IN-DEPTH ANALYSIS

European Parliament

Recovery and Resilience Dialogue with the European Commission

BUDG-ECON Committee meeting on 17 April 2023

Executive Vice-President Dombrovskis and Commissioner Gentiloni have been invited to the tenth Recovery and Resilience Dialogue (RRD) under the Recovery and Resilience Facility (RRF) Regulation. Section 1 cover some recent developments relating to the implementation of RRF, such as the European Commission's Communication of February, and the entry of force of the RePowerEU legislative framework. Section 2 focuses on the positive assessments by the Commission of the payment requests made by six EU Member States since the previous RRD with the Commission in February 2023.

1. Overview of the latest developments

Since all 27 Member States have Recovery and Resilience Plans (RRPs) in place that were assessed by the Commission and adopted by the Council, the focus is 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 completed**.

So far **18 countries have submitted payment requests** (Spain and Italy each submitted three payment requests, Greece, Portugal, Croatia, Slovakia and Romania each two, and France, Latvia, Cyprus, Bulgaria, Slovenia, Czechia, Lithuania, Denmark, Malta, Austria and Luxembourg each one). So far, the Commission made 23 positive assessments and 20 disbursements (total amount around EUR 96.5 billion) to 13 Member States (three for Spain, each two for, Greece, Italy, Portugal, Croatia and Slovakia, and each one for France, Romania, Latvia, Cyprus, Bulgaria Czechia and Malta).

Since the previous RRD in February 2023, the **Commission adopted six new preliminary assessments** for payment requests by Spain, Slovakia, Slovenia, Denmark, Czechia, and Lithuania. In case of **Lithuania,** the Commission considered that only 31 out of the 33 milestones had been satisfactorily fulfilled, while **two milestones (related to taxation) were considered not fulfilled,** which led the Commission to apply its **rules on partial payments** for the first time (please see below for an overview of the Commission's methodological approach)**.** In the other cases, the Commission considered all milestones and targets to have been satisfactorily fulfilled. Please see **Section 2** for more details, notably covering some examples of milestones and targets as assessed by the Commission that may be of an interest from a scrutiny perspective.

The Commission published on 21 February a **Communication** **taking stock of RRF after two years of implementation**. The Commission reiterates its guidelines on how Member States can **modify their RRPs** to effectively address the objectives of the REPowerEU plan and contribute towards energy security. The Commission emphasizes that it will pay close attention to ensuring Member States' modifications maintain the initial ambition and do not lead to the **unjustified postponement or removal ("back loading")** of measures that were initially planned. Priority will instead be given to modifications that increase the scale or scope ("scaling up") of investments and reforms already included in a Member State's plan. **Member States are expected to submit any modifications by the end of April for European-level approval by early summer**.

On the financial side, the Commission asked Member States to **indicate by the end of March whether they intend to use all or part of the loans** to which they are entitled under Next Generation EU. While €225 billion in loans remain available to Member States, the Commission will assess any additional financing needs expressed by Member States to fund "REPowerEU" chapter priorities.

As part of the entry into force of the REPowerEU legislative package, Member States are obliged[1] to establish a **public list of the 100 largest beneficiaries** of the funds allocated through the RRPs. Member States are expected to provide the list by April 2023 and then update it twice year.

Box: Launch of a map covering a set of the RRF-supported projects

A map of RRF-supported projects was published by the Commission at the end of March 2023. It provides an overview of **selected reforms and investments** supported by the RRF. It points to their geographical location in Member States and gives information on their state of play, i.e. a short description of the state of advancement in their implementation, as well as of the related next steps. The map also facilitates access to online resources providing more detailed information, such as the country pages of the RRF website, national recovery plans websites and, where available, websites on specific RRF-funded projects. At this stage, the map contains information on more than 350 measures included in Member States' RRPs.

In March 2023, the Commission launched a **public mid-term consultation** to gather views **on the implementation of the RRF** and **its public awareness.** Citizens, social partners, and other stakeholders can provide feedback, the questionnaire is available in all EU languages, and for 12 weeks the **consultation is open (until 8 June 2023).** The questions inter alia address the various aspects of the RRF implementation and aim to take stock of the lessons learnt so far. It will assess how the RRF works on the ground, to what extent its objectives have been achieved to date, and how efficiently the funds disbursed have been spent. The Commission will analyse and summarise the results in a synopsis report, which will feed into the **mid-term evaluation report due in February 2024**.

In addition, the Commission is according the delegated regulation (EU) 2021/2106 obliged to publish **bi-annually a report** on the progress of the RRF implementation particularly "*on the achievement of their recovery and resilience (...) by mid April and beginning of October, and no later than by 30 April and 15 October, respectively*."

[1] "*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.*"

Box: ECA Special report 07/2023: Design of the Commission's control system for the RRF

The European Court of Auditors (ECA) examined the system of controls established by the European Commission regarding payments under the RRF. In a report published on 8 March, the ECA warns of flaws that could undermine the Commission's ability to protect the EU's financial interests.

The ECA identifies issues with the Commission's verification of Member State compliance with rules for investments linked to the RRF. While Member States must ensure RRF-funded investment projects comply with EU and national rules, this is not a precondition for receiving payments. Member States are responsible for conducting their own compliance controls, but the ECA finds the Commission's control system does not sufficiently verify how Member States are implementing these controls. The ECA criticises that the system provides little verified information, including on fraud compliance, limiting the Commission's ability to safeguard EU funds.

While acknowledging the speed with which the Commission's verification system was deployed to confirm that Member States have actually achieved milestones and targets when receiving RRF payments, the ECA identifies issues that could impact the EU's financial interests. The ECA observes the system's extensive nature but finds that some steps in the assessment process have not been sufficiently specified or fully documented. The lack of a publically available methodology to quantify the impact of missed milestones/targets or investment underachievement poses an additional challenge.

