Q&A Recovery and Resilience Facility

DISCLAIMER

This document from the Commission Services aims at providing answers and clarifications regarding the Recovery and Resilience Facility, based on the Commission proposal and taking into account the conclusions of the European Council of 17/21 July 2020. These answers are therefore preliminary and will need to be amended to reflect the final agreed text.

ALLOCATION KEY

1. What is the role of the allocation key?

The allocation key will fix a maximum possible amount for the grant component of the RRF per country. This envelope will be accessible if a Member State presents a recovery and resilience plan that satisfactorily meets the assessment criteria.

The funding will be made available in accordance with the estimated costs for the proposed reforms and investments. The estimated cost should be in line with the expected impact of the reforms and investments, as foreseen in the Regulation (Article 16 (3) e).

2. What is the basis for the allocation key?

In line with the conclusions of the European Council, for 70 percent of the 312.5 bn euro available for grants (i.e.: 218.75 bn), the allocation key method will take into account the following: (i) population, (ii) the inverse of GDP per capita, and (iii) the average unemployment rate over the past 5 years (2015-2019) compared to the EU average.

Some variables included in the formula are subject to arithmetic adjustments to avoid excessive concentration. For instance, the inverse of the ratio of the GDP per capita of a country over the EU average is capped at 150% of the EU average; the deviation of individual country's unemployment rate from the EU average is capped at 75% for Member States with a GNI per capita above EU average, and at 150% for other Member States. The proposal includes in its Annex I a detailed overview of the formula.

For the remaining 30% of the envelope available for grants (i.e.: 93.75 bn), the formula will replace the 2015-2019 unemployment rate indicator by the observed loss in real GDP over 2020 (for 50%) and by the observed cumulative loss in real GDP over the

period 2020-2021 (for 50%). The data will be based on Eurostat figures published by 30 June 2022.

Member States can request a loan at the same time of the submission of a recovery and resilience plan or later until end of August 2023. There is no fixed allocation key. However, in order to avoid excessive concentration on a few Member States and ensure access to funding to all Member States that would request them, loans will be capped at 6.8% of the GNI of each Member State, as made clear in the European Council conclusions. It should be noted that the cap can be increased in exceptional circumstances (to be assessed on a case by case basis).

RECOVERY AND RESILIENCE PLANS

3. When can Member States submit their plan?

Member States can formally submit their plan for assessment from the moment the Facility is legally in force. It is expected that the legislation will enter into force on 1 January 2021.

The deadline for submission of the plans is 30 April 2021. However, Member States are encouraged to submit their draft plans from 15 October 2020.

Moreover, early interaction with the Commission services is strongly encouraged; discussion with the Commission can take place as early as now to prepare the draft plans.

From now on	15 October 2020	1 January 2021	30 April 2021
Interaction with Commission Services – under the coordination of SG Task Force and ECFIN	Member States can submit their draft plans	Expected entry into force of the Regulation – official submission of the plans can start	Deadline for the formal submission of the plans

4. How will the grants be allocated? What is needed to benefit from the remaining 30%?

To benefit from RRF funding, a Member State will need to present a national recovery and resilience plan covering the reform and investment agenda for the whole period of 2021-2023.

According to the European Council conclusions, the maximum financial contribution will be composed of two allocations: 70% using the allocation key annexed to the Regulation, and 30% based on the formula explained in question 2.

No amount can be committed after 2023 neither for grants nor loans. In addition, related payments will have to be made by 31 December 2026 at the latest.

5. Can Member States amend their plan later on?

Each plan is expected to set out the reform and investment agenda of the Member State concerned for the period 2021-2023. The plan could be updated in 2022 as necessary to take into account the final envelope available for each Member State as calculated in June 2022.

If the plan and its milestones and targets are no longer achievable, either partially or totally, due to objective circumstances, a Member State can propose a modified plan, which will have to be assessed by the Commission and approved by the Council.

Also, in case a Member State were to request RRF loan support after the approval of its recovery and resilience plan, the plan should be revised in order to include the additional milestones and targets related to the additional reform/investment underpinning the loan support.

6. Must recovery plans comprise both reforms and investments?

The aims of the Facility is to provide financial support to both investments and reforms. Member States are expected to combine reforms and investments per policy area as this would lead to a mutually reinforcing impact.

