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NOTE

From:	General Secretariat of the Council
To:	Delegations
Subject:	The Recovery and Resilience Facility (RRF) – Experiences of a debt financed and performance-based instrument – Presidency Issues Note

Delegations will find attached the Presidency Issues Note on 'The Recovery and Resilience Facility (RRF) – Experiences of a debt financed and performance-based instrument' for the ECOFIN Council meeting on 16 May 2023.

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Presidency Issues Note for the ECOFIN 16 May

The Recovery and Resilience Facility (RRF) – Experiences of a debt financed and performance-based instrument

EU-financed debt – New market conditions, new behaviours?

NextGenerationEU (NGEU) was agreed in July 2020 and provides, through the Recovery and Resilience Facility (RRF), large-scale financial support for public investments and reforms in Member States. Through use of the RRF, Member States invest in EU common priorities, notably the green and digital transitions, with the aim of accelerating their economic and social recovery from the consequences of the COVID-19 pandemic. In line with the REPowerEU Plan, the amended RRF also contributes to reducing Member States' dependence on Russian fossil fuels and fast forward the green transition.

The size of NGEU, at more than EUR 800 billion (in current prices), has made the EU one of the biggest issuers of euro-denominated bonds in the capital markets. Through its centrepiece, the RRF, around EUR 340 billion has been made available in grants and EUR 390 billion in loans.

Initially, grants were requested by all Member States while seven also requested loans. To date approximately EUR 225 billion remains available in loans and 10 Member States have expressed their intent to request (additional) loans to finance measures in their revised Recovery and Resilience Plans (RRPs). Current market conditions and the possibility to add a REPowerEU chapter to the plans may explain the Member States' increased interest in RRF loans. At the same time, the EU's borrowing costs have also risen which, together with the requirements associated with the implementation of plans, may also have affected the Member States' intention to request loans.

A performance-based financing instrument – the new way forward?

A unique feature of the RRF is its performance-based approach through which disbursements of RRF funds are not directly linked to costs, but to the fulfilment of milestones and targets. Member States provide reasonable and plausible cost estimates of measures included in their RRP at the time of approving the plans. Actual costs incurred do not influence each disbursement received by the Member States but, considering all disbursements together, the estimated costs correspond to the overall size of the RRP. This approach, together with the linkages between the RRF and country-specific recommendations (CSRs), have increased expectations for reform and investment implementation in the years to come.

Last year's communication on the European Semester Spring package illustrated an improvement in the implementation of CSRs at the general level while reform implementation differed across policy areas. The same pattern was identified in last year's annual report on the RRF, which demonstrated that the coverage of policy areas in the adopted RRFs varied to some extent between Member States. The in-depth analysis "First lessons from the Recovery and Resilience Facility for the EU economic governance framework", requested by the European Parliament ECON committee, furthermore noted that while the 2020 CSRs were relatively straightforward to address (as they were related to the pandemic), the 2019 CSRs comprised a much greater challenge (as they related more to long-term structural issues).

In addition to the way payment requests are assessed, there are other features that distinguish the RRF from traditional EU funding. These include the management and allocation of funds, the approval structure, the unprecedented combination of reforms and investments, as well as control and audit arrangements. The current juncture, a little over two years since the RRF entered into force, and with the RRFs of all Member States in the implementation phase, provides a good opportunity to discuss experiences with performance-based funding so far and to what extent it could be applied to other areas going forward.

Questions for discussion:

- *What considerations have influenced your decision to communicate an intention to request loans from the RRF or not to do so?*
- *In what way has the RRF's performance-based nature and its link to the country-specific recommendations contributed to enhanced reform implementation in your country? What have been the main challenges?*
- *What are the main advantages and disadvantages of the performance-based structure of the RRF? Should performance-based financing be applied to a greater extent in the next MFF?*