To address these issues, the ECA recommends to the Commission to:

- Strengthen verification procedures before RRF payments are made to Member States Issue guidance on how Member States should address instances of non-compliance with previous milestones or targets
- Implement measures to ensure investments financed by the RRF comply with relevant EU and national rules
- Improve systems for reporting and harmonize approaches to reporting potential fraud related to the RRF
- Establish guidelines for addressing any control flaws detected during the RRF payment process

The discussion in CONT on 22 March, during which the Commission and the Court of Auditors outlined to the Committee their different views on the findings presented in the ECA report, did not result in an undisputed conclusion about whether there remains an **accountability gap** at the EU level (the Commission in its official reply only accepted one of the key findings and recommendations, partially accepted two, and notably **did not accept** the other two key **findings and recommendations**). The Chair and members of the CONT committee noticed that the discussion needs to be continued and further elaborated on.

As part of its annual discharge procedure of the Commission, the CONT Committee adopted in March 2023 a motion of resolution with observations and recommendations relating inter alia to the implementation of the RRF. Parliament as a whole will take its final decision on the 2021 EU budget discharge during 8-11 May plenary session. The final text will be available here.

Introduction of the REPowerEU Chapters into the RRF

Following the agreement reached between the European Parliament and Council on 14 December 2022, the legislative act was adopted by the European Parliament on 14 February and by the Council on 27 February 2023. The legislative text introducing REPowerEU Chapters into the RRF was published in the Official Journal on 28 February and came into force on 1 March 2023.

The REpowerEU under the RRF will enable Member States to include a specific chapter in their RRPs with projects aimed at reducing the EU's dependence on Russian fossil fuels and accelerating the green transition through energy reforms and investments. Member States were encouraged to submit revised plans with REPowerEU chapters as soon as possible and preferably by 30 April 2023.

Estonia was the first country to include a REPowerEU chapter in its recovery and resilience plan, as it submitted on 9 March 2023 a request to the Commission to modify its national plan. The Commission has up to two months to assess the modified plan and Member states will then have up to four weeks to endorse the Commission's assessment.

The REPowerEU chapters can be **pre-financed by up to 20%** as soon as the new legislation enters into force. The new rules allow covering measures retroactively from 1 February 2022.

To support REPowerEU, EUR 225 billion **in loans** are available under the RRF. Member states were asked to indicate by end of March 2023 if they want to use unallocated loans from the RRF, before reallocation can take place.

Out of the **new funding** of EUR 20 billion in grants for the REPowerEU chapters, 60% will come from the **Innovation Fund** and 40% via frontloading emissions allowances from the **EU Emissions Trading System** (ETS).

It was also agreed that Member States may choose to transfer part of their allocated funds from the **Brexit Adjustment Reserve** (5.4 billion euros in total) to the RRF to finance REPowerEU measures. As an example, Ireland has requested a transfer of EUR 150 million of the Brexit Adjustment Reserve funding to support priorities under REPowerEU. Estonia has also requested to transfer its share of the Brexit Adjustment Reserve, amounting to EUR 6.6 million, to its recovery and resilience plan.

Commission methodology for the determination of payment suspension

The Communication includes a **methodology** aiming to clarify the Commission's interpretation of what constitutes a "satisfactory" implementation of a Member State's commitments. **Minimal deviations** will be allowed for the amounts allocated to specific reforms or investments (quantified as a deviation from the initial estimate **of up to 5%**), internal administrative procedures, the initially planned schedule, or even the substance of an investment or reform. The Commission will also use a distinct methodology to temporarily suspend certain payments to a Member State if its recovery plan targets are missed or only partially met. The aim is to calculate what amount of EU financial aid could be suspended while still allowing the implementation of other measures in the national plan to proceed. The affected Member State will have the opportunity to submit its own observations regarding the suspension of funds as part of a contradictory procedure.

The calculation for suspended payments is based on the following **methodology** (see Annex for the exact wording and details as mentioned in the Commission Communication that sets out the methodology; the experience gathered with its future application may cause the Commission to **review and amend** it):

Unit Value

All milestones and target carry in principles is same '**unit value'** that **does not reflect underlying costs**. The calculation simply divides the total RRP allocation by the total number of milestones and targets, which then each carry the **same average** 'unit value'.

Adjustments

As different measures in the RRPs have **different importance**, and as unfulfilled milestones or targets can leave implementation gaps of varying depth, the Commission will calculate 'corrected unit values' by applying coefficients that result in **upward and downward adjustments**.

An **upward adjustment** with a coefficient of 2 is, for example, applied for **large investments** (accounting for more than 10% of the total allocation) with a limited number of milestones and targets (5 maximum).

A **downward adjustment** with a coefficient of 0.5 is, for example, applied to the **smallest investments** (accounting for less than or equal to 0.1% of the total allocation).

Proportional reductions are, for example, applied if milestones of investments are missed, while there is some progress that can be evaluated as a partial achievement.

As regards **reforms**, a relatively **large coefficient of 5** is applied in case that the missed milestones and targets are related to the entry into force of a reform or to the final step for the implementation of a non-legislative reform.

As regards measures related to **audit and control**, to protect the financial interests of the Union, the non-fulfilment of milestones or targets related to a Member State's audit and control system shall lead to the **suspension of the full instalment and all future instalments**.

Some information on upcoming payment requests

Among other relevant upcoming disbursements, on January 2023 Italy also requested the payment of the third tranche of EUR 19 billion in grants and loans under the RRF.

The Commission was expected to draw 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.

