

# Review 01

EN

## EU financing through cohesion policy and the Recovery and Resilience Facility: A comparative analysis



EUROPEAN  
COURT  
OF AUDITORS

2023

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**ECA team**

## Executive summary

I This review provides a comparative analysis of the 2021-2027 cohesion policy funds and the Recovery and Resilience Facility (RRF), with a view to contributing to post-2027 Multiannual Financial Frameworks. We have examined the similarities and differences between the two instruments, focusing on their overall framework, governance and management arrangements.

II In July 2020, the European Council agreed on the NextGenerationEU (NGEU) instrument, a temporary instrument intended to mitigate the impact of the COVID-19 pandemic on citizens and businesses and enhance the resilience of the EU and its Member States against future shocks. The RRF, a mechanism under which Member States can apply for grants and loans, accounts for the bulk of NGEU spending. Member States are expected to use the RRF to finance reforms linked more directly to country-specific recommendations issued within the framework of the European Semester, but also investments, like cohesion policy. This may lead to overall EU funding increasing from around 1 % up to 3 % of the EU GDP in the years to come.

III Financial support under the RRF is provided through grants, like the bulk of cohesion policy programmes, and additionally through loans that have to be repaid by the Member States. Cohesion policy funding is allocated to Member States using a method which takes account of regional disparities. These disparities are not, however, taken into account in the distribution of RRF financial support.

IV The RRF runs concurrently with EU cohesion policy funding mechanisms. This allows Member States to choose to finance investments using either the RRF or the cohesion policy funds. The RRF is implemented under direct management, while cohesion policy funds are implemented under shared management. This means that EU and Member State authorities have different responsibilities in connection with each source of funding. Regardless of the management mode, the Commission is ultimately responsible for implementing the EU budget. The multi-level governance structure and the partnership principle applicable to cohesion policy funds do not apply to the RRF. The involvement of local and regional authorities, economic and social partners and civil society organisations is not required to the same extent as for the cohesion policy funds.

**V** The number and rationale of the programming documents for the two instruments differ considerably, as do the approval and assessment procedures. Coordinating the parallel implementation is part of the programming exercise of both instruments and Member States are required to ensure that the two instruments complement rather than duplicate each other. During the 2014-2020 period, the European Regional Development Fund and the Cohesion Fund provided an equivalent of around 10 % of total public investment across the EU-27. In the current period, the RRF will further increase the share of EU-financed public investments in Member States. Where this share is already high, the additional RRF funding may further add to the pressure on Member States' ability to spend the funds available to them.

**VI** Member States must provide cost estimates for the measures included in their Recovery and Resilience Plans (RRPs) to the Commission. The Commission verifies the reasonability and plausibility of these estimates in its assessment of the plans, but the RRF payments are not linked to these costs. This has a significant impact on the manner in which interventions are programmed and planned in the Member States, progress is monitored and reported to the Commission, and disbursements are made for the satisfactory fulfilment of milestones and targets. Nevertheless, the extent to which RRF financing as such is more performance-based than cohesion policy funds remains to be seen. The RRF funds are also disbursed under more flexible payment conditions than the vast majority of expenditure under cohesion policy funds.

**VII** The two instruments also have different provisions governing monitoring, reporting and evaluation. The RRF monitoring is based on the achievement of milestones and targets, whereas for cohesion policy, the performance information is not taken into account in financial reporting. For both instruments, most indicators used for monitoring purposes are specific to each programme and each national RRP rather than common indicators applicable across the board. Such indicators cannot, however, be aggregated to measure performance at EU level or to make comparisons between and across different cohesion policy programmes and the RRFs. Evaluations scheduled for both instruments in 2024 need to be closely coordinated, also with the mid-term review of cohesion policy in 2025, for the preparation of the post-2027 cohesion policy framework.

**VIII** At EU level, the control and audit arrangements for the RRF focus on the satisfactory fulfilment of milestones and targets. For cohesion policy funds, control and audit arrangements at both Commission and Member State level mainly focus on the regularity of incurred expenditure, when expenditure is reimbursed based on real costs. For the RRF, the Commission must ensure that the financial interests of the EU are effectively protected; to do so, the Commission should receive sufficient assurance from Member States that the RRF is implemented in compliance with the EU and national law. In addition, Member States must collect data on final recipients of funds and a list of funded measures for the purpose of audit and control.

**IX** This comparative analysis is a review, not an audit. In the coming years, the simultaneous deployment of the cohesion policy programmes and the RRF will show how differences in the regulatory framework affect implementation and results.



# Introduction

**01** The Multiannual Financial Framework (MFF) for the 2021-2027 period<sup>1</sup> will provide €1 211 billion in funding<sup>2</sup>. Cohesion policy funding, distributed under the European Regional Development Fund (ERDF), the Cohesion Fund (CF)<sup>3</sup> and European Social Fund Plus (ESF+)<sup>4</sup>, will account for €361 billion of this amount and is distributed mostly through grants to Member States (see [Box 1](#)).

## Box 1

### Cohesion policy: the EU's main long-term investment policy

Cohesion policy is the main long-term investment policy in the EU budget. Originally known as “regional policy”, it was introduced by the Treaty of Rome. In 1988, the structural funds were integrated in one overarching EU cohesion policy, whose objective was to “strengthen economic and social cohesion by reducing disparities in the level of development between regions”<sup>5</sup>.

**02** In early 2020, the COVID-19 pandemic spread from China to Europe triggering an economic downturn that was significantly greater than the one caused by the financial crisis of 2008. At the end of 2021, the Commission expected a return to pre-pandemic levels of economic growth by early 2023<sup>6</sup>. However, the Russian invasion of Ukraine and subsequent rise in energy costs again dampened economic forecasts and further delayed economic recovery<sup>7</sup> (see [Figure 1](#)).

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<sup>1</sup> Council Regulation (EU, Euratom) 2020/2093 laying down the multiannual financial framework for the years 2021 to 2027.

<sup>2</sup> The EU's 2021-2027 long-term budget and NGEU, Facts and figures, 2021, p. 6.

<sup>3</sup> Regulation (EU) 2021/1058 on the European Regional Development Fund and on the Cohesion Fund (the “ERDF/CF Regulation”).

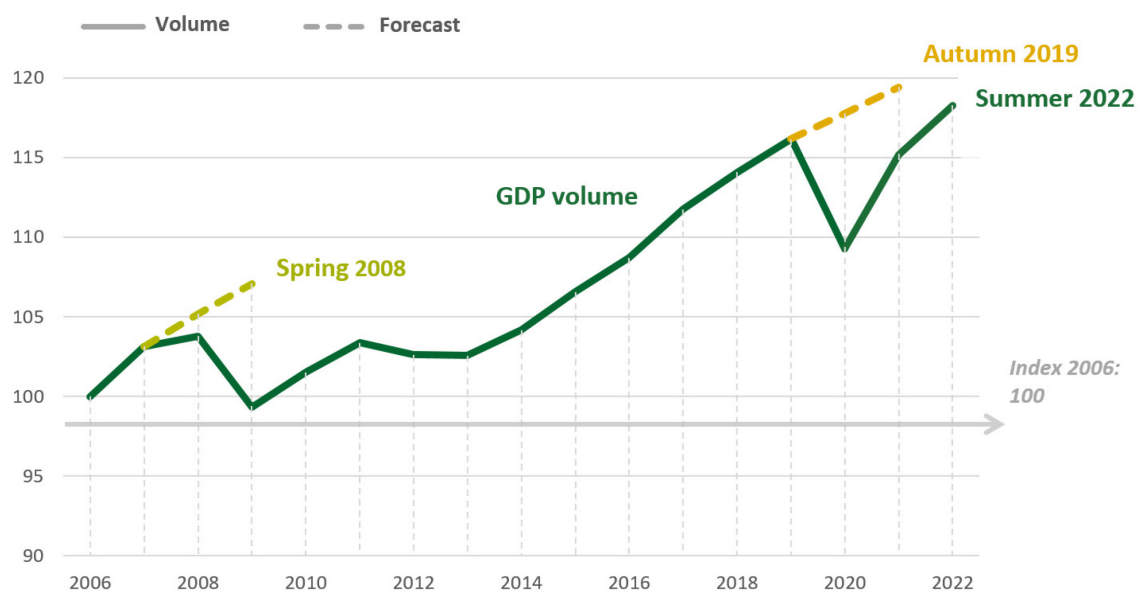
<sup>4</sup> Regulation (EU) 2021/1057 establishing the European Social Fund Plus and repealing Regulation (EU) No 1296/2013 (the “ESF+ Regulation”).

