5 million households will be supported (of which 750 000 have already received the subsidy) in their energy renovation works.* ***Spain*** *will deliver on average* ***57 000 energy efficiency renovations of dwellings per year****. This is above the initial target that was set out by the Spanish national energy and climate plan of 50 000 dwellings per year.*

Digitalisation of public administration *will be significantly supported by the RRPs. The current EU objective, as set out in the Digital Decade policy programme and in the Digital Compass, is to ensure that by 2030 all key public services will be fully accessible online for everyone, including persons with disabilities. Key public services should comply with high security and privacy standards. Thanks to the RRF, more than EUR 48 billion are being invested in the digitalisation of public administration.*

- ***Greece is investing EUR 2.8 billion in the digital transformation of its public sector entities****. The reforms and investments are focused on the digitisation of archives and enhanced digital services, incorporating modern IT systems and increased interoperability between systems and data.*

Research and Innovation *are amongst the most powerful tools to boost the Union's economies and competitiveness at global scale. CSRs were regularly addressed to Member States to enhance the effectiveness of policies and investments supporting research and innovation. Thanks to the RRF, more than EUR 47 billion are being invested to accelerate the development and transformation of the R&I system in Member States and boost the support to key technological areas.*

- ***Czechia awarded public contracts of more than EUR 195 million to conduct R&D in medical sciences.*** *The contracts aim for five consortia (established between universities, public research institutions and other public and private entities) to conduct R&D in priority medical sciences, including research on infectious diseases, cancer, neurosciences, metabolic disorders, cardiovascular diseases, as well as research on the socio-economic impact of diseases.*

Sustainable mobility *is at the core of the EU's policy priorities and transport had long been one of the hardest sectors to decarbonise. Thanks to the RRF, more than EUR 38 billion are being invested in railway infrastructure and networks. The measures also improve rail connectivity in Europe through the expansion of the TEN-T network. Many Member States support this expansion with the introduction of the European Rail Traffic Management System (ERTMS), which will increase safety and enhance interoperability of trains in Europe.*

- ***Italy is rolling out 2800km of ERTMS*** *thanks to the Italian RRP to fulfil its objectives under the European Deployment Plan of ERTMS. In* **Germany***, the RRP is supporting the* ***digitalisation of railways for subsequent versions of ERTMS****.*

Social protection: *The European Pillar of Social Rights Action Plan, published by the Commission in March 2021, inter alia sets out the way forward for strengthening and modernising social protection systems. It includes a headline target to reduce the number of people at risk of poverty or social exclusion. Thanks to the RRF, more than EUR 14.1 billion are being invested in social protection in complement of the amounts spent with other EU spending.*

- ***Croatia introduces a reform and an investment to provide social mentoring to individuals at risk of discrimination or in a marginalised position in society****. These measures will roll out a new individualised mentoring service at social welfare centres. This new service will focus on the inclusion of persons with disabilities, victims of violence, homeless people, migrants, Roma, young people, persons serving prison sentences and members of other socially vulnerable groups.*

- ***Poland will implement a reform and an investment to improve the labour market situation of parents, and in particular of women, by increasing access to and availability of high-quality childcare.*** *The reform is expected to introduce a framework for quality standards for childcare, including binding educational guidelines and standards of care services for children under three years of age, which will be accompanied by the implementation of an IT system to manage the financing and creation of childcare facilities and the creation of new places in childcare facilities.*

2.3. The RRF fosters holistic policymaking and boosts national ownership, but there are calls for flexibility to be enhanced

The mid-term evaluation highlights that combining reforms and investments under one instrument through comprehensive national medium-term plans (RRPs) is one of the most effective aspects of the RRF. The RRF supports a holistic and coherent set of reforms and investments that address both EU policy priorities and country-specific challenges. This approach incentivises methodical planning in each Member State and facilitates more efficient implementation. Coherent sequencing between reforms and investments allows, for instance, reforms to be undertaken first, which will support the impact of subsequent investments. Moreover, synergies between reforms and investments can more easily be exploited where their implementation is coordinated in an integrated manner.

Under the RRF, Member States can design reforms and investments in line with their priorities and needs, ensuring a targeted country-specific approach while supporting EU common policies. While the RRF Regulation sets out overarching criteria that the plans need to comply with, Member States are responsible for designing their plans and deciding on the reforms and investments to put forward, creating a strong sense of ownership, commitment, and accountability, which facilitates implementation. This is particularly the case for reforms, which often require national parliamentary approval. In addition, the close cooperation that is required between the Commission, national ministries and implementing bodies has brought positive externalities in terms of policy planning and improved inter-institutional coordination. At the EU level, the European Parliament has an important role in monitoring the implementation of the RRF. This is illustrated by the 14 Recovery and Resilience Dialogues and 34 working group meetings that have taken place so far with the European Parliament. To further increase the visibility and transparency of the RRF, the Commission has launched an interactive map of projects supported by the RRF in each Member State[22].