As an example, in the area of energy efficiency, reforms could include reviewing building renovation rules, procurement regulation or improving skills of workers while investments could consist in public buildings renovations (including social housing) or fiscal incentives for residential buildings renovations.

7. Can Member States include reforms and investments that have already taken place in their plans?

In line with the conclusions of the European Council of 17-21 July, relevant actions started from 1 February 2020 onwards should be eligible for financing under the RRF provided they pursue the objectives of the Facility. This means that these actions should comprise reforms and investments that meet the criteria specified in the legislation and are compatible with the approved national plans. For example, should the plan integrate a labour market reform, some early steps in the preparation of the reform or measures accompanying it could be eligible.

8. Many reforms do not actually cost any money, e.g. a pension reform or a reform of the labour market. How do these fit?

In many cases, reforms are crucial for the achievement of the goals of the RRF and would be needed to address country specific recommendations. These reforms, such as reforms of the pension system or of the labour market, are often accompanied by investments in, for example, active labour market policies, and policies for skilling, upskilling and reskilling, which require funding. The costs for such investments should be indicated as part of the set of reform/investments aimed at addressing the identified challenge. One of the assessment criteria will be whether the estimated costs of the RRP are commensurate to the impact of the reform and investment.

9. What is the time horizon for eligible projects?

All payments need to have been made by the end of December 2026.

10. Which country-specific recommendations should Member States look at when drawing up their plan?

The Regulation foresees that the recovery and resilience plan submitted by a Member State must contribute to effectively address challenges identified in the *relevant* country-specific recommendations addressed to it. 2020 CSRs are relevant, as well as CSRs from previous years, to the extent that they have not been addressed and that they contribute to the achievements of the general and specific objectives set out in the Regulation. 2020 CSRs explicitly indicated in a recital that "*the 2019 country-specific recommendations adopted by the Council on 9 July 2019 also covered reforms that are essential to address medium- to long-term structural challenges. Those recommendations remain pertinent and will continue to be monitored throughout next year's European Semester annual cycle"*. The 2020 CSRs focus prominently on crisis related issues (including on mitigating the socio-economic consequences) and address the twin transition.

11. On what elements will the Commission base its assessment of the recovery and resilience plans?

The Regulation and its annex provide extensive information on the assessment criteria (Article 16 (3)). The Commission will notably assess:

- whether the recovery and resilience plan is expected to contribute to *effectively* address challenges identified in the relevant country-specific recommendations addressed to the Member State concerned or in other relevant documents officially adopted by the Commission in the European Semester (Article 16(3)(a) and Annex 2.1);
- whether the plan contains measures that *effectively* contribute to the green and digital transition or to addressing the challenges resulting from it (Article 16(3)(b) and Annex 2.2);
- whether the plan is expected to have a lasting impact on the Member State concerned (Article 16(3)(c) and Annex 2.3);
- whether the plan contributes to strengthening the growth potential, job creation and economic and social resilience of the Member State, mitigate the economic and social impact of the crisis, and contribute to enhance economic, social and territorial cohesion (Article 16(3)(d) and Annex 2.4).

Following the European Council conclusions, "The criteria of consistency with the country-specific recommendations, as well as strengthening the growth potential, job creation and economic and social resilience of the Member State shall need the highest score of the assessment. Effective contribution to the green and digital transition shall also be a prerequisite for a positive assessment."

As specified in Article 16(3) and in the Annex II, the Commission will also assess other elements of the plans, in particular the justification of the cost estimates, the coherence of the reforms and investments, and implementation aspects of the plan.

In line with the conclusions of the European Council, the Commission's assessment of the recovery and resilience plans will be approved by the Council by means of an implementing act, on a proposal from the Commission.

In line with Article 22 of the propose Regulation, the Commission and the Member States concerned shall, in a measure commensurate to their respective responsibilities, foster synergies and ensure effective coordination between the instruments established

by this Regulation and other Union programmes and instruments, and in particular with measures financed by the Union funds.