<sup>5</sup> Article 174 of the Treaty on the Functioning of the European Union (TFEU).

<sup>6</sup> European Economic Forecast, Autumn 2021, paper 160, 2021, p. 24.

<sup>7</sup> European Economic Forecast, Summer 2022, paper 183, 2022, p. 18.

**Figure 1 – EU-27 GDP volume index, 2006 – summer 2022 (in percent)**



Source: ECA, based on Commission data.

**03** To mitigate the impact of the pandemic on citizens and businesses, boost the recovery and foster the resilience of the EU and its Member States, the Council adopted a temporary instrument, NextGenerationEU (NGEU)<sup>8</sup>. From 2021 to 2026, NGEU will make €807 billion available to the Member States<sup>9</sup>. Around 90 % of NGEU funding (€724 billion) will be channelled through the Recovery and Resilience Facility (RRF)<sup>10</sup>. The RRF will provide both grants (€338 billion) and loans (€386 billion) that the Member State may request<sup>11</sup>. Of the remaining €83 billion of NGEU funds €51 billion topped up the 2014-2020 cohesion policy programmes through REACT-EU<sup>12</sup> (see **Box 2**).

<sup>8</sup> Article 1 of [Council Regulation \(EU\) 2020/2094](#) establishing a European Union Recovery Instrument to support the recovery in the aftermath of the COVID-19 crisis (the “NGEU Regulation”).

<sup>9</sup> All amounts in the report are in current prices.

<sup>10</sup> [Regulation \(EU\) 2021/241](#) establishing the Recovery and Resilience Facility (the “RRF Regulation”).

<sup>11</sup> Article 15(2) of the [RRF Regulation](#).

<sup>12</sup> [Regulation \(EU\) 2020/2221](#) amending Regulation (EU) No 1303/2013 as regards additional resources and implementing arrangements to provide assistance for fostering crisis repair in the context of the COVID-19 pandemic and its social consequences and for preparing a green, digital and resilient recovery of the economy (the “REACT-EU” Regulation).

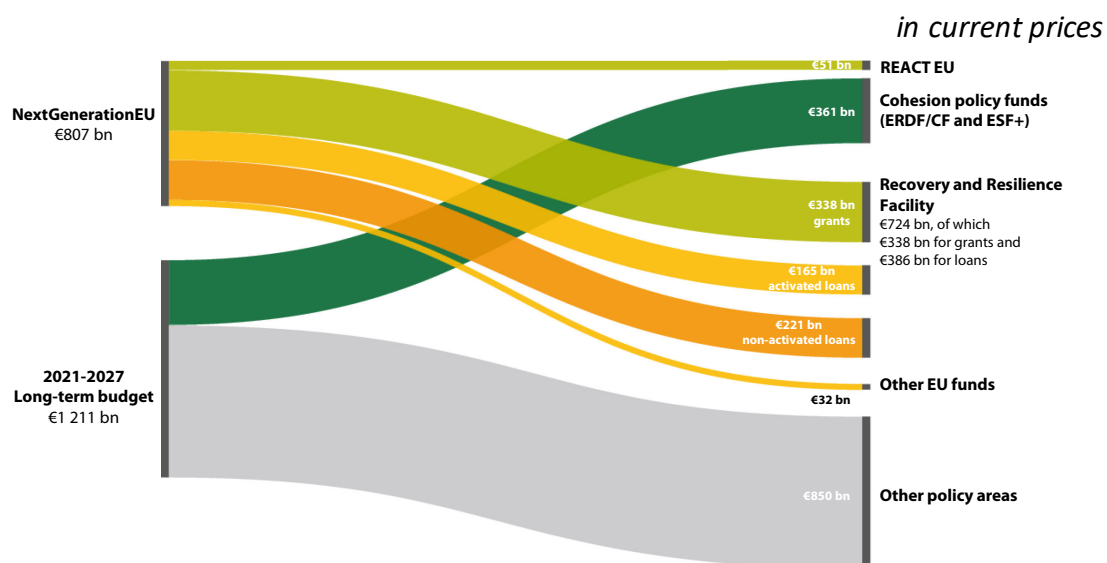
## Box 2

### RRF: a one-off temporary instrument for economic recovery

The RRF is a one-off temporary instrument set up under the economic, social and territorial cohesion title of the Treaty on the Functioning of the European Union (TFEU)<sup>13</sup>. The RRF is intended to contribute to recovery from the economic crisis caused by the COVID-19 pandemic by encouraging sustainable growth and building resilience against future shocks.

**04** *Figure 2* presents the overall EU financial support available through the NGEU and the MFF in the coming years.

**Figure 2 – EU financial support available through the NGEU and MFF**



Source: ECA, based on Commission data published in April 2021.

<sup>13</sup> Recital 2 of the RRF Regulation. Article 175 TFEU.

**05** There is a single project pipeline for planned investments to be financed from the EU budget. As both the RRF and cohesion policy funds are being implemented in parallel, the legislation underlying both instruments requires investments to be planned and implemented in such a way that the two instruments complement rather than duplicate each other. In particular, the legislation requires programming documents to specify how such complementarity is envisaged<sup>14</sup>. At the same time, any double funding is prohibited<sup>15</sup>.

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<sup>14</sup> Article 28 of the [RRF Regulation](#). Articles 11 and 22(3)(a) of [Regulation \(EU\) 2021/1060](#) laying down common provisions (Common Provisions Regulation, the “CPR”).

<sup>15</sup> Recital 62 of the [RRF Regulation](#).

## Scope and approach

**06** This review provides a comparative analysis of the 2021-2027 cohesion policy funds and the RRF, with a view to contributing to post-2027 MFFs. We looked at this topic because of the importance of the two instruments for the economic recovery in the EU Member States following the COVID-19 pandemic as well as the interest in the RRF's delivery mechanism. We have examined the similarities and differences between the two instruments, focusing on their overall framework, governance and management arrangements, as well as their interlinkages and the risks and challenges arising from the parallel implementation in the coming years.

**07** We compared the legislation underlying the RRF with that underlying the cohesion policy funds (ERDF, the CF, ESF+, excluding REACT-EU, the Just Transition Fund and the Connecting Europe Facility) for the 2021-2027 period. We also analysed RRF-related guidance issued by the Commission and conducted interviews with staff members from Directorate-General for Regional and Urban Policy (DG REGIO), Directorate-General for Employment, Social Affairs and Inclusion (DG EMPL) and Directorate-General for Economic and Financial Affairs (DG ECFIN), as well as the Secretariat-General's RECOVER task force.

**08** At Member State level, we conducted interviews with the national RRF coordinating authorities and other bodies involved in drawing up and implementing the national recovery and resilience plans (RRPs) under the RRF and partnership agreements for the 2021-2027 period. We selected Germany, Spain, France, Italy, Romania and Slovenia for our review, to include both federally and centrally organised Member States within the scope. Spain and Italy are also the two biggest recipient countries, in terms of combined funding for cohesion policy and the RRF. The RRFs of the Member States in our sample had been adopted by the end of September 2021, when we started our work.

**09** We also drew on more than 200 publicly available studies and publications by other EU institutions, research institutes, academics and think tanks, as well as numerous own reports (see [Annex I](#)).

**10** This is a review, not an audit. At the time of our work, the RRF was in its second year of implementation, whereas the implementation of the cohesion policy funds for the 2021-2027 period gradually started in March 2022.