The involvement of regional and local authorities, social partners, civil society organisations and other relevant stakeholders is a key factor in the planning and implementation of RRP measures. While the RRF Regulation requires Member States to include information on the consultations conducted when drafting their national RRPs, the level and form of involvement of these stakeholders depends on national legal frameworks and can differ significantly from one Member States to another. Alongside national authorities, who take on the main coordination and oversight role under the current legal setting, local and regional authorities, as well as social partners, civil society organisations and other stakeholders, also have a crucial role to play. Local and regional authorities and relevant stakeholders, including social partners, have been pointing to their insufficient involvement in the design, implementation and monitoring of measures included in the RRPs. While this may be partly explained with the need for speed in designing RRPs in a crisis context, it is key that, going forward, their close involvement supports ownership and implementation on the ground. For instance, social partners should play a pivotal role in implementing labour market and social policy reforms.

22 https://commission.europa.eu/business-economy-euro/economic-recovery/recovery-and-resilience-facility_en#map

Sufficient flexibility in the design and implementation of RRPs is necessary to ensure continued added value and smooth implementation. Under the mid-term evaluation of the RRF, Member States called for more flexibility in the implementation of their plans. For instance, Member States found the definition of milestones and targets too detailed and the fixed composition of groups of milestones and targets for each instalment too rigid, in particular where unforeseen circumstances impact the originally planned implementation. This can cause implementation delays and administrative burden for all parties involved.

The Commission acted swiftly upon recommendations that transparency in the implementation of the RRF be enhanced. In line with the recommendations made by the European Parliament and the European Court of Auditors, the Commission , with the help of Member States, used the opportunity of the plans' revisions in 2023 to clarify the definition of milestones and targets, where relevant and necessary. In 2023, the Commission also published[23] its methodology for assessing milestones and targets, for partial suspension of payments and for reversal[24] of milestones and targets to clarify its application of the RRF Regulation and provide Member States with greater awareness. While the additional guidance was welcomed, further reflections are needed on whether more could be done in this regard.

RRPs revisions can be resource –intensive, but targeted adjustments were processed quickly. In general, revisions are considered cumbersome by Member States as they require extensive justification as well as endorsement by the Council, thereby weighing on the flexibility of the instrument. However, provided they are targeted, they can be undertaken relatively quickly. Germany's and Luxembourg's RRP revisions, for instance, were assessed by the Commission and approved by the Council in two months. This targeted approach could be replicated in the future to respond promptly to new implementation challenges while keeping the ambition of the plans intact and continuing to comply with the RRF Regulation's requirements.

Efforts to improve the administrative capacity of Member States and implementing bodies must continue. Some Member States have experienced difficulties in mitigating the increase in the workload of administrations since the inception of the RRF. Enhancing the administrative capacity of Member States remains essential. It is key to make sure that Member States can reap the economic and social benefits of the RRF and other EU funds and contribute to increasing absorption. Member States have requested and received support from the Technical Support Instrument (TSI), both for the design and implementation of their RRPs and REPowerEU chapters. Over 400 projects approved under the TSI are linked to the preparation or implementation of Member States' RRPs. The Commission will continue to provide support and advice to Member States to address administrative capacity issues and investment bottlenecks. Where needed, the Commission has encouraged Member States to include in their RRPs further support measures to facilitate the day-to-day management of the instrument (e.g. temporary staff, training, new IT systems) and improve the efficiency of public administrations (e.g. reform of public procurement in Slovakia and permitting procedures in Poland; digitalisation of administrations and processes in Spain).

[23] Communication Implementation of the Recovery and Resilience Facility - European Commission (europa.eu)

[24] COM_2023_545_2_annex2_EN.pdf (europa.eu)

2.4. The RRF is the first major performance-based instrument at EU level

Unprecedented in scale and ambition, the RRF disburses funds based on concrete achievements, making it the first large-scale performance-based instrument at EU level. Rather than considering the costs incurred for the implementation of projects, as in cost-based instruments, funds are unlocked upon the achievement of milestones and targets, which represent concrete steps in the implementation of reforms or investments by Member States, with a results-based or, also-called, performance-based approach.

This performance-based approach is pivotal to the RRF's effectiveness, ensuring the delivery of tangible results on the ground. The wide range of milestones and targets enables the effective monitoring of RRPs implementation , as they track the full life cycle of measures supported by the RRF[25]. The approach also allows for disbursements of funds upon the achievement of intermediate steps in reforms and investments, rewarding progress towards results and actual 'performance' on the ground. Accordingly, the mid-term evaluation highlights that because the RRF rewards progress along the way, disbursements are faster in comparison with other EU instruments. Crucially, this approach also provides effective incentives for Member States to deliver upon reforms, which do not necessarily come with (financial) costs.