COSTING

12. What is understood by 'investment' under the RRF?

Investment in the context of the RRF is an expenditure on an activity, project, or other action, that is expected to bring beneficial results to society, within the scope of the RRF. The RRF Regulation aims at promoting measures that, if taken now, would have a lasting impact on the economy and society (resilience), in all its facets including sustainability (greening) long-term competitiveness (digital transition), and employment, (Article 4 and Article 16(3)(c) of the proposed RRF Regulation). The proposed Regulation is therefore consistent with a broad concept of investment as capital formation in areas such as fixed capital, human capital, and natural capital. This would also cover for instance intangible assets such as data, intellectual property and skills. Fixed capital is broadly equivalent to the concept of 'gross fixed capital formation' used in national accounts (e.g. infrastructure, buildings, but also some intangibles like R&D, patents or software). Human capital is accumulated by means of spending on health, social protection, education, training and skilling, etc. Natural capital is enhanced by actions aiming at increasing the share of renewable natural resources, protecting or restoring the environment (e.g. emission reduction, land rehabilitation, reforestation), or by mitigating/adapting to climate change. Promoting social, economic and territorial cohesion, fostering employment creation and mitigating the social impacts of the crisis and promoting inclusive growth are explicitly in the scope and objectives of the Regulation (Articles 3 and 4 of the RRF proposal) and investments in fixed, human and natural capital that contribute to these objectives are encouraged.

13. Can only public investment be covered by the RRF or also private investment?

The aim of the Facility is to boost investment in line with the aims set out in the proposed Regulation. This can be through direct public investment but also by incentivising private investment through support schemes, including via financial instruments, subsidies or other instruments. For example and provided State aid rules are complied with (see Q&A 48) providing subsidies for the investment in renewable energy production capacity by a private company is a regular financing practice because it may not be cost-effective without public intervention.

The costs of investment should be of temporary nature while having a lasting impact. For instance, a one-off support scheme to provide support to unemployed laid-off during the crisis cannot be covered under the RRF (as other instruments cater for this).

14. What is understood by a 'reform' under the RRF?

A reform is an action or process of making changes and improvements with significant impact and long-lasting effects on the functioning of a market, structures of an institution, the administration or relevant policies, such as the twin transitions. The aim of a reform is to change parameters, address fundamental drivers, or remove obstacles or other hindrances to proper performance and to the fundamental drivers of fair and sustainable growth. Reforms should improve the framework conditions in areas such as for example quality of institutions, public sector or business environment. There are therefore important synergies between reforms and investments covered under the RRF. In some cases, reforms will be essential to ensure the efficient and effective implementation of investments by providing a supportive business and administrative environment and to support policies to prevent misuse of EU funding (i.e. anti-corruption, anti-fraud strategies as well as anti-money laundering).

The information provided on each reform in the plans needs to be sufficiently granular for the Commission to determine whether they address the overarching RRF objectives.

15. What is understood by 'cost' under the RRF?

The term 'cost' under the RRF is relevant in the context of the estimation of the total cost of the recovery and resilience plan as well as the cost of individual reform and investment measures, which is the parameter to determine the amount of the financial contribution that a Member State can receive under the RRF. It is therefore a cost 'estimated' ex ante and not a cost 'incurred'.

16. Does the RRF also cover reductions in revenue or only additional expenditure?

Tax measures and reforms can be important to remove obstacles to fundamental drivers of fair and sustainable growth (for example reforms to address a high tax wedge on labour, remove tax obstacles to private investment, or incentivise green consumption/investment) and can be a key part of the reform packages in the RRPs. Revenue-reducing measures should as a rule be financed through the national budget. Revenue-reducing measures could be considered in the costing of the RRP if they have positive structural benefits directly linked to a reform or are equivalent to a simple expenditure programme supporting a reform and if the negative effect on government

revenue is only temporary. For example, an allowance for accelerated depreciation on newly acquired 'green' capital stock (or relief in capital gains taxation on 'brown' capital stock) to speed up phasing out of the 'brown' capital stock in the context of a greening reform could be considered.

17. Can only non-recurrent costs be covered or also recurrent cost?

Only costs that are estimated to be incurred in the short-term, while having lasting benefits through for example increased physical or human capital will be considered (see above). As a rule, the RRF funds should finance costs that are non-recurrent in nature and fall within the time horizon of the plan. Since funds from the RRF are by nature a non-recurrent source of revenue, it would not be fiscally sustainable to use them for financing expenditure increases or revenue reductions that create permanent entitlements (e.g. wage or pension increases). Recurrent costs from investments and reforms should be considered in the costing of the RRP only if they have direct positive structural benefits and if the negative effect on the government balance is only temporary. This can for example be linked to piloting training costs of the civil servants to enhance the efficiency of the administration. Another example could be an innovation voucher scheme aimed at subsidising R&D activities and innovation, which could be financed temporary from the RRF and will later be financed by other revenue source or cut in expenditures or stopped.