# The overall framework

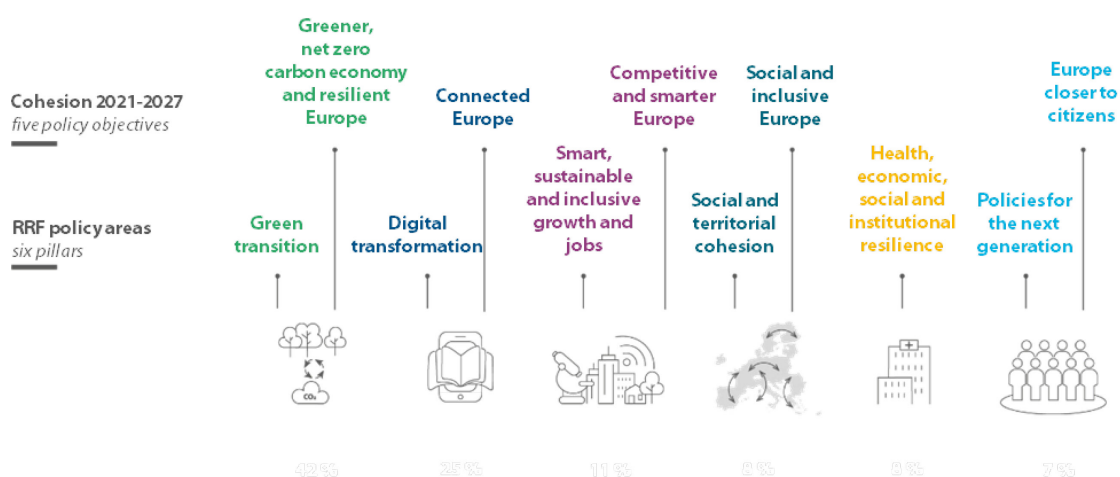
## Similar priorities, but RRF funding is more closely linked to reforms

### Similar priorities presented differently

**11** Both the RRF and the cohesion policy funds aim at contributing to the EU's political priorities of fostering digital transformation and the green transition<sup>16</sup>. They also both support “Cohesion, resilience and values” investments under heading 2 of the MFF. This overlap gives Member States a great deal of discretion in choosing which instrument will finance a given investment.

**12** Spending priorities of the RRF and the cohesion policy funds are structured and presented differently. The RRF groups EU policy areas into six pillars<sup>17</sup>, whereas the 2021-2027 cohesion policy funds support five policy objectives<sup>18</sup> (see [Figure 3](#) and [Annex II](#) for more details on the planned spending as of October 2022).

**Figure 3 – Cohesion policy objectives and RRF pillars**



Source: ECA, based on the [CPR](#) and the [RRF Regulation](#).

<sup>16</sup> Political guidelines of the Commission 2019-2024, 16.7.2019.

<sup>17</sup> Article 3 of the [RRF Regulation](#).

<sup>18</sup> Article 5(1) of the [CPR](#).

**13** There are specific differences in how EU funding can be allocated under the RRF and the cohesion policy.

- The RRF sets budget allocation targets of at least 37 % for the green transition and at least 20 % for digital transformation<sup>19</sup>. All Member States' RRFs envisage exceeding both thresholds<sup>20</sup>.
- The 2021-2027 cohesion policy has a thematic concentration requirement. Under this requirement, similarly to the RRF, a minimum proportion of ERDF and CF funding must be allocated to innovation (at least 25 %, rising to 85 % for the most developed regions) and the green transition (at least 30 %)<sup>21</sup>; for ESF+, to social inclusion (at least 25 %), youth employment (at least 12.5 %), tackling child poverty (at least 5 %) and supporting the most deprived persons (at least 3 %)<sup>22</sup>. Cohesion policy does not finance public administration reforms, with some exceptions, such as the targeted reforms of labour market institutions and services under the ESF+<sup>23</sup>. However, it requires the fulfilment of enabling conditions, as a prerequisite for the implementation of cohesion policy funds<sup>24</sup>.

Both instruments require Member States to uphold the conditionality for the protection of the EU budget<sup>25</sup> and to fund only those investments which do no significant harm to the environment<sup>26</sup>.

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<sup>19</sup> Articles 18(4)(e) and 18(4)(f) of the [RRF Regulation](#).

<sup>20</sup> [Recovery and Resilience Scoreboard](#).

<sup>21</sup> Article 4 of the [ERDF/CF Regulation](#).

<sup>22</sup> Article 7 of the [ESF+ Regulation](#).

<sup>23</sup> Article 4(1)(b) of the [ESF+ Regulation](#).

<sup>24</sup> Article 15 of the [CPR](#).

<sup>25</sup> [Regulation \(EU, Euratom\) 2020/2092](#) on a general regime of conditionality for the protection of the Union budget.

<sup>26</sup> Article 17 of [Regulation \(EU\) 2020/852](#) on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088.

## RRF funding is intended to be more closely linked to reforms included in the CSRs, but some important elements remained unaddressed

**14** As part of the European Semester, the Commission analyses structural reform and investment needs in the Member States and issues country-specific recommendations (CSRs)<sup>27</sup> which provide tailored guidance on macroeconomic, budgetary and structural policies<sup>28</sup>.

**15** Both the RRF and the cohesion policy require Member States to address the challenges and priorities set out in the 2019 and 2020 CSRs<sup>29</sup>. As for cohesion policy funds, investment priorities are defined during the programming process<sup>30</sup>, taking account of the CSRs. In the past, we found that Member States had often not implemented their CSRs in full, and that the link between EU spending and CSR implementation over the 2011-2018 period was weak<sup>31</sup>. The Commission recently analysed the extent to which the 2019-2020 CSRs had been implemented. It found that some or limited progress had been made in respect of 85 % of them, and substantial progress in respect of 11 %. Only 1 % of CSRs had been implemented in full. For 3 %, no progress had been made<sup>32</sup>.

**16** The RRF Regulation links EU funding with national structural reforms more directly than the cohesion policy. It requires Member States to address in their RRFs “all or a significant subset” of challenges included in CSRs. Furthermore, the reporting requirements of the RRF were integrated into the 2022 European Semester. If the Commission considers that reforms in the RRFs do not sufficiently address the

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<sup>27</sup> [Regulation \(EU\) No 1175/2011](#) amending Council Regulation (EC) No 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies.

<sup>28</sup> Articles 121 and 148 TFEU.

<sup>29</sup> Article 17(3) of the [RRF Regulation](#). Article 12(1) of the [CPR](#).

<sup>30</sup> Annex D of the 2019 country reports.

<sup>31</sup> [Special report 16/2020](#): “The European Semester – Country Specific Recommendations address important issues but need better implementation”, paragraphs 41-44 and 60. [Opinion No 06/2020](#) concerning the proposal for a regulation of the Parliament and of the Council establishing a Recovery and Resilience Facility (COM(2020) 408), paragraph 46.

<sup>32</sup> Commission communication on the 2022 European Semester – Spring Package, [COM\(2022\) 600](#), Appendix 2, p. 18.



challenges that Member States are facing, it can propose additional CSRs<sup>33</sup>. As we have recently reported, some important structural reforms of the 2019 CSRs remained unaddressed in RRFs we have examined so far<sup>34</sup>.

## Different allocation method of funds and financing through bond issuance for the RRF

### The allocation methods of cohesion policy funds and RRF differ

**17** Cohesion policy funds and the RRF use different methods to allocate funding to Member States. The allocation of cohesion policy funds takes into account national and regional disparities, and is based on a well-established formula, the Berlin formula<sup>35</sup>. The method for allocating funds under the RRF was agreed in July 2020<sup>36</sup>. This method considers development disparities existing before the pandemic at national level, but not at regional level. Some Member States' GDPs declined because of the pandemic. This meant that structural pre-pandemic disparities were a bigger factor in determining the allocation of RRF grants than the economic impact of the pandemic, even though mitigating the latter was one of the RRF's primary objectives (see [Box 3](#)).

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<sup>33</sup> [The European Semester in the time of the RRF](#).

<sup>34</sup> [Special report 21/2022](#): "The Commission's assessment of national recovery and resilience plans: overall appropriate but implementation risks remain", paragraph 53.

<sup>35</sup> [Rapid case review 2019](#): "Allocation of cohesion policy funding to Member States for 2021-2027", March 2019, paragraph 4.

<sup>36</sup> Conclusions of the special meeting of the Council, [EUCO 10/20](#), 21.7.2020.

## Box 3

### Funding allocation methods

The main allocation criterion for cohesion policy funds is regional GDP and gross national income (GNI) per capita, i.e. relative prosperity compared to the EU average, adjusted for purchasing power<sup>37</sup>. Other factors taken into account are unemployment rates, education levels, net migration from outside the EU, and greenhouse gas emissions<sup>38</sup>. Some final adjustments are applied to ensure that enough funds reach the least developed regions<sup>39</sup>.

70 % of the grant component of the RRF is allocated based on the Member State's population, its 2019 GDP per capita, and its average five-year unemployment rate for 2015-2019. The remaining 30 % was provisionally allocated based on the estimated fall in GDP in 2020 and 2021, a provision intended to reflect the economic impact of the pandemic<sup>40</sup>. Price differences between Member States are not taken into account for the RRF<sup>41</sup>. A cap is applied to prevent funds from being concentrated excessively in some Member States<sup>42</sup>.