Performance-based funding increases the coherence and predictability of EU spending. The performance-based nature of the RRF has brought a more holistic approach to public spending, both at national and EU level. Providing direct financial support upon the fulfilment of milestones and targets yields commitments and incentives to deliver on the actual implementation of the agreed measures. Furthermore, RRPs can be seen as contractual agreements between Member States and the EU where both parties willingly engage on the basis of clear commitments. In the context of the mid-term evaluation of the RRF, stakeholders noted that the performance-based approach has increased predictability and accountability. The specific results to be achieved are set out clearly in advance (in the Council Implementing Decisions), enhancing Member States' ability to plan ahead. The approach requires an adequate specification of milestones and targets that avoids ambiguities regarding the implementation process and agreed measures. Overall, these features represent a shift in policy planning and implementation as well as in EU spending more broadly: the focus of spending is transferred from costs incurred to actual results and the delivery of agreed measures.

2.5. The RRF's reporting and control system will continue to require support and adjustments

Despite the positive features of the performance-based approach, the RRF created entry costs for Member State administrations, with room for further administrative simplification. Concerning the design of the instrument, the requirements to protect the financial interests of the Union led to a similar amount of administrative work as for other EU funds that are based on costs. This is because on top of the evidence needed to prove the fulfilment of milestones and targets, Member States need to collect different types of data for audit and control purposes. As a new instrument, the RRF created entry costs for national

[25] Additionally, the RRF Regulation introduces the concept of common indicators, which come on top of milestones and targets and whose purpose is to report on the overall performance and progress of the Facility towards its objectives. The mid-term evaluation highlighted weaknesses in the design of RRF common indicators, which should be taken into account in the reflection on future performance-based instruments.

administrations, and Member States' authorities at all levels found the audit and control procedures too complex. In addition, Member States complained about overlapping audits by national authorities, the Commission and the European Court of Auditors. This perception may have been exacerbated by the implementation of the RRF simultaneously with cohesion policy funds, which follow different rules and rely, for the most part, on cost-based controls. The complex audit and control framework has adversely affected the speed of implementation of the RRF. Identifying potential areas of simplification in this regard remains a priority for the Commission, including by considering the very thorough work carried out before disbursements are authorised, to verify the satisfactory fulfilment of milestones and targets. This needs to be balanced, however, against the imperative to manage EU funds appropriately to protect the financial interests of the Union and ensure transparency as to how funds are implemented, especially given the size of the instrument and the novel nature of the approach.

3. The RRF will continue to deliver in the second half of its lifetime

The RRF has been an effective response to the unprecedented economic and social impact of the COVID-19 pandemic. It has been vital in protecting the single market, avoiding increased economic divergences in the EU, fast-tracking the green and digital transition, and helping Member States transform their economies to make them fit for the future. The RRF has been a major contributor to the increased levels of public investment during and after the pandemic, and its establishment has constituted a step change in the EU's capacity to respond to economic crises. The RRF also contributes to strengthening Europe's long-term competitiveness and strategic autonomy.

The RRF has brought a more holistic approach to EU spending. The RRF pays out based on progress and results achieved, rather than costs incurred, which provides predictability and accountability for both the Member States and the Commission. The consultations carried out under the mid-term evaluation show that there is broad support for performance-based instruments at EU level. This approach to EU spending has already inspired major new programmes, such as the Social Climate Fund and the Ukraine Facility. From this perspective, the performance-based nature of the RRF will be a reference point in discussions on EU spending instruments with a view to the next multiannual financial framework, and this mid-term evaluation provides a relevant basis for drawing some lessons learnt.

The fast roll-out and swift disbursements under the RRF show its ability to support Member States in times of crisis, while the strong incentive for implementing reforms helps our economies and societies become better equipped for the future. The RRF is proving to be a key tool for delivering on long-standing reform needs in many Member States, and the combination of reforms and investments into one single instrument allows for better planning, synergies, and more coherent action in line with EU and national priorities.

The second half of the RRF's lifetime has now started and implementation should accelerate. Delivering on the ambitious reforms and investments by 2026 will require significant efforts and continuous dedication from all Member States and the Commission. The Commission will continue to consider ways of further supporting Member States in the implementation of their plans and will seek to enhance complementarity among EU funding tools and between those tools and national budgets. While legislative changes do not appear appropriate at this stage, further action within the scope of the RRF Regulation will be considered to facilitate implementation.

All elements are in place to ensure that the RRPs contribute to delivering the EU's economic recovery and modernisation. In many cases, the reforms and investments included in each plan are already making a real and lasting difference on the ground. The revisions of the plans have laid the foundations for an acceleration of their implementation. In this way, the RRF's reform and investment agenda is helping to create a more modern, prosperous, inclusive, climate-neutral, and sustainable EU that is resilient and better prepared for future opportunities and challenges. These goals must be achieved together, through close cooperation among all EU institutions, Member States, civil society, workers and businesses.