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

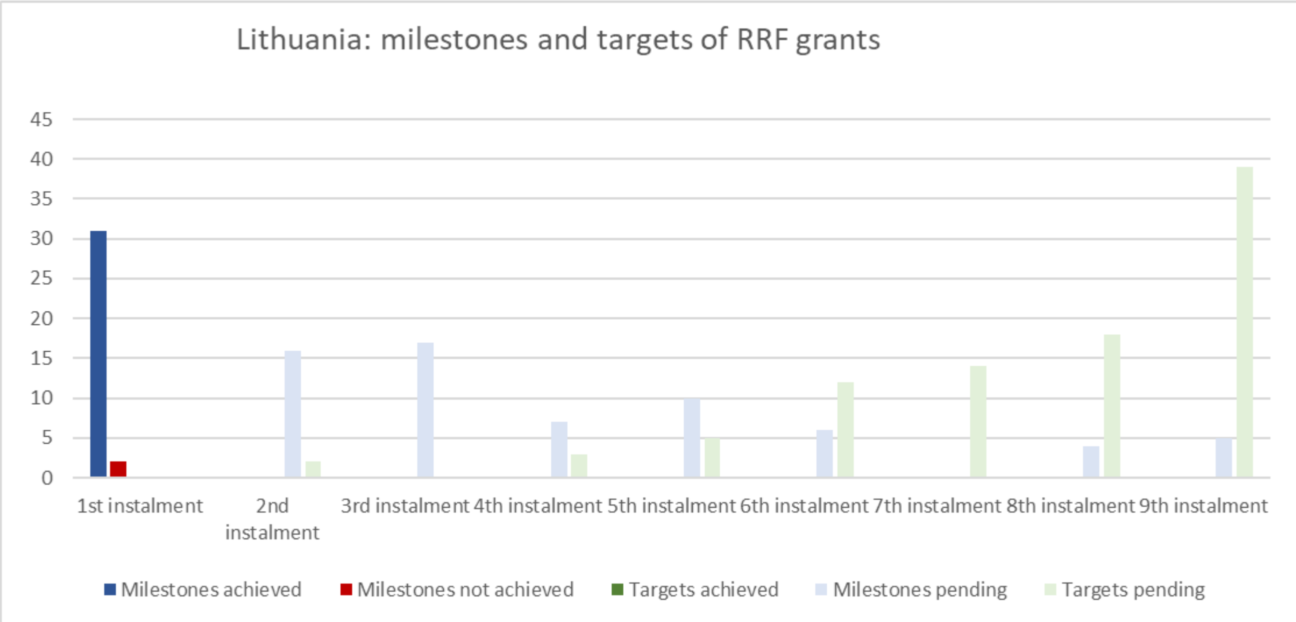
On 28 March 2023, the Italian Court of Auditors presented to the Italian Parliament its bi-annual report (see part 1 here and part 2 here) on the implementation of the Italian RRP. Among its highlights, the Court finds that:

- 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.

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

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

Disbursement profile



On 30 November 2022, Lithuania submitted to the Commission a payment request together with a due justification of the satisfactory fulfilment of 33 milestones related to the first instalment of the non-refundable support, as set out in the Council Implementing Decision. The Commission concluded the satisfactory fulfilment of 31 out of 33 milestones. On 27 February published a positive preliminary assessment (with a later corrigendum dated 15 March) and disbursed €289 million in pre-financing to Lithuania. It should be noted that Commission has chosen not to disclose more detailed information as to why or what extent the two milestones – both related to tax reforms[3] – have not been satisfactorily fulfilled. As regards those two milestones, the Commission will proceed in accordance with Article 24(6) of Regulation (EU) 2021/241, which sets out the procedure of suspending payments.

The milestones and targets envisaged by this payment request are related to several domains: promotion of consumption of electricity and uptake of fuels from renewable sources, development of electric charging infrastructure, improvement of the quality of education as well as tax administration and collection, enhancing transparency in used vehicle trade sector, establishment of single innovation agency and setting-up an accreditation scheme for provision of social care.

Illustrative examples for the fulfilment of targets and milestones in Lithuania's RRP:

Example: Information about charging infrastructure for electric cars

Qualitative indicator: Entry into operation of an information system for public and semi-public recharging points for electric vehicles

Context: The objective of the broader reform "Moving without polluting the environment" aims to significantly reduce greenhouse gas emissions, inter alia by facilitating the use of electric vehicles. To that

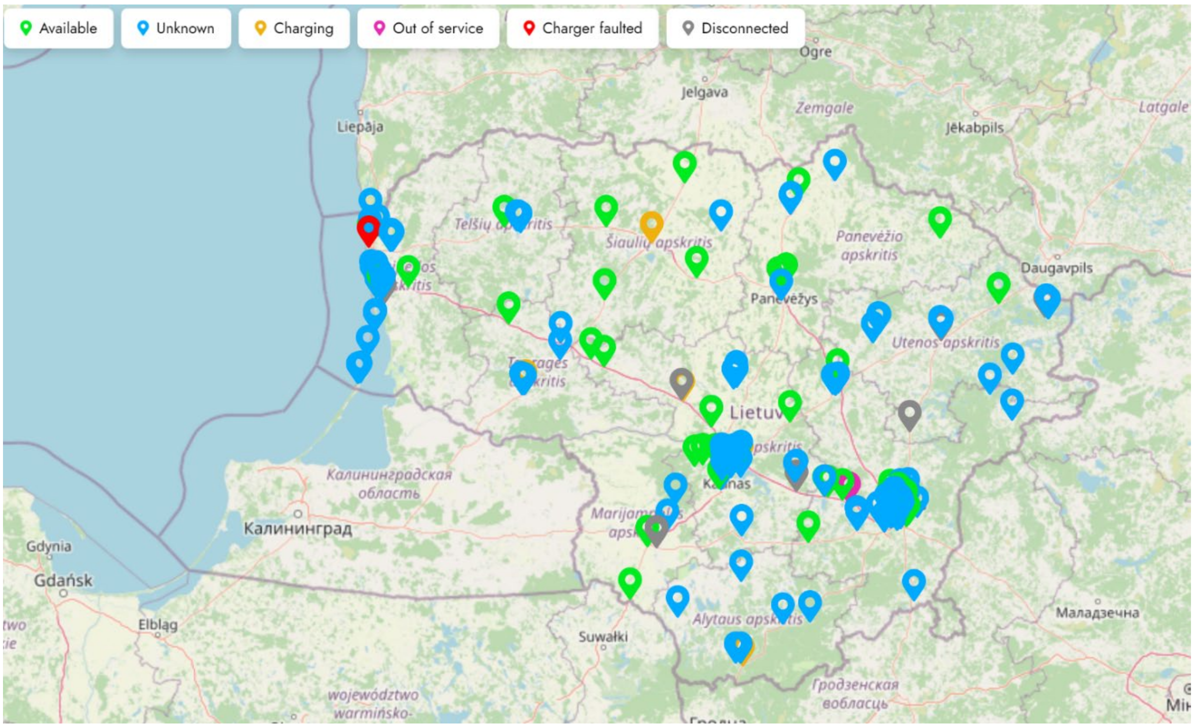
[2] See a separate EGOV document for all related official documents.