This estimated maximum allocation of the 30 % of the RRF grant component based on GDP decline<sup>43</sup> was updated in June 2022<sup>44</sup> based on actual GDP changes<sup>45</sup>.

Member States whose grant amount was revised upwards must propose new reforms and investments by submitting new RRFs in case they want to use the grants, whereas Member States whose final maximum financial contribution was decreased are encouraged to continue to implement their original RRFs relying on alternative sources of funding, including national funds and the request of a RRF loan<sup>46</sup>.

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<sup>37</sup> Article 108(2) and Annex XXVI of the CPR.

<sup>38</sup> Annexes XXVI(1) to (7) of the CPR.

<sup>39</sup> Annexes XXVI(10) to (17) of the CPR.

<sup>40</sup> Annexes I, II and III of the RRF Regulation.

<sup>41</sup> Annex I of the RRF Regulation.

<sup>42</sup> Annex I of the RRF Regulation.

<sup>43</sup> Annex IV of the RRF Regulation.

<sup>44</sup> Commission note on the update of the RRF maximum financial contribution, 30.6.2022.

<sup>45</sup> Article 11(2) of the RRF Regulation.

<sup>46</sup> Part I, section II.2.A and B of Commission guidance on Recovery and Resilience Plans in the context of REPowerEU, 2022/C 214/1.

A maximum RRF loan amount of 6.8 % of 2019 GNI applies in each Member State<sup>47</sup>. However, the amount of the loan support can be increased in exceptional circumstances and subject to availability of resources, i.e. other Member States have not used their loan component in full<sup>48</sup>. In practice, RRF loans are most attractive to those Member States that borrow with an interest rate higher than that of the Commission.

**18** In June 2022, the amounts allocated under the RRF were updated. This update resulted in 19 Member States receiving less than initially estimated. The grant amounts for Belgium, the Netherlands and Hungary decreased the most, by 24 %, 22 % and 19 % respectively. Portugal received the largest increase (12 %), followed by Spain (11 %) and Germany (9 %). Spain and Italy were the two largest recipients of the RRF grant component, together receiving 43 % of the final RRF allocation. Poland is the largest recipient of 2021-2027 cohesion policy funding (20 %), followed by Italy (12 %) and Spain (10 %) (see [Annex III](#) and [Figure 4](#)).

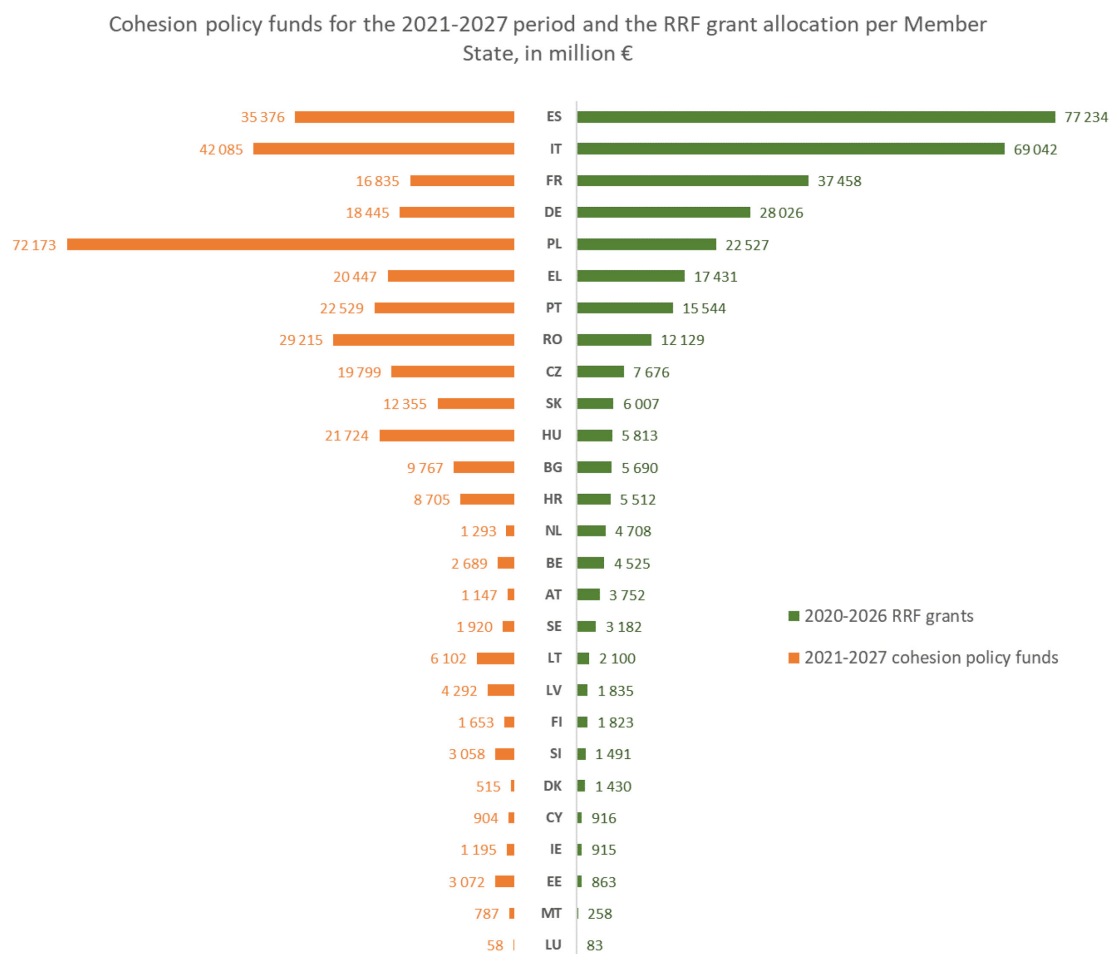
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<sup>47</sup> Article 14(5) of the [RRF Regulation](#).

<sup>48</sup> Article 14(6) of the [RRF Regulation](#).

## Figure 4 – Cohesion policy funding and final allocation of RRF grants by Member State

*In million euros, current prices*



Source: ECA, based on Commission data, including ETC and excluding the amounts transferred to CEF, extracted in July 2022 for the RRF and published in April 2021 for the cohesion policy funds.

**19** RRF loans can be requested up to August 2023<sup>49</sup>. By October 2022, loans had been requested by just seven Member States<sup>50</sup>, amounting to €165 billion (43% of the total available loan amount). Italy, Greece and Romania were the only Member States which requested the maximum amount.

<sup>49</sup> Article 14(2) of the RRF Regulation.

<sup>50</sup> Greece, Italy, Cyprus, Poland, Portugal, Romania and Slovenia.

**20** If the RRF's loan component is used in full, the proportion of public spending financed by the EU in Member States will increase from around 1 % to up to 3 % of EU GDP. The RRF will further increase the proportion of EU-financed public investments in Member States. In 2021, the Commission expected public investment to increase from 3 % in 2019 to 3.5 % of EU GDP in 2023. The RRF will account for a large part of this increase<sup>51</sup>.

### The RRF is financed through bond issuance

**21** Spending under the EU budget, including through the cohesion policy funds, is primarily financed from Member State contributions and, to a lesser extent, other specific revenue<sup>52</sup>. In contrast, NGEU – and thus the RRF – is entirely financed by borrowing on capital markets<sup>53</sup>. Issuing common debt on such a scale is a major novelty for the EU (see [Box 4](#)).

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<sup>51</sup> European Economic Forecast, Autumn 2021, paper 160, p. 35.

<sup>52</sup> Articles 2(1) of Council Decision (EU, Euratom) No 2020/2053 on the system of own resources of the EU.

<sup>53</sup> Article 5(1) of Council Decision (EU, Euratom) No 2020/2053.

## Box 4

### Financing through bond issuance

By 2026, the Commission will raise funds for the NGEU by issuing EU bonds<sup>54</sup>. The bond terms will vary. The longest terms will be 30 years, but other bonds will be issued for much shorter terms, including short-term ‘EU bills’ with maturity periods shorter than a year. All NGEU debt will be paid back by 2058<sup>55</sup>. The EU budget will bear the repayment of the principal and the related interest for the funds used as grants. RRF loans and the costs related to the borrowing of funds, including the interest, will be repaid by the Member States receiving the loan<sup>56</sup>. By end of October 2022, the Commission had issued €226 billion in bonds<sup>57</sup> and disbursed €81.4 billion in grants and €34.2 billion in loans.