18. Can a certain type of costs in principle be covered by the RRF?

It is generally not possible to give definite answers on whether a certain category of cost can be covered under the RRF without knowing the content of the plan. To assess whether a certain type of cost could be covered by the RRF, one needs to assess whether (i) the cost is related to a measure that is an integral part of a reform or investment, in the sense that without the measure the objectives of the reform/investment could not be achieved (Article 4 of the proposed RRF Regulation); and (ii) the cost is related to a reform and investment that meets the assessment criteria put forward in the Regulation (notably that reform/investment aims at addresses the challenges identified in a relevant CSR addressed to the Member State and/or significantly contribute to the green and digital transition).

19. Can costs for human resources in public administration be covered?

As a rule, compensation of public employees that work in general administration on the preparation or implementation of reforms/investment covered by the RRF should not be included as they are recurrent costs. Costs to improve the qualification of human resources in public administration (such as a requalification scheme) is a different

matter. If such costs can be viewed as part of an investment or a reform, they could be included if all other conditions are satisfied.

20. Can the costs for acquiring financial assets be covered?

As a general rule, acquisition of financial assets would not be considered eligible costs. However, there may be cases in which such an acquisition is an integral part of a reform/investment. In such cases, it may be possible to cover the costs for acquiring the financial asset. An example could be an equity stake in newly created 'credit registry' to reduce capital market failures due to information asymmetries and improve access to finance to small and medium size enterprises.

21. Can the costs for acquiring intangible assets be covered?

In principle yes, if the acquisition of the intangible asset is an integral part of a reform/investment. For instance, digitalisation of the public administration (e-government) may require the acquisition of the license to use a software.

22. Can costs for loans and calls on guarantees be covered?

Member States may provide guarantees to national promotional banks in view of large infrastructure projects or schemes that support investment in a specific sector. In such a case, if guarantees were to be called, the related cost could be covered by RRF funding.

Before assessing the use of the Recovery and Resilience Facility for guarantees and to make sure that there is consistency between the programmes, Member States should verify if other instruments are available to contribute to the related costs, for example InvestEU.

23. **Can the costs for compensating those negatively affected by reform/investment be covered by the RRF?**

Compensation costs occur if a reform or investment has direct negative effects on some groups and these are compensated for these direct negative effects. For example, funds for re-skilling of negatively affected workers or rehabilitation of the environment. Another example could be building railways or wind engines that requires compensating habitants who live nearby and are directly affected.

Compensation costs of those negatively affected by a reform/investment could in specific cases be included provided they satisfy the conditions set out above (notably, the need to be an integral part of a reform/investment), and that the compensation does not exceed what is necessary to address the direct negative effects.

24. Can costs for technical support/assistance be covered by the RRF?

No, there are other instruments that could cover such costs. Member States should explore whether other Union schemes might offer suitable support. For example the Technical Support Instrument (Article 15(4) of the proposed RRF Regulation explicitly notes this possibility) or the Hub of InvestEU may provide additional possibilities.

25. Are direct subsidies covered by the RRF?

Inclusion of costs due to direct subsidies can be considered as long as they are an integral part of a reform or an investment effort and as such be in line with the objectives of the Facility (promoting sustainable growth, resilience, cohesion, twin transition). Reforms and investments should produce long lasting impact, hence pure financing or liquidity support will not satisfy these conditions, for example for consumption purposes.
Member States should clearly outline the cost linked to the subsidies as part of their reforms and investments. For example, a temporary subsidy to e.g. develop renewable energy could be covered as it is linked to the twin transition and will generate lasting impact.
In any case, state aid rules need to be fully respected (see also specific question on state aid).

26. Second-round effects (due to impacts on GDP, employment etc.)

Expenditure or revenue impacts that arise indirectly due to the effects a measure has on the economy (e.g. reduction in unemployment and therefore reduced expenditure on unemployment benefits) should not be taken into account in the cost to be covered.