[3] Milestone 142: *Delivery of the proposals made on the basis of an in-depth analysis for the withdrawal of tax exemptions and special tax regimes to the Parliament*; and Milestone 144: *Delivery of proposals to expand environmental taxes and taxation of other sources less detrimental to economic growth on the basis of an in-depth analysis to the Parliament.*

end, Lithuania planned to make an information system operational that provides real-time static/dynamic data available about public and semi-public charging and refilling points.

According to the Commission's preliminary assessment, Lithuania provided the necessary evidence about implementing that information system on public and semi-public charging and refilling points, including a hyperlink to the related website. However, **testing** whether that website actually provides reliable real-time information we observed that the status of the majority of the listed charging and refuelling stations was said to be "Unknown", which **makes the usability of the information system questionable** (see figure below, showing a screenshot taken on 3 April).

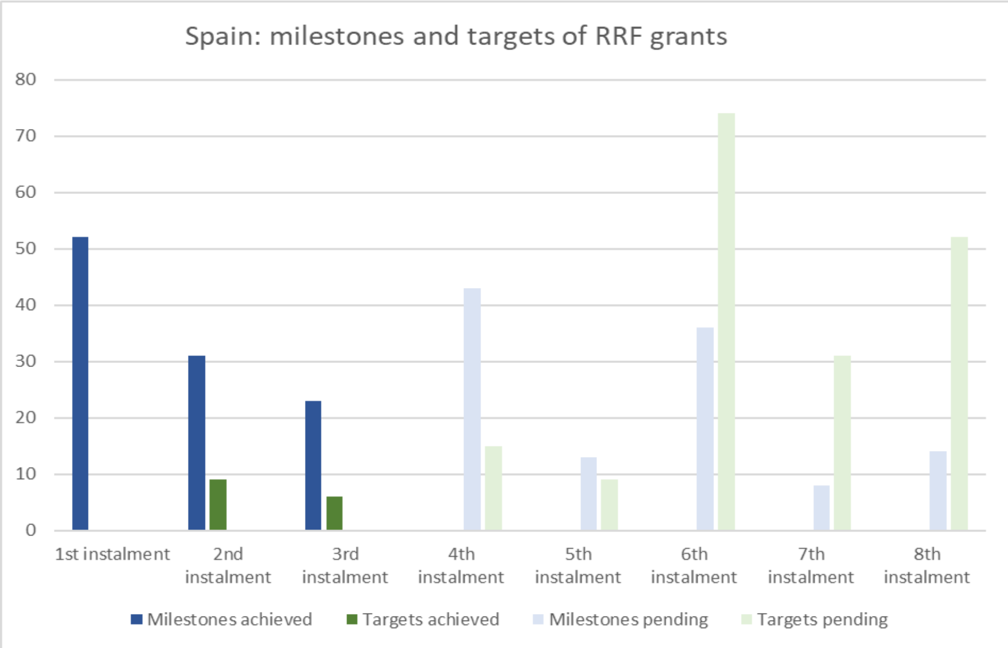
Figure: Map of charging and refuelling points (information observed on 3 April at 12:50)



Source: *Registration system for public charging stations for electric vehicles*.

Spain: Commission's preliminary assessment of the third payment request

Disbursement profile



In November 2022, Spain requested as the first Member State the **third instalment** of non-repayable support under the RRF for EUR 6 billion. The request covers the achievement of 24 milestones and 5 targets.

To date, Spain has not requested any of the loans it has available under the RRF (approximately EUR 85 billion), yet the Spanish authorities plan to submit a revised plan under REPowerEU and to request RRF loans in that context.

On 17 February 2023, the Commission published a preliminary assessment of the information provided by Spain, finding that all related 29 milestones and targets have been satisfactory fulfilled. On 31 March, the Commission disbursed the EUR 6 billion in grants requested by Spain.

The Commission states that previously fulfilled milestones had not been reversed, particularly in relation to RRF Information System and to audit and controls[4]. The Commission highlights improvements in the area of collection of data on beneficial owners of foreign companies that have no power of attorney in Spain, for both concluded and future contracts. Among the actions undertaken by Spain, the Commission notes agreements to facilitate exchange of information, empowerment of competent authorities to request beneficial owner's data from foreign companies, signature of a Protocol with the Ministry of Justice to grant authorities access to the BORIS database, guidance to implementing bodies, improved access to data for control purposes, and in particular the operationalisation of the IT risk scoring tool MINERVA for systematic control and prevention of conflict of interests.

On substance, the Commission emphasises that the milestones and targets achieved cover reforms[5] in key policy areas, including telecommunications; insolvency law; science, technology and innovation; vocational

[4] In the context of the preparatory meeting for the **CONT fact-finding mission to Spain** on 9 February 2023, representatives of the European Court of Auditors (ECA) noted the lack of clarity on the RRF-integrated information system as well as weaknesses related to the collection and access to information for control purposes. During the same meeting, the ECA also warned about the absence of follow-ups for specific investments and reforms (and other national plans).

[5] In the context of the preparatory meeting for the CONT fact-finding mission to Spain on 9 February 2023, representatives from the Commission praised the focus of the Spanish RRP on reform, addressing more than 90% of the country-specific recommendations (CSRs).

training; tax fraud and evasion; social security and pensions reform; reception and international protection of migrants. On the investment side, the Commission notes the progress in the areas of fishing, agriculture and livestock; renewable energy; digitalisation and promotion of culture; sustainable automotive.

In terms of their nature, the vast majority of milestones and targets refers to the publication or entry into force of related legislation (17 times), while other actions are related to the award of contracts (4 times), various forms of budgetary execution, commitment and financing (4), publication of evaluations, reports and assessments (3 times), the adoption of a strategy (once), and the publication of partnership agreements (once).

EP fact-finding mission to Spain

From 20 to 22 February 2023, a delegation of the CONT committee went on a fact-finding visit to Spain to scrutinise the implementation of the RRF. Concluding, the delegation emphasised the role of Spain as front-runner in the implementation of the fund, but also highlighted some issues. It noted that data on the transparency of project payments and reforms is data is available but difficult to be found for the public and journalist, recommending that information is published in a more timely, structured and accessible manner. The MEPs called on Spanish authorities to grant the ECA access to control systems on a permanent basis, and - referring to complaints about administrative burdens and complex tenders, called to remove impediments to "*give more support to the self-employed and small and medium enterprises*", which play a key role in the Spanish economy.