We are currently working on an audit on the NGEU debt management by the Commission. We plan to publish our report in 2023.

## The RRF eligibility period is shorter, and does not extend beyond the instrument’s end

**22** The eligibility period for the 2021-2027 cohesion policy funds is nine years<sup>58</sup>. For the 2014-2020 period, the eligibility period is ten years<sup>59</sup>. The RRF’s eligibility period is shorter, at six and a half years. During this period, the agreed milestones and targets must be attained and the related payments can be made until the end of 2026<sup>60</sup>. As well as being longer, the cohesion’s policy eligibility period runs beyond the end of the programming period, while the RRF’s does not. Like for cohesion policy

<sup>54</sup> Articles 4 and 7 of [Commission Implementing Decision C\(2021\) 2502 final](#) establishing the necessary arrangements for the administration of the borrowing operations under Council Decision (EU, Euratom) 2020/2053 and for the lending operations related to loans granted in accordance with Article 15 of the RRF Regulation.

<sup>55</sup> Article 6 of [Council Decision \(EU, Euratom\) No 2020/2053](#).

<sup>56</sup> Article 5(2) of [Council Decision \(EU, Euratom\) No 2020/2053](#). Article 15(3) of the [RRF Regulation](#). Article 220(5)(e) of the [Financial Regulation](#).

<sup>57</sup> [The EU as a borrower – investor relations](#).

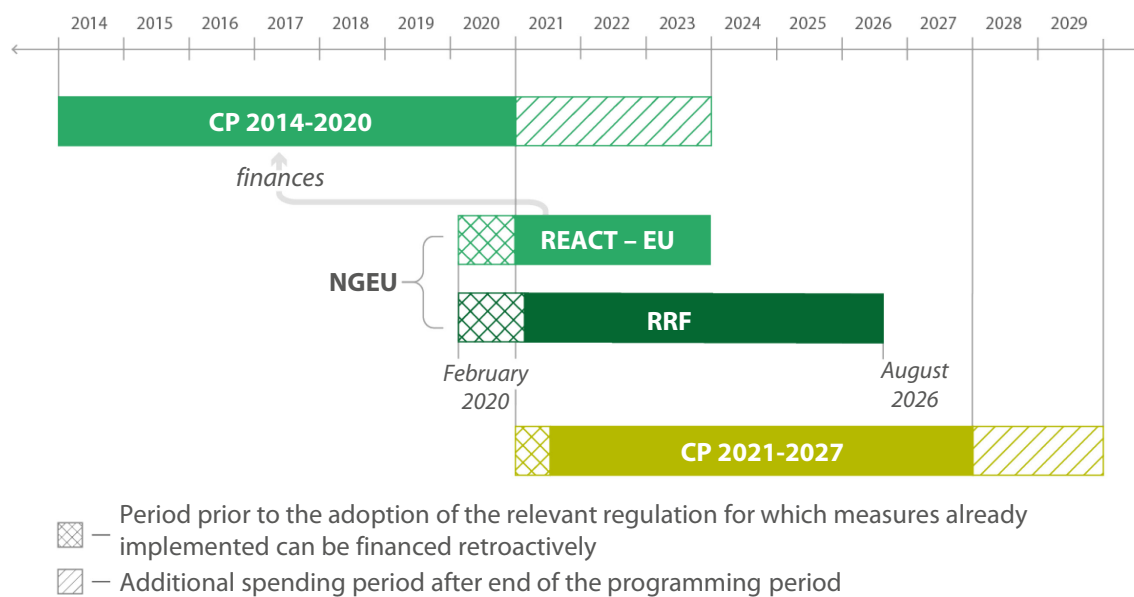
<sup>58</sup> Article 63(2) of the [CPR](#).

<sup>59</sup> Article 65(2) of [Regulation \(EU\) No 1303/2013](#) laying down common provisions (the “2014-2020 CPR”).

<sup>60</sup> Articles 17(2), 18(4)(i) and 24(1) of the [RRF Regulation](#).

funds, Member States are however not obliged to spend all available RRF funding until the end of the period (see [Figure 5](#)).

**Figure 5 – The eligibility periods of the cohesion policy funds and the RRF**



Source: ECA, based on the [2014-2020](#) and [2021-2027 CPR](#), [RRF](#), and [REACT-EU](#) Regulations.

**23** Under the cohesion policy, expenditure can be declared for reimbursement after the programming period ends. This introduces an overlap between periods: the eligibility period for one programme extends over the beginning of the following programming period, and may discourage the timely starting of the subsequent period.

**24** Moreover, as we have pointed out in the past, such a long timeframe makes it more difficult to define investment needs when negotiating partnership agreements and programmes<sup>61</sup>. To address this, if justified, cohesion policy programmes can be amended during the course of the programming period<sup>62</sup>. For the RRF no disbursements will be made by the Commission after the end of 2026.

<sup>61</sup> [Special report 36/2016](#): “An assessment of the arrangements for closure of the 2007-2013 cohesion and rural development programmes”, paragraphs 58-64 and 128-130.

<sup>62</sup> [Special report 24/2021](#): “Performance-based financing in Cohesion policy: worthy ambitions, but obstacles remained in the 2014-2020 period”, paragraph 82.

## Governance and management

### The RRF and cohesion policy funds are managed as part of the EU budget, but RRF disbursements require Council involvement

#### Both cohesion policy funds and RRF grants are part of the EU budget, but not RRF loans

**25** Cohesion policy funds are part of the EU's annual budget and accounts<sup>63</sup>. Although the NGEU budget was adopted outside the MFF, RRF grants are part of the EU's annual budget and the consolidated accounts<sup>64</sup>. RRF loans are not part of the EU budget, but included in the consolidated accounts<sup>65</sup>. Nevertheless, for transparency purposes, the Commission also presents information on the loan component in the draft budget<sup>66</sup>.

#### The Commission must consult the Council before disbursing RRF funds

**26** The Commission, more specifically DG REGIO and DG EMPL, shares the responsibility with the Member States for managing cohesion policy funds<sup>67</sup>. The situation for the RRF is different. The Secretariat-General's Recovery and Resilience task force (RECOVER) and DG ECFIN manage the RRF directly<sup>68</sup>. The Commission coordinates the work of its different departments internally to ensure consistency between the two instruments.

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<sup>63</sup> Article 10 of the [Regulation \(EU, Euratom\) 2018/1046](#) on the financial rules applicable to the general budget of the Union (the "Financial Regulation").

<sup>64</sup> Article 21(6), 83(1)(b)(i) and 244(1)(a) of the [Financial Regulation](#).

<sup>65</sup> Commission communication on the consolidated annual accounts of the European Union for the Financial Year 2021, [COM\(2022\) 323 final](#), Note 2.4.1.1, p. 65.

<sup>66</sup> Commission [Statement of Estimates for the financial year 2022](#), p. 17.

<sup>67</sup> Article 7 of the [CPR](#).

<sup>68</sup> Article 8 of the [RRF Regulation](#).



**27** The Commission alone is responsible and accountable for approving disbursements under cohesion policy programmes. The arrangements for the RRF are different here as well. Before adopting the decision authorising any disbursements under the RRF, the Commission must submit its preliminary assessment and take into account the opinion of the Council’s Economic and Financial Committee. A committee of Member States’ representatives has to examine the Commission’s decision and can overturn it with a qualified majority<sup>69</sup>.

### **The Parliament discharge does not cover RRF loans**

**28** There is a clear separation of responsibilities for cohesion policy funds between the Parliament and the Council (as the budgetary and discharge authority) and the Commission (in charge of implementing the budget). The EU’s annual budget is approved by the Parliament, with the agreement of the Council<sup>70</sup>. The Commission draws up annual accounts, for which it must seek approval – or “discharge” – from the Parliament. The Parliament may grant discharge, based on the recommendation of the Council<sup>71</sup>. The Parliament’s power to grant discharge to the Commission also applies to the RRF<sup>72</sup>. This discharge, however, does not cover the loan component of the RRF.

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<sup>69</sup> Articles 24(4) and 24(5) of the [RRF Regulation](#).

<sup>70</sup> Article 314 [TFEU](#).

<sup>71</sup> Article 319 [TFEU](#). Article 261(1) of the [Financial Regulation](#).