MILESTONES AND TARGETS

27. What are a 'target' and a 'milestone'?

For the purpose of the RRF, milestones and targets are measures of progress towards the achievement of a reform or an investment, specifying a stage to be reached by a certain date. The following distinction should be made:

- A target can be associated to quantitative results (number of beneficiaries, number of unemployed having been trained etc.).
  Example: a reform aiming to improve the accessibility of health care through improving the access to primary care and defining clear integrated care pathways. This can be associated to targets such as activating X new primary care practices across X municipalities and surrounding areas.

- A milestone can be associated to qualitative achievements (adopted legislation, etc.), and details desirable content and characteristics.
  Example: the milestone of adopting a new legislation for the removal of barriers to entry to regulated professions.

28. How will disbursement be linked to milestones and targets?

Upon completion of the relevant agreed milestones and targets indicated in the recovery and resilience plan, the Member State concerned shall submit to the Commission a duly justified request for payment of the financial contribution and, where relevant, of the loan tranche. Such requests for payment may be submitted by the Member States to the Commission on a biannual basis.
The positive assessment of payment requests will be subject to the satisfactory fulfilment of the relevant milestones and targets. The Commission will ask the opinion of the Economic and Financial Committee on the satisfactory fulfilment of the relevant milestones and targets. The Economic and Financial Committee shall strive to reach a consensus.In exceptionally, one or more Member States consider that there are serious deviations from the satisfactory fulfilment of the relevant milestones and targets, they may request the President of the European Council to refer the matter to the next European Council.

The Commission will adopt a decision on the assessment of the satisfactory fulfilment of the relevant milestones and targets and on the approval of payments in accordance with the examination procedure of the comitology regulation.

29. How many milestones and targets should a Recovery and Resilience Plan include?

This will depend on the number of reforms and investments it encompasses. Milestones and targets should be defined with a high level of granularity to ensure that progress can be tracked effectively. Milestones and targets will be discussed bilaterally with the Member States on a case-by-case basis and integrated in the implementing act.

30. What are the criteria for good milestone and targets?

According to Annex II of the proposed RRF Regulation, milestones and targets should be clear and realistic, and the proposed indicators relevant, and robust. They should be well defined, verifiable, and directly influenced by public policies.

Good targets are focused on relevant and robust indicators that provide evidence of continued progress towards the objectives. Targets can be fixed (X number of unemployed trained) or can set a reasonable range (between X and Y unemployed trained) to achieve depending on what we are trying to measure and on how precise the estimate can be.

Good milestones are factual (avoid using adjectives or referring to intentions) and, when referring to future documents (legislation, risk analysis, etc.), detail their content. The milestone to be achieved should be precise and the measure objective and related to key steps in the process (e.g. "legislative proposal published" or "law approved by parliament", "impact assessment, or cost-benefit analysis of the investment finalised"; "tender specifications ready and tender launched", not "legislative proposal well developed" or "parliament has discussed the law").

Milestones and targets will be chosen to reflect the achievement of meaningful steps or progress towards reaching the objectives of the plan, including initial steps, intermediate outcome, final outcome.

Overall, good milestones and targets should relate to each of the plan's reforms and investments and a minimum number of milestones and targets should cover each reform and investment of the plan to allow for monitoring and assessing implementation.

FINANCIAL CONSIDERATIONS

31. When could the disbursement start? Will there be advance payments?

Member States will be able to officially submit their plans after the Regulation enters into force. The expectation is that the legislation is in force and applicable as from 1 January 2021. In line with the conclusions of the European Council, a pre-financing of 10% of the financial contribution to each Member State should be paid. This payment could be made upon the approval of the plan and adoption of the legal commitment by the Commission.

32. For budgetary planning purposes, how can Member States design a timeline of payments to be received?

The schedule of payments will be specified in the implementing act to be adopted after discussion with the Member State. Instalments depend on the achievement of specific,

measurable, achievable and time-bound milestones and targets. This will allow for budgetary planning.

33. Will there be partial disbursements?

Article 19(4) of the proposed Regulation stipulates that the Commission will suspend *all or part* of the financial contribution if milestones and targets have not satisfactorily been implemented.

34. What happens in case of policy reversals?

A policy reversal within the implementation period of the RRF may give rise to stopping further disbursements.

35. Would certification of expenditures be required under the Facility? What would happen if the actual costs incurred are different from the total estimated costs initially projected? Does the Commission envisage any type of ex-post adjustment to the amounts to be disbursed?