Illustrative example for the fulfilment of milestones in Spain's RRP:

Example: Roll-out plan for infrastructure to recharge electric vehicles

Qualitative Indicator: Provisions in Technical Building Code, Low Voltage Electrotechnical Regulation and Royal Decree to regulate public recharging services, indicating their entry into force (by Q2 2022)

Context: This milestone is part of the ongoing reform of the framework to **deploy recharging infrastructure and enhance the uptake of electric vehicles**. The milestone foresees the introduction and entry into force of three legal acts introducing obligations to install recharging infrastructures in car parks. The acts specify, among other things, minimum amounts of EV charging infrastructures to be installed in tertiary car parks, residential, non-residential and publicly-owned buildings. They also introduce obligations for charging points which are not linked to a building, regulate public recharging services and provide for rights and duties of involved subjects.

The Commission's assessment notes the **satisfactory fulfilment** of the milestone, while recognising **some minimal deviations** from the Council Implementing Decisions that, in its view, do not significantly alter the nature of the measure.

The wording in the Commission's assessment, however, seems to **downplay the effects** and does not elaborate on the extent to which the deviation might actually reduce the ambition of the plan in incentivising the uptake of EVs:

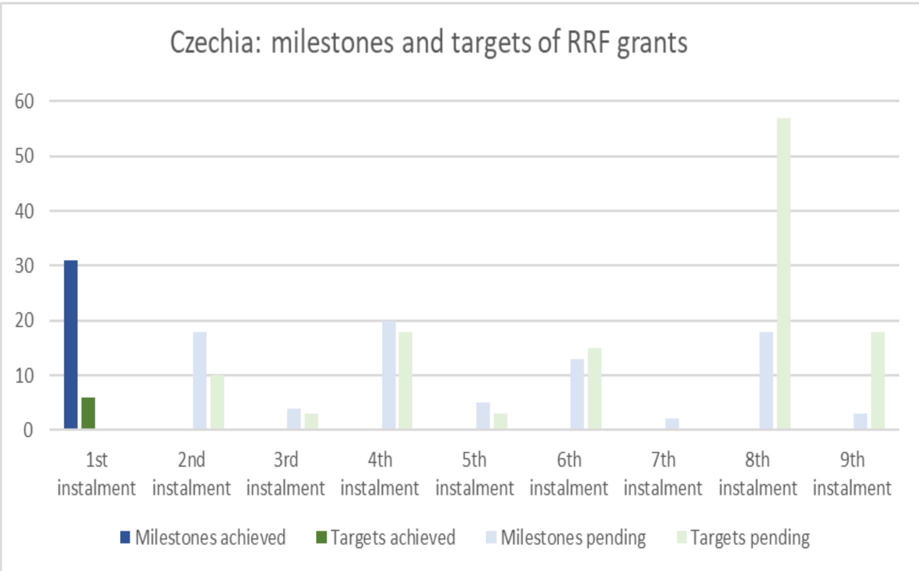
- When discussing certain **exemptions** from the obligation to install recharging infrastructure - for example in case those would affect the historical or architectonical value of buildings - the Commission states that those exemptions would only apply to a *"very **negligible number** of buildings"*. There are, however, **no details** or quantitative values provided to corroborate that assessment.
- Another exemption from the legal obligation to install a certain minimum amount of charging points is made for very large parking lots (exceeding respectively 500 parking spaces for publicly-owned buildings, 1000 parking spaces for residential car parks). Again, the Commission's assessment does not set out what that exemptions means in terms of absolute numbers. In

relative terms, the Commission's impact assessment **("*very negligible*" impact**) only mentions the number of buildings that might be affected (e.g. "*more than 99% of the buildings owned by the General State Administration have less than 500 spaces*"), but it **does not set out how many** parking spaces might actually be affected - that share could be notably higher if the largest parking lots are systematically exempted from the obligation to install the recharging infrastructure that is otherwise required.

Scrutiny over the roll-out of infrastructures for EVs could be pivotal against the backdrop of the ongoing efforts of Spain to respond to the challenges facing its automotive industry. The country is reportedly **lagging behind on charging infrastructure** and sees an increase in the average age of its car fleet. Notably, the **car industry has called upon the government to accelerate electrification efforts** and step up its ambition to decarbonise the sector with a view of catching up with other EU Member States and boost electro mobility in the country. In this context, clearer assessments by the Commission might be welcome in the future to ensure that the reforms put in place are strongly aligned with the ambitious goals Spain seeks to achieve.

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

Disbursement profile:



On 25 November 2022, Czechia submitted to the Commission a payment request together with a due justification of the satisfactory fulfilment of 31 milestones and 6 targets related to the first instalment of the non-refundable support, as set out in the Council Implementing Decision. The Commission concluded the satisfactory fulfilment of all milestones and targets. On 8 February published a positive preliminary assessment and disbursed €928 million (net of €915 million pre-financing) in grants to Czechia.

The milestones and targets envisaged by this payment request are related to several domains: reforms in the area of school curricula and health; set-up of audit and control system for the implementation of the RRF, in particular a system for avoiding and managing conflict of interest as well as ensuring that beneficial owners would be registered according to the rules fully in line with the EU's Anti-Money Laundering Directive; investments in railway infrastructure and digital tools for education.