<sup>72</sup> Annex I, point 39 of the [Interinstitutional Agreement](#) between the Parliament, the Council and the Commission on budgetary discipline, on cooperation in budgetary matters and on sound financial management, as well as on new own resources, including a roadmap towards the introduction of new own resources.

## Cohesion policy funds and the RRF are implemented under different management modes, necessitating additional administrative effort

**Cohesion policy is deployed under a common EU framework, while the RRF is implemented through national systems**

**29** There are clear differences in how the instruments are implemented on the ground. For example, the responsibilities of national and regional administrations are different. Cohesion policy funds are implemented by all Member States and regions based on the framework set out in the Common Provisions Regulation (CPR). The RRF is implemented through national systems, which by definition are specific to each Member State (see [Box 5](#)).

### Box 5

#### The responsibilities of administrations in the Member States

Cohesion policy funds are implemented under shared management, through both national and regional programmes. Hundreds of national and regional authorities in the Member States are involved in programming, implementation, monitoring and audit. Beneficiaries of EU funds can be public or private bodies, entities with or without legal personality, or natural persons that are responsible for initiating or both initiating and implementing operations<sup>73</sup>.

The RRF is implemented under direct management, and Member States are the beneficiaries<sup>74</sup>. At the same time, they are responsible for ensuring compliance with key principles of sound financial management. At Member State level, a lead authority (the “RRF coordinator”) has overall responsibility and acts as the single point of contact for the Commission<sup>75</sup>. Ministries or regions may be entrusted with implementing projects and reporting to this coordinator on their progress.

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<sup>73</sup> Article 2(9) of the [CPR](#).

<sup>74</sup> Article 22(1) of the [RRF Regulation](#).

<sup>75</sup> Commission guidance to Member States on RRFs (Part 1/2), SWD(2021) 12 final. p. 46.

## **Additional administrative efforts at national level are required to implement both systems in parallel**

**30** Implementing the RRF in parallel with the cohesion policy funds may exacerbate administrative capacity problems. In half of the Member States in our sample, the same bodies are responsible for designing and implementing both cohesion policy funds and the RRF<sup>76</sup>. In these cases, the RRF is drawing on capacity developed by national authorities for implementing cohesion policy funds. Such arrangements also help to mitigate the risk of double funding.

**31** Two of the Member States in our sample (Italy and Romania) included specific measures in their RRFs to address administrative capacity issues. Also, some of the Member States in our sample (Italy, Romania and France) have indicated to us that they intend to employ additional staff to implement the RRF (see [Box 6](#)).

### **Box 6**

#### **Administrative capacity measures in Italy**

Italy, one of the largest recipients of RRF, REACT-EU and cohesion policy funds, envisages a number of actions to increase its administrative capacity:

- the creation of a new technical and operational support service to provide a pool of multidisciplinary experts from different public bodies from whom central, regional and local administrations involved in the RRF can seek specialist expertise;
- the introduction into national law of measures that simplify and accelerate the award and implementation of public contracts; and
- the recruitment of 2 800 public servants for bodies involved in the implementation of EU funds.

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<sup>76</sup> Spain, Romania and Slovenia out of the Member States in our sample.

**32** Technical assistance is envisaged under both instruments, but in different forms. For cohesion policy funds, Member States can use technical assistance for preparation, training, management, monitoring, evaluation, visibility and communication purposes<sup>77</sup>. The maximum possible amount of technical assistance for the 2021-2027 period amounts to around €14 billion. In addition, for both instruments, Member States can make use of the Technical Support Instrument (TSI)<sup>78</sup> with a total budget of €864 million. The TSI supports public administration in designing, developing and implementing reforms, and in preparing investments.

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<sup>77</sup> Article 36 of the CPR.

<sup>78</sup> Regulation (EU) 2021/240 establishing a Technical Support Instrument.

# Programming of spending

## RRF programming is more centralised

**RRF is based on a single programming document for each Member State and, at EU level, requires Council approval**

**33** RRF programming is based on one a single document for each Member State. This document, the RRP, details the investments and reforms supported by the RRF grants and, where relevant, loans. This is assessed by the Commission, which provides a proposal for a Council Implementing Decision (CID) setting out a binding set of measures, the associated milestones and targets to be achieved, and the number and amount of instalments. Once the CID is adopted, it is complemented by operational arrangements dealing with technical implementation issues<sup>79</sup>, the financing agreements on which the budgetary commitments are based<sup>80</sup>, and the loan agreements<sup>81</sup>, if applicable.

**34** For cohesion policy funds, each Member State signs a partnership agreement with the Commission, which sets out the strategic orientation of the funding and the arrangements for using it<sup>82</sup>. It contains details of national or regional programmes intended to address the main challenges facing the country or the region<sup>83</sup>. The Commission adopts implementing acts to approve both the partnership agreement and the programmes<sup>84</sup>.

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<sup>79</sup> Articles 18(1) and 20(6) of the [RRF Regulation](#).

<sup>80</sup> Article 23 of the [RRF Regulation](#). Article 7(3) of the [Financial Regulation](#).

<sup>81</sup> Article 15 of the [RRF Regulation](#).

<sup>82</sup> Article 10(1) of the [CPR](#).

<sup>83</sup> Article 22(3) of the [CPR](#).

<sup>84</sup> Articles 12(4) and 23(4) of the [CPR](#).

**35** *Figure 6* summarises the assessment and approval process for the programming of spending.

**Figure 6 – Programming of spending process**

PROCESS	COHESION POLICY	RRF
<p><b>DESIGN</b></p> <p><i>Member States <b>draft their programming documents</b></i></p>	<p>Several national and regional points of contact in the Member States; Directorates-General responsible: DG REGIO and DG EMPL</p>	<p>A single entity in the Member States acting as the national coordinator and point of contact for the Commission. Responsible bodies within the Commission: RECOVER and DG ECFIN</p>
<p><b>SUBMISSION</b></p> <p><i>Member States <b>submit their programming documents to the Commission</b></i></p>	<p>One partnership agreement at national level and one or several programmes (national or regional)</p>	<p>One main programming document, the RRF</p>
<p><b>ASSESSMENT</b></p> <p><i>The Commission assesses the programming documents and <b>discusses them</b> with each Member State</i></p>	<p>Three months to submit observations (for partnership agreement and programmes)</p>	<p>Two months to complete the assessment process, but can be extended. One month for the Council to approve</p>
<p><b>ADOPTION</b></p> <p><i>The programming documents are <b>adopted</b></i></p>	<p>The Commission adopts the partnership agreement within four months and the programme within five months from their official submission through implementing acts</p>	<p>Commission endorsement and Council adoption through Council Implementing Decision</p>

Source: ECA, based on the [CPR](#) and the [RRF Regulation](#).

**36** Changes to cohesion policy programmes only require the assessment and approval of the Commission<sup>85</sup>. Changes to RRFs require the Commission's assessment and a Council's approval as well<sup>86</sup>. This creates a safeguard to ensure that Member States intend to follow their commitments as set out in the RRFs. We have noted previously that amendments to cohesion policy programmes, including budget reallocations within the limits authorised by the CPR, occur frequently during implementation<sup>87</sup>.

### **The cohesion policy's partnership principle is not a prerequisite for the RRF**

**37** For cohesion policy funds, Member States must apply the partnership principle in accordance with the European code of conduct on partnership<sup>88</sup>. Public authorities at regional, local and urban level, civil-society organisations, and economic and social partners can all contribute to drawing up partnership agreements, and to preparing, implementing and evaluating each programme<sup>89</sup>. This aims to ensure that funds address the needs and challenges that were brought forward.

**38** The procedure used for the RRF is different. When drawing up RRFs, national authorities are only required to consult local and regional authorities, social partners, civil society, and youth organisations to the extent required by domestic legislation. The consultation procedure is summarised in the RRFs themselves<sup>90</sup>.

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<sup>85</sup> Articles 13(4) and 24(4) of the [CPR](#).

<sup>86</sup> Article 21(2) of the [RRF Regulation](#).

<sup>87</sup> [Special report 24/2021](#), paragraphs 53-57 and 120.

<sup>88</sup> [Commission Delegated Regulation \(EU\) 240/2014](#) on the European code of conduct on partnership in the framework of the ESI Funds.

<sup>89</sup> Article 8 of the [CPR](#).

<sup>90</sup> Article 18(4)(q) of the [RRF Regulation](#).