The RRF is based on a system of payments linked to results and not on a system of reimbursement of costs incurred that is typically used in the Structural Funds. Disbursements will be made based on the achievement of agreed milestones and targets. Therefore, there is no requirement for a process of certification of the expenditure incurred as in the structural funds.

Member States will need to submit a realistic cost estimate of the investments and reforms, in order to be eligible for funding (possibly accompanied by a report/opinion of an independent body assuring the plausibility of these cost estimates). These cost estimates will be subject to a plausibility check by the Commission.

36. Will the use of the provided funds entail an ex-post control by the Court of Auditors and the European Parliament (as with cohesion funds)?

The use of the funds will be subject to annual reporting from the Commission to the European Parliament and the Council as foreseen by the regulation. The Court of Auditors will have the possibility to carry out audits on the use of the amounts.

LOANS

37. What is the value added of a loan in addition to a grant?

Loans will upon request of the Member State complement the grants and provide additional financing for additional reforms and investments beyond those financed from grants. The loans will benefit from long maturities and favourable interest rates as enjoyed by the Union.

38. Does the Commission intend to introduce subsidies to cover the interest on loans?

In accordance with the Financial Regulation, costs related to the borrowing of funds for the loans provided through the RRF are to be covered by the Member State receiving the loan. The Commission borrows at the best rates available and passes those rates on to the Member State.

39. Regarding the pricing formula (cf. Article 13(2)(c) of the proposed RRF Regulation) will the Commission charge a fixed or variable interest rate to the Member State? Is there any floor for the interest rates of the loan component?

The Commission will pass on the funding costs it incurs with the relevant borrowing operations for a disbursement under a loan agreement. There is no floor to the interest rates under the loan agreement. However, bond coupons are by convention subject to a zero floor so that negative rates are not reflected in negative coupons, but in a market price above par at issuance. This additional proceed from the issuance would be passed on to the beneficiary Member State.

GREEN AND DIGITAL ASPECTS

40. What are the green conditions attached to the support from the Facility

The recovery and resilience plans have to fulfil several criteria, including to contribute significantly to the green and digital transitions and respect the environmental "do no harm principle" in order to ensure that Member States economies emerge more resilient from this crisis and sustainable.

Climate and environmental goals will be taken into account from several perspectives when assessing national plans, including the just and fair dimension of such transitions. These are set out in the assessment criteria and methodology that accompanies the Commission proposal for the RRF Regulation:

- First, the Commission will look at how the RRP is compatible with the challenges identified in the country-specific recommendations or in other relevant documents officially adopted by the Commission in the European Semester, which already factor in green and digital concerns.
- Second, the Commission will look specifically at whether the plan contains measures that effectively contribute to the green and the digital transitions or to addressing the challenges resulting from them.

The European Council has agreed to set a climate target of 30% for the overall MFF and Next Generation EU. This will require setting appropriate targets in relevant sectoral instruments, including for the Recovery and Resilience Facility. Work is ongoing to quantify the appropriate target for the RRF, which is likely to be above 35%.

41. How will the green and digital content of the RRPs be assessed?

In accordance with Article 16(3)(b) of the proposed RRF Regulation, the Commission will assess the contribution of the recovery and resilience plans to the green and digital transitions. For that purpose, it will assess whether the plan contains measures that effectively contribute to these transitions or to addressing the challenges resulting from them. Annex II (section 2.2) to the proposed Regulation specifies that the Commission assesses these contributions taking into account the following elements:

- the implementation of the envisaged measures is expected to significantly contribute to establish climate- and environmental-friendly systems and to the greening of economic or social sectors with a view to contribute to the overall objective of a climate-neutral Europe by 2050; or
- the implementation of the envisaged measures is expected to significantly contribute to the digital transformation of economic or social sectors; or

- the implementation of the envisaged measures is expected to significantly contribute to address the challenges resulting from the green and/or digital transitions; and
- the implementation of the envisaged measures is expected to have a lasting impact.

Furthermore, in order to reflect the conclusions of the European Council, the Regulation will need to be modified to ensure that at least a certain share of the estimated costs are related to the climate objectives.

In order to carry out this assessment, the Commission will analyse in particular, for the green transition, to what extent the proposed measures contribute to the national objectives, targets and contributions of the green objectives entailed in the national energy and climate plans, the Just Transition Plans, and the EU environmental objectives of the European Green Deal.

Member States should explain, in particular, to what extent the plan will contribute to achieving climate neutrality. The EU climate law proposed by the Commission in March 2020 sets out strategic climate objectives and targets with a 2050 timeframe. Member States should specify the impact of the measures on the reduction of greenhouse gas emissions, share of renewable energy, the energy efficiency and the electricity interconnection. When explaining to what extent the proposed measures contribute to the green transition, Member States are invited to take as a reference, wherever possible, the provisions defining sustainable economic activities in the Taxonomy Regulation.

For the digital transition, particular attention will be paid to the contribution of the measures proposed to the digital transformation of the economic or social sectors (including public services). When explaining to what extent the proposed measures contribute to the digital transition, Member States are invited to take as a reference, wherever possible, the Digital Economy and Society Index (DESI) (https://ec.europa.eu/digital-single-market/en/countries-performance-digitisation). The following question lists the various categories that could be included in the plan regarding digitalisation.

The response to the challenges resulting from the green and/or digital transitions will be analysed in particular with regard to the contribution of the proposed measures to

existing European strategies and national efforts to facilitate fair green or digital transitions.

The Commission will further analyse whether the implementation of the proposed measures would have a lasting effect, including by establishing legal and institutional frameworks that contribute to lasting structural changes towards a climate and environment-friendly economy or society or the digital transition.

42. How will the digital transformation be introduced in the national plans?

Member States can for instance use the following categories to check the objectives of their investments:

1) connectivity: notably 5G coverage including large-scale deployment of 5G corridors along transport pathways, ubiquitous access to ultrafast connectivity in urban and rural areas and affordable to all households and businesses, and connecting all socio-economic drivers to gigabit networks.

2) digital-related investment in R&D: publicly funded ICT R&D in all sectors and the rate of progression.

3) human capital: developing digital capacity for resilient and efficient education and training systems; enhancing digital competences for the digital transformation and building a trusted European digital education ecosystem of content, tools, services and platforms.

4) e-government: modernizing public administration using key digital enablers, mobility of citizens and businesses through cross-border interoperability, accelerating administrative processes and facilitating digital interaction between administrations and citizens and businesses.

5) digitalisation of businesses: policy objectives defined in the New Industrial Strategy for Europe, the SMEs Strategy for a sustainable and digital Europe, in particular via Digital Innovation Hubs.

6) Investment in digital capacities and deployment of advanced technologies: such as data spaces, supercomputers, cybersecurity, artificial intelligence, quantum computing infrastructures.

43. How to determine the share of the cost of RRPs dedicated to the green and digital transitions?

Member States will be invited to tag the green and digital content of the proposed measures in line with the methodology for climate and environmental tracking already applied in the context of the cohesion policy funds, as set out in Annex 1 of the Common Provisions Regulation. Member States will have to specify whether the reform or investment fully contributes (100%), partially contributes (40%) or has no impact (0%) on each of the objectives. Combining these tags with the cost estimates of individual reforms and investments will allow estimating the extent of financing of the national RRPs as a whole contributing to the green and digital transitions. A minimum of share (to be determined) of the estimated costs of the plan should be dedicated to the green transition.

For climate and environmental objectives, Member States will also be invited to document that the measures respect the "do no harm" principle for other climate and environmental objectives. Where relevant, the EU taxonomy can inform the assessment of the climate and environmental friendliness of covered activities as well as the operationalisation of the "do no harm" principle.

This approach focuses on the costs associated with reforms and investments. However, the impact on achieving the green and digital objectives may be only loosely correlated with costs. In particular, some reforms can have limited costs but generate high impact and outcomes. Therefore, Member States will be invited to provide, to the extent possible, estimates of expected outputs and results indicators or results of an assessment of the direct and indirect impact of the proposed reform or investment.

It should be noted that the use of percentages (or tagging) does not suggest that a low score would imply a low priority of a reform or investment, since it is understood that not all investments and reforms under the RRF necessarily would have to contribute to the green and digital transitions.

44. How to ensure that the tagging is consistent across measures?

Member States will be invited to properly explain and carefully justify the tagging of individual reforms and investments, i.e. how the expected percentages of contribution to a specific objective would materialise. Where available, existing guidance should in principle be followed, in particular the methodology set out for the cohesion policy funds in Annex 1 of the Common Provisions Regulation and the EU taxonomy.