Illustrative examples for the fulfilment of targets and milestones in Czechia's RRP:

Example: Road and Rail safety construction works

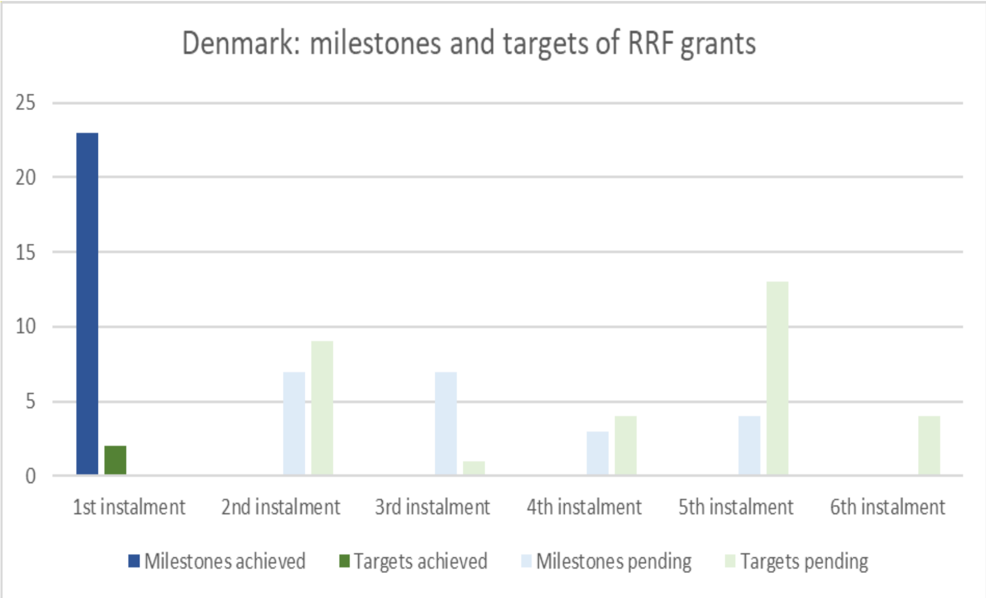
Qualitative indicator: Completion of level crossings with an increased safety and modernised railway bridges or tunnels

Context: One of the requirements for projects related to improving road and rail safety, as specified in the Council Implementing Decision, is to reuse or recycle at least 70% of construction and demolition waste from the measures. It is questionable whether this requirement poses any additional challenge regarding circular economy and green transition, as this requirement is in any case in line with the Waste Framework Directive (2008/98/EC), which became binding in 2020. Also, as data from the Eurostat shows, in the last decade most of the EU Member States (including Czechia) recovered around 90% of construction and demolition waste.

Therefore, the **reported recycling rates of 97% and 100%** for the two measures analysed do seem quite in line with the statistical data, while the **target requirement of 70%** set in the Council Implementing Decision **seems not to ask for or incentivise exceptional performance**.

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

Disbursement profile



Several measures assessed in the context of the COM preliminary assessment of the fulfilment of milestones and targets related to the first payment request submitted by Denmark on 16 December were decided before the entry into force of the RRF Regulation, which could indicate that opportunity costs may be at play (in the sense that the decisions linked to some milestones and targets were decided independently of the incentives provided by the RRF regulation).

This is specially the case for measures related to the adoption of the Green tax reform (measures 31 and 32 on Investment Window, measures 34 and 35 on Green tax reform - accelerated depreciation, , measure 38 on Emission taxes on industries) requiring a political agreement on that reform, which was already reached on 8 December 2020.

On 16 December 2022, Denmark submitted to the Commission a payment request together with a due justification of the satisfactory fulfilment of the 23 milestones and 2 targets related to the first instalment of the non-repayable support, as set out in the Council Implementing Decision.

The European Commission concluded the satisfactory fulfilment of all milestones and targets.

On 8 February 2023 published a positive preliminary assessment, for the disbursement of €301 million (net of pre-financing) in grants to Denmark.

The milestones and targets envisaged by this payment request are related to several policy domains, confirming progress towards an improvement of the healthcare system through new digital solutions, energy efficiency in buildings, lower greenhouse gas emissions, sustainable mobility, and additional research incentives for green solutions.

Illustrative example for the fulfilment of targets and milestones in Denmark's RRP:

Example: Measures to ensure stocks of critical drugs

Qualitative indicator: Report on the assessment of the stocks of critical medicines and follow-up by the Danish Medicines Agency, as necessary

Context: The measure aims to maintain and ensure the stock of critical drugs in the secondary health sector of Denmark. The goal is to avoid critical situations with shortages of important drugs. The only milestone for that investment asks for an assessment of the stock of critical drugs by the Danish Medicines Agency, which reportedly also plans for other complementary measures to strengthen the resilience of the health care system.

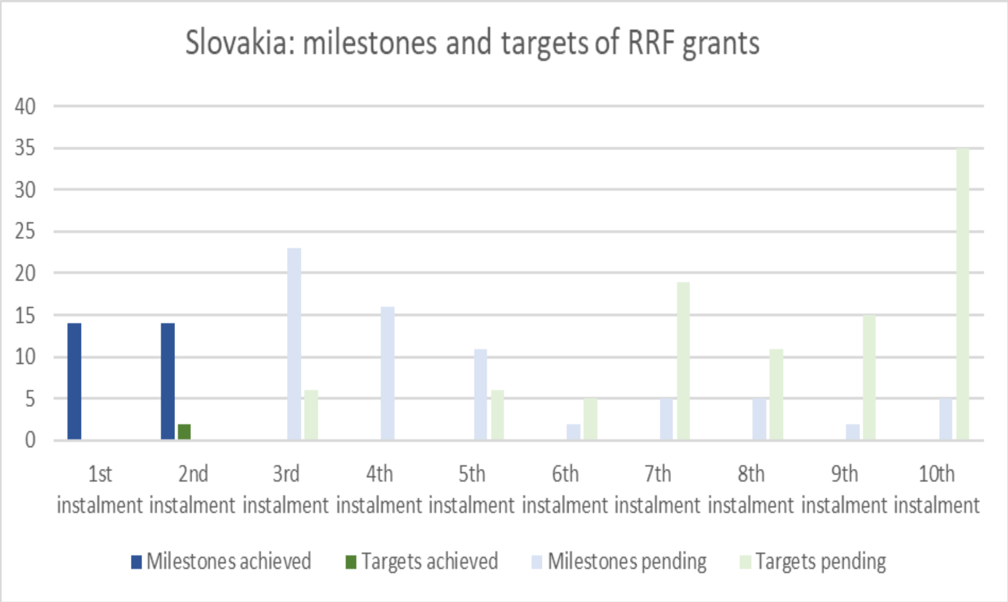
The Commission's positive assessment is essentially based on the fact that the Danish Medicines Agency has assessed and **reported on the stocks of critical medicines** to the Danish Ministry of Health, and that that assessment is deemed to be of high importance in forecasting and ensuring the right level of storage capacity for critical drugs. The Danish Medicines Agency signed a contract with a wholesale trader (Amgros) to procure and maintain a security stockpile of selected medicines to safeguard against shortages and to purchase COVID-19 treatment drugs. The Commission's assessment furthermore sets out that the storage levels of specific medical products have been continuously adjusted in mutual agreement between the Danish Medicines Agency and Amgros.

However, the Commission's **assessment does not set out whether the target levels for the stocks of critical medicines were actually met**, leaving somewhat unclear whether the measures taken were sufficiently effective.

While we could not find exact publicly available information on this matter, we noted that the Pharmaceutical Group of the European Union (PGEU), the association representing **Europe's community pharmacists, in January 2023 called for urgent measures to address medicine shortages;** the PGEU's call is based on the results of its annual survey among its members that maps the impact of medicine shortages across Europe from the community pharmacists' perspective. A key finding of that survey is, among other things, a **continued high incidence of medicine shortages in most European countries**, which in 2022 worsened substantially compared to the previous year in the majority of the countries. While the publicly available results of the survey does not disclose the actual situation in individual countries, it reports that on an aggregate bases **all of the responding countries (including Denmark) experienced medicine shortages in the last 12 months**. Those results imply that the Commission's assessment should be more explicit about the extent to which the target levels for the stocks of critical medicines were actually met.

Slovakia: Commission's preliminary assessment of the second payment request

Disbursement profile



On 25 October 2022, Slovakia submitted to the Commission a payment request of €709 million in grants (net of pre-financing) based on the achievement of the 14 milestones and 2 targets set out in the Council Implementing Decision for the second instalment. In this demand, Slovakia also confirmed that the measures related to previously accomplished milestones and targets have not been reversed. The Commission, on 7 February 2023, published a positive preliminary assessment of the fulfilment of all milestones and targets. Likewise, the Commission stated that it does not have evidence of reversal of the previous milestones and targets achieved by Slovakia.

The milestones and targets envisaged by this payment request are related to several domains: support of circular economy, evaluation of scientific performance, governance structure for research, development and innovation, attraction (and retention) of talented workers, regime for obtaining citizenship, recognition of foreign qualifications, healthcare and social care, public procurement procedures, green transition, education and digitalisation.

Illustrative example for the fulfilment of targets and milestones in Slovakia's RRP:

Example: Health investment projects - A prioritised investment plan according to the investment evaluation methodology adopted by the Ministry of Health

Qualitative Indicator: prioritised investment plan published on the website of the Ministry of Health

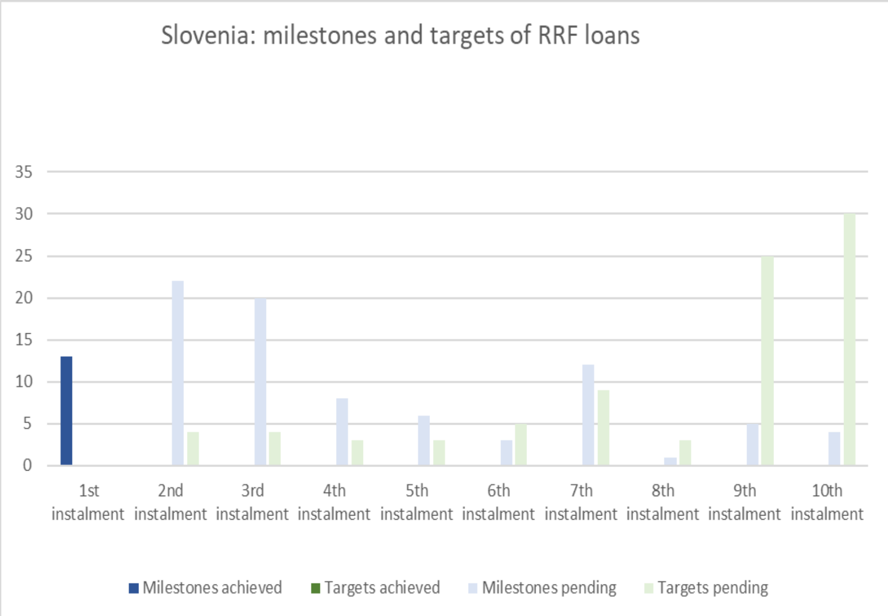
Context: The **objective of the reform is to introduce systematic planning of investments** in the healthcare sector. Additionally, the reform aims at introducing a comprehensive investment assessment by preparing a dedicated methodology that includes financial and non-financial criteria. The investment plan to be adopted comprises the investments to be financed from the RRF and the EU Structural Funds.

The evidence provided by Slovakia included, inter alia, the single document methodological guideline approved on 3 November 2022 by the Ministry of Health: a document which incorporates the methodology for prioritization of investment projects approved on 8 March 2022 by the same Ministry. **The main strategic projects under the investment plan -** construction of the hospital in Martin and construction of hospital Rázsochy in Bratislava - however, **were chosen by means of Government Resolution** No. 420/2020, and **not through the methodology for selecting priorities** that was approved on 8 March 2022;

indeed, these two projects were selected on the basis of an evaluation made exclusively for major strategic projects. In spite of this, the Commission evaluated this deviation as minimal, stating that the **methodology** for the selection of major strategic projects results was **found compliant** with the milestone requirements, **even though it has apparently not been fully applied in practice**. This “decision-making” criterion became a basis for the preparation of the new methodology for prioritising demand call projects for hospital construction and reconstruction under RRP adopted on 2 September 2022 (then, even this has been incorporated in the guideline approved on 3 November 2022).

Slovenia: Commission’s preliminary assessment of the first payment request

Disbursement profile



On 20 October 2022, Slovakia submitted to the Commission a payment request of €50 million in grants based on the achievement of the 12 milestones selected in the Council Implementing Decision for the first instalment. The plan envisages €1.5 billion in grants, 16% of which (€231 million) was disbursed to Slovenia in pre-financing on 17 September 2021. The Commission, on 8 March 2023, published a positive preliminary assessment of the fulfilment of all milestones. The milestones foreseen by this payment request are related to several domains: digitalisation of enterprises, digital transformation of the public administration, labour market, business environment, tourism sector, digitalisation and efficiency of public procurement and long-term care services. This first payment request mainly concerns preparatory acts and procedures that will be implemented in the next steps of the Recovery and Resilience Facility.