## Different approaches to assessing programming documents

### The Commission's assessment of draft RRFs is based on pre-defined criteria

**39** Under cohesion policy, the Commission assesses whether partnership agreements and programmes comply with the CPR and the relevant fund-specific rules<sup>91</sup>. Instead, for the RRF, the Commission carries out an ex ante assessment in which it applies 11 broad and generic qualitative criteria, such as whether the RRF represents a comprehensive and adequately balanced response to the economic and social situation, and whether the total estimated costs are in line with the principle of cost efficiency and commensurate with the expected national economic and social impact<sup>92</sup>.

**40** Previously, we have noted that the Commission has some flexibility in interpreting and rating these criteria, and that such an exercise necessarily involves qualitative judgements<sup>93</sup>. In a recently published report, we examined the Commission's assessment of the RRFs for a sample of Member States. We found that the assessment was overall appropriate given the complexity of the process and the time constraints. However, we identified a number of weaknesses, risks and areas for future attention such as payment profiles being the result of negotiations, milestones and targets lacking clarity, and monitoring and control systems not yet being fully in place at the time of the assessment<sup>94</sup>.

**41** Also, transparency requirements differ. The Commission's assessments of adopted RRFs are publicly available<sup>95</sup>, whereas those of cohesion policy partnership agreements and programmes are only shared with the national and regional authorities concerned.

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<sup>91</sup> Articles 12(1) and 23(1) of the [CPR](#).

<sup>92</sup> Articles 19(3)(a) and 19(3)(i) of the [RRF Regulation](#).

<sup>93</sup> [Opinion No 06/2020](#), paragraph 44.

<sup>94</sup> [Special report 21/2022](#), paragraphs 112-113.

<sup>95</sup> The Commission prepared a summary of the assessment of the RRFs, available [here](#).



## The scope of the Commission's assessment differs between the two instruments

**42** The Commission's Better Regulation Guidelines<sup>96</sup> set out five criteria: effectiveness, efficiency, relevance, coherence and EU added value. Four of these are used for assessing both RRFs under the RRF and partnership agreements and programmes under cohesion policy. Meanwhile, the scope of the Commission's assessment differs for each instrument (see [Figure 7](#)).

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<sup>96</sup> Commission Staff Working Document, "Better Regulation Guidelines", SWD(2021) 305, pp. 23 and 26.

Figure 7 – The scope of the assessment

CRITERIA	COHESION POLICY	RRF
<p><b>EFFECTIVENESS</b></p> <p><i>Article 11(1)(b) of the CPR</i></p> <p><i>Article 19(3)(g) and criterion 2.7 in Annex V of the RRF Regulation</i></p>	<p>The partnership agreement describes the main results expected for each fund and the expected contribution to the selected policy objectives</p>	<p>RRP is intended to have a lasting impact in terms of structural changes in the administration or policies</p>
<p><b>EFFICIENCY</b></p> <p><i>Articles 11(1)(c) and 22(3)(g) of the CPR</i></p> <p><i>Article 19(3)(i) and criterion 2.9 in Annex V of the RRF Regulation</i></p>	<p>The proposed preliminary financial allocation respects the rules on thematic concentration and provides data by policy objective at national and regional level</p>	<p>Estimated total costs are reasonable and plausible. No examination of support at regional level</p>
<p><b>RELEVANCE</b></p> <p><i>Article 22(3)(a) of the CPR</i></p> <p><i>Article 19(3)(c) and criterion 2.3 in Annex V of the RRF Regulation</i></p>	<p>The main challenges to be addressed stem from economic, social and territorial disparities</p>	<p>RRP contributes to the economic, social and institutional resilience of the Member State by reducing economic vulnerability to shocks and increasing the capacity of economic and social structures and institutions to adjust and withstand shocks</p>
<p><b>COHERENCE</b></p> <p><i>Articles 5(3) and 11(1)(b) of the CPR</i></p> <p><i>Article 19(3)(k) and criterion 2.11 in Annex V of the RRF Regulation</i></p>	<p>Coordination and coherence between the funds and between the national and regional programmes, complementarities and synergies with other EU instruments (including the RRF) for each selected policy objective</p>	<p>Internal coherence of the measures included in the RRP, i.e. the measures proposed reinforce and complement each other</p>

Source: ECA, based on the [CPR](#) and the [RRF Regulation](#).

**43** Member States must provide cost estimates for the measures included in their RRP to the Commission. In its assessment of RRP, the Commission verifies the reasonability and plausibility of these estimates and examines whether the proposed support will complement other EU financing<sup>97</sup>. It also checks whether the support will substitute recurring national expenditure<sup>98</sup>. To inform broader estimates on the investment level, Member States were required to provide the average level of national public expenditure each year from 2017 to 2019 for investments similar to those in the RRP<sup>99</sup>.

**44** In cohesion policy, EU added value was assessed under the concept of additionality: the requirement that cohesion policy funds may not replace recurring national expenditure<sup>100</sup>. However, since 2007, the requirement for Member States to demonstrate this has been gradually lifted. In the 2021-2027 period, the Commission will no longer verify additionality when assessing partnership agreements and programmes (see [Box 7](#)).

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<sup>97</sup> Articles 9, 19(3)(i) and criterion 2.9 in Annex V of the [RRF Regulation](#).

<sup>98</sup> Article 5(1) of the [RRF Regulation](#).

<sup>99</sup> SWD(2021) 12, Part 1/2, p. 55.

<sup>100</sup> Article 95(2) of the [2014-2020 CPR](#).

**Box 7****The additionality requirement for the cohesion policy**

During the 2007-2013 period, Member States with regions covered by the convergence objective, i.e. those whose per capita GDP was less than 75 % of the EU average, were required to maintain the same level of public or equivalent structural expenditure throughout the period in each region concerned<sup>101</sup>.

During the 2014-2020 period, the additionality requirement was deemed to be fulfilled as long as Member States maintained the same level of public structural expenditure throughout the period at national level. No reference was made to regional expenditure levels. This requirement was verified only for those Member States whose less developed regions covered at least 15 % of their total population, under certain conditions<sup>102</sup>.

For the 2021-2027 period, as a simplification measure, the Commission no longer requires Member States to demonstrate the additionality of programmes<sup>103</sup>.

## The parallel programming of cohesion policy funds and the RRF led to particular challenges for the Member States

**Two thirds of the RRFs were adopted within six months while the preparation and negotiation of cohesion policy programmes was delayed even more than in previous periods**

**45** In previous MFF periods, the Commission's negotiation of partnership agreements and programmes was delayed, and never completed before the end of the first year of the MFF. These delays were due to the late adoption of the MFF package, which in turn delayed the adoption of the cohesion policy package, which is a prerequisite for programming at Member State level<sup>104</sup>.

<sup>101</sup> Article 15(2) of [Council Regulation \(EC\) No 1083/2006](#) laying down general provisions on the ERDF, the ESF and the Cohesion Fund and repealing Regulation (EC) No 1260/1999.

<sup>102</sup> Article 95(4) of the [2014-2020 CPR](#).

<sup>103</sup> [Simplification Handbook](#), measure No. 16, p. 3.

<sup>104</sup> [Special report 17/2018](#): "Commission's and Member States' actions in the last years of the 2007-2013 programmes tackled low absorption but had insufficient focus on results", paragraphs 14-18 and 83.

**46** For the 2021-2027 period, delays lasted even longer: as we have reported previously, the CPR and fund-specific regulations were adopted in mid-2021, six months after the start of the MFF period<sup>105</sup>. Managing authorities were also involved in programming REACT-EU, and in implementing other emergency measures such as the RRF, the Coronavirus Response Investment Initiatives (CRII and CRII+)<sup>106</sup> and Cohesion's Actions for Refugees in Europe (CARE and CARE+)<sup>107</sup>. This means that their administrative capacity was spread even more thinly. The preparation of partnership agreements and programmes and their negotiation with the Commission therefore slowed down significantly in almost all Member States during 2021. One consequence of this delay is that Member States will have to absorb their allocated cohesion policy funds for the 2021-2027 MFF in a shorter timeframe. We have previously noted that absorption patterns vary across Member States<sup>108</sup> and that there have been delays in absorbing the 2014-2020 cohesion policy funds<sup>109</sup>.