If what is provided in the RRP is not sufficient to reach the climate target in a credible manner, the Commission will require further information.

45. How to ensure the respect of the 'do no harm' principle?

Member States are invited, where relevant, to assess this principle by taking as reference Article 17 of Regulation 2020/852 (EU Taxonomy). This would for example exclude investments in fossil fuels or reforms that increase incentives to pollute (for example in the taxation area).

RELATION TO OTHER FUNDING INSTRUMENTS AND PROCEDURES

46. Funding from other EU funds

Reform and investment projects may receive support from other Union programmes and instruments provided that such support does not cover the same cost (Article 8 of the proposed RRF Regulation). Member States are required to provide information in their plans on existing or planned use of other Union funding for the measures envisaged under the plans. These funds would not have to be included in the cost estimates of the plan.

At the same time, this would facilitate synergies and complementarities between different forms of Union financing for the measures of the plan. In this context, this may include investments that complement and increase the scale of EU funds and programmes, and/or have a multi-country perspective.

Under Article 22 of the proposed RRF Regulation, the Commission and the Member State concerned must, in a manner commensurate to their respective responsibilities, foster synergies and ensure effective coordination, coherence and consistency between the RRF and the other Union programmes and instruments, both in the planning and in the execution phase. This duty concerns the EU, the national and the regional levels, as appropriate. The Commission and the Member States shall also optimise mechanisms for coordination to avoid duplication of effort, and ensure close cooperation between the actors responsible for the implementation, at the EU, national and regional level as appropriate.

47. How does the Facility relate to other support initiatives such as REACT-EU, cohesion policy programmes and SURE?

The Facility and other EU funds/instruments are fully complementary.

The Recovery and Resilience Facility will support medium- and longer-term reforms and investments, notably in green and digital technologies, with a sustainable and lasting

impact on the productivity and economic and social resilience of the economy of the Member State and the Union.

Resources under the RRF can complement cohesion policy resources, which should address long-term interventions valid for the full next financing period 2021-2027. The use of various available EU funds by the Member States will need to take into account the specific situation of the Member State, including regional and local specificities and the balance between RRF and national cohesion policy allocations.

REACT-EU will target crisis repair actions in the shorter-term related to labour markets, healthcare and SMEs (liquidity and solvency support), and essential investments for the green and digital transitions. It will provide immediate and direct support to Member States' economies.

The Facility is also complementary to the range of measures already developed in response to the current coronavirus pandemic such as the amendment to the cohesion policy regulation, the Coronavirus Response Investment Initiatives and SURE, but also actions taken by other institutions such as the EIB's Guarantee Fund for Workers and Businesses and the ESM's Pandemic Crisis Support.

48. Do state aid rules apply under the RRF?

Yes, State aid rules fully apply. In preparing and implementing their Recovery and Resilience Plans and proposing reforms and investments Member States have to duly consider Article 107 TFEU and the State aid framework and its restrictions. EU funds channelled through the authorities of Member States become State resources and can constitute State aid if all the other criteria of Article 107 are satisfied.

As a general rule, State aid must be notified to and cleared by the Commission before it is granted. The General Block Exemption Regulation (Regulation (EU) No 651/2014) exempts Member States from this notification obligation, as long as all the criteria of the General Block Exemption Regulation are fulfilled. When Union funding is combined with State aid, only the latter will be considered for determining whether notification thresholds and maximum aid intensities are respected or, in the context of this framework, subject to a compatibility assessment (article 8 of the General Block Exemption Regulation).

For support that does not meet these criteria, Member States need to notify their schemes to the Commission (DG Competition) who will assess if they fulfil the

conditions of Art.107 TFEU and, if this is the case, declares them compatible with the internal market.

49. Does macroeconomic conditionality apply? Will a country be barred from the Facility if it does not comply with the SGP or the MIP?

The same rules will apply to this Facility as to other EU funds. In practice, this means that the Council can suspend (on a proposal from the Commission) payments under the Recovery and Resilience Facility in particular in two cases:

- where a Member State is in excessive deficit and fails to take effective action to correct it;
- where a Member State is in a macroeconomic imbalance procedure and fails twice to take the recommended actions.

A suspension of payments will only take place in cases of significant non-compliance.