Illustrative examples for the fulfilment of targets and milestones in Slovenia’s RRP:

Example: Implementation of the Recovery and Resilience Plan – control and audit systems

The Milestone comprises inter alia to install an upgraded repository system for audit and controls (MFRAC) that contains the information for monitoring the implementation of the RRF.

Context: The **objective of the reform** is to put in place a framework for an adequate **functioning of the control and audit systems**.

The Commission’s assessment states that Slovenia’s **national auditors identified deficiencies** in the IT systems MFERAC, in particular that information and supporting data on milestones and targets are not regularly updated in the system, and that the system does not collect, store and ensure access to the data required by Article 22(2)(d)(i) to (iii) of the RRF Regulation.

The Commission's assessment furthermore sets out that - as the national auditors could not confirm the collection of the required data - **DG ECFIN auditors decided to carry out their own verification** of the completeness and reliability of the data in order to confirm the satisfactory fulfilment of the milestone.

The verification of the data on 25 November 2022, however, apparently revealed serious deficiencies related to the reliability and completeness of the data.

The Commission's assessment concludes with the observation that the **missing required data was only submitted on 31 January 2023**, mentioning that DG ECFIN auditors subsequently verified their completeness, accuracy, and reliability.

Irrespective of the finding that the data provided was at the time complete and accurate, the Commission's **assessment could be more explicit as to whether the deficiencies of the IT system were sorted out**, and whether the whole control and audit system can be considered reliable.

ANNEX: Commission's methodology for the determination of payment suspension

I. Principles of the methodology

a) Unit value per RRP

The basis for the calculation of the suspended amount is the 'unit value' of a milestone or target (MT). To ensure a clear relationship between the value that is attributed by the Union to the implementation of the RRP and the suspended amount, the unit value of every MT is calculated by dividing, for each RRP, its total value by the number of MTs (total RRP allocation/number of MTs). *E.g.: RRP maximum financial contribution of EUR40 billion / 175 MTs = unit value of EUR229 million for each MT*. For those Member States that have also requested a loan, there will be two different unit values, one for the MTs foreseen under the non-repayable support part of their RRP and one for those MTs foreseen under the loan part.

b) Coefficients and upward and downward adjustments

To give due consideration to differences between the measures in the RRPs and between milestones and targets, the Commission will calculate 'corrected unit values'. To this end, the Commission will apply coefficients to the unit value. These coefficients are set by assessing the importance of each unfulfilled MT and the depth of the implementation gap they represent.

Once corrected unit values are established, upward and downward adjustments will be made in the specific cases outlined below.

The final amount to be suspended per unfulfilled MT will be equal to the corrected unit value subject to any upward and downward adjustment ('suspension value').

Investments

Coefficients applied to the unit value

1) A coefficient of 2 is applied for MTs of **large investments** (accounting for more than 10% of the non-repayable support or loan) **with a limited number of MTs** (at or below 5).
2) A coefficient of 0.5 is applied to:
   - milestones and targets of **the smallest investments** (accounting for less than or equal to 0.1% of the non-repayable support or loan);
   - **intermediary milestones** (i.e. not targets) that are followed by subsequent milestones and/or targets related to the same investment.
3) For all other milestones and targets, a coefficient of 1 is applied.

Adjustment of the corrected unit value

1) **Proportional reductions** to the corrected unit values are applied in the following cases:
   - In case an **investment target** has not been satisfactorily fulfilled, the progress made towards achieving the target is assessed. The amount to be suspended is determined proportionally to the distance to the target. Such an approach is particularly relevant for targets for which this can be assessed quantitatively.
   - For **investment milestones**, to the extent that it is possible, to evaluate the share of what has been achieved.
2) **Upward adjustments** of the corrected unit values are **applied if the investment is of**

major importance to justify any of the ratings underpinning the positive assessment of the RRP'.

<u>Reforms</u>

Coefficients applied to the unit value

1) <u>A coefficient of 5</u> is applied for MTs related to **the entry into force of a reform or the final step for the implementation of a non-legislative reform**.
2) <u>A coefficient of 0.5</u> is applied **for any other MTs,** such as the ones related to intermediary steps before a milestone related to the entry into force of a given reform (e.g. publication of a report) or to ex-post procedural steps (e.g. evaluation of a reform).

Adjustment of the corrected unit value

1) **Upward adjustments** of the corrected unit values are applied if:
   - The implementation of the reform is considered by the Commission of particular importance to justify the rating for addressing all or a significant subset of challenges identified in the relevant country-specific recommendations, including fiscal aspects thereof and recommendations made pursuant to Article 6 of Regulation (EU) No 1176/2011 where appropriate, addressed to the Member State concerned, or challenges identified in other relevant documents officially adopted by the Commission in the context of the European Semester.
2) **Downward adjustments** of the corrected unit values are applied in the following cases:
   - The reform is of less importance to justify any of the ratings underpinning the positive assessment of the RRP.
   - For reform milestones **covering one or more than one policy objective or dimension**, a <u>proportional adjustment</u> will be applied if the policy objective of the milestone is partly met or if some of the objectives/dimensions of the milestone are met and others are not. In considering such a downward adjustment, the substantive progress towards the achievement of the overall objective of the reform will be assessed.

<u>Measures related to audit and control</u>

To ensure the effective use of RRF funds and protect the financial interests of the Union, the non-fulfilment of MTs related to a Member State's audit and control system that were necessary for complying with Article 22 of the RRF Regulation shall lead to the suspension of the full instalment and all future instalments.

II. Final remarks

The suspension cannot go beyond the full amount of the instalment, except in the case of non-fulfilment of MTs related to a Member State's control system. The Commission can review and amend this methodology as it gathers more experience with its application.

In accordance with the RRF Regulation, measures that do not respect the principle of 'do no significant harm' (DNSH) are not eligible under the Facility. Moreover, the MTs of measures found in breach of DNSH requirements would not be considered satisfactorily fulfilled, and this methodology would apply to determine the amount to be suspended.

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