**47** For the RRF, programming and adoption were quicker. In the six months between February (when the RRF Regulation was adopted) and July 2021, 18 RRFs were adopted<sup>110</sup>. This rapid finalisation of the negotiations was intended, because the RRF's objective was to respond to an acute and imminent crisis. Furthermore, the lower number of RRF programming documents, compared to the almost 400 partnership

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<sup>105</sup> [2021 Annual reports](#), paragraph 2.6. [2020 Annual reports](#), paragraphs 2.24-2.25. [Special report 14/2021](#): "Interreg cooperation: The potential of the European Union's cross-border regions has not yet been fully unlocked", paragraph 92. [Special report 24/2021](#), paragraphs 83 and 124.

<sup>106</sup> [Regulation \(EU\) 2020/460](#) amending Regulations (EU) 1301/2013, (EU) 1303/2013 and (EU) 508/2014 as regards specific measures to mobilise investments in the healthcare systems of Member States and in other sectors of their economies in response to the COVID-19 outbreak. [Regulation \(EU\) 2020/558](#) amending Regulations (EU) 1301/2013 and (EU) 1303/2013 as regards specific measures to provide exceptional flexibility for the use of the European Structural and Investments Funds in response to the COVID-19 outbreak.

<sup>107</sup> [Regulation \(EU\) 2022/562](#) amending Regulations (EU) No 1303/2013 and (EU) No 223/2014 as regards Cohesion's Action for Refugees in Europe. [Regulation \(EU\) 2022/613](#) amending Regulations (EU) No 1303/2013 and (EU) No 223/2014 as regards increased pre-financing from REACT-EU resources and the establishment of a unit cost.

<sup>108</sup> [2021 Annual reports](#), paragraph 2.16. [Special report 17/2018](#), paragraphs 27 and 28.

<sup>109</sup> [2021 Annual reports](#), paragraphs 2.26.

<sup>110</sup> Belgium, Czechia, Denmark, Germany, Ireland, Greece, Spain, France, Croatia, Italy, Cyprus, Latvia, Lithuania, Luxembourg, Austria, Portugal, Slovenia and Slovakia.

agreements and national and regional programmes, helped the Commission to conclude its assessment in a timely manner (see [Box 8](#)).

## Box 8

### Adoption and implementation status

By October 2022:

- 26 RRP had been adopted by the Council, 8 more than by the July 2021. The remaining one of Hungary was still being assessed by the Commission;
- 17 operational arrangements had been signed by the Commission and the Member States;
- 12 applications for payment had already been validated and paid, with the Commission expecting that around 32 % of the grant amounts will be paid during 2022<sup>111</sup>;
- In the following months, some of the RRP will be amended by the Member States and resubmitted for endorsement by the Commission and adoption by the Council as a result of the adjusted maximum grant allocation of June 2022 (see [Box 3](#)).

In comparison, for the cohesion policy funds:

- 23 of the 27 partnership agreements and 185 of the 371 programmes in the scope of this review had been approved by the Commission for the 2021-2027 period;
- no interim payment request had yet been submitted for the 2021-2027 period. In 2022, pre-financing payments make up the bulk of the amount expected to be paid;
- the Commission has made payments corresponding to 72 % of the funds for the 2014-2020 period. The Netherlands, Denmark and Croatia had absorbed less than 58 % of their allocations (including REACT-EU), and Belgium, Germany, Italy, Malta, Slovakia and Spain had absorbed less than 65 %.

<sup>111</sup> Based on data in the Commission [Statement of Estimates for the financial year 2022](#), p 34.

## Coordinating the simultaneous implementation of the two instruments and avoiding the risk of double funding is part of the programming exercise

**48** Member States were required to describe in their RRP how they would coordinate the parallel implementation of the instruments, taking into account the amounts involved, the availability and timeline of mature projects, and the level at which the institutional and legal framework sets the responsibility for implementing a reform or investment<sup>112</sup>. This is also a requirement for partnership agreements and programmes under the cohesion policy.

**49** Complementarities and synergies are achieved either by financing different operations that build on each other, or by using the two instruments to finance different elements of the same operation. In most cases, the descriptions given in the RRP were general and brief, partly because the 2021-2027 partnership agreements and programmes had not yet been drawn up. As a result, national authorities had to take the content of their RRP into account in their 2021-2027 cohesion policy partnership agreements. This exercise was easier for Member States that had established a strategic demarcation framework beforehand (see [Box 9](#)).

### Box 9

#### The demarcation framework in France

To analyse potential overlaps between the RRF and the 2021-2027 cohesion policy funds, clarify which type of investments were to be financed by which fund, the French authorities have indicated to us that they set up a demarcation framework, which was later published in a guide<sup>113</sup>.

Four main criteria were used as the basis:

- **a timing criterion**, absorbing funds on a sequential basis by using, first, the RRF or remaining funds from the 2014-2020 period, including REACT-EU and, second, the 2021-2027 cohesion policy funds;
- **a theme criterion**, depending on the eligible themes covered;
- **a beneficiary criterion**, using the RRF for specific types of beneficiaries;

<sup>112</sup> SWD(2021) 12, Part 1/2, p. 43.

<sup>113</sup> The guide published by the French authorities is available [here](#).

- **a territorial criterion**, allocating the RRF and cohesion policy funds to separate territories in accordance with preselected investment priorities by geographical area.

Although the existence of such a framework does not remove the need for further coordination during implementation at regional and project level, it helps to establish the main principles.

**50** In its assessment of the RRFs, the Commission had to examine complementarity and coordination with other EU funds<sup>114</sup>. The operational arrangements signed with each Member State for the RRF also provide for an annual event to be held in each Member State to discuss the implementation of both the RRF and other EU programmes<sup>115</sup>.

**51** An operation can be financed by both instruments as long as the same cost is covered only once, and as long as the RRF does not cover the mandatory national co-financing of cohesion policy projects<sup>116</sup>. All Member States we consulted reported that they had considered this risk and taken measures to mitigate it. The Commission had to assess ex ante whether the RRFs contained such measures<sup>117</sup>.

### **Absorption of cohesion policy funds will be influenced by the RRF, but also by other factors**

**52** Following the adoption of the RRF, Member States can spend significantly more money on investments than previously for the economic, social and territorial cohesion. Six countries can spend at least twice as much as they did in the 2014-2020 period<sup>118</sup>; seven countries at least three times as much<sup>119</sup>; and two countries, Luxembourg and the Netherlands, seven times more.

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<sup>114</sup> SWD(2021) 12, Part 1/2, p. 44.

<sup>115</sup> Commission report on the implementation of the Recovery and Resilience Facility, COM(2022) 75, pp. 7 and 57.

<sup>116</sup> Article 9 of the [RRF Regulation](#). SWD(2021) 12, Part 1/2, p. 42.

<sup>117</sup> Article 19(3)(j) and criterion 2.10 in Annex V of the [RRF Regulation](#).

<sup>118</sup> Bulgaria, Germany, Ireland, Greece, Cyprus, and Finland.

<sup>119</sup> Belgium, Denmark, Spain, France, Italy, Austria and Sweden.



**53** During the 2014-2020 period, the ERDF and the CF provided funding equivalent to around 10 % of total public investment across all 27 EU Member States. In 10 Member States<sup>120</sup>, funding from the ERDF and the CF accounted for more than a third of all public investments<sup>121</sup>. For these Member States, absorbing significantly more EU funds in the 2021-2027 period will be a particular challenge<sup>122</sup>.

**54** Pressure to absorb funds increases towards the end of the eligibility period, as we have already reported previously<sup>123</sup>. This can lead to less consideration being given to the added value of investments, possibly at the expense of observing certain eligibility rules and achieving good value for money<sup>124</sup>. However, for the 2021-2027 period, a number of aspects changed. These may mitigate some of the absorption challenge for cohesion policy funds.

- Large-scale infrastructure projects are often financed in multiple consecutive periods. This is often necessary because of the amount of time needed to put such projects into service. But as we have noted in the past, it can also be a consequence of delays during planning and construction<sup>125</sup>. After 2026, no further disbursements from the RRF will be made to the Member States. In case certain RRF investments are not completed and require additional financing, such funding may be found in cohesion policy programmes. This also illustrates the need for coherence in the programming of the two instruments.
- The CPR allows Member States to reallocate up to 5 % of their initial national envelopes for each cohesion policy fund to any other instrument under direct or indirect management, including their RRFs. This also takes into account possible

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<sup>120</sup> Bulgaria, Estonia, Croatia, Latvia, Lithuania, Hungary, Poland, Portugal, Romania, and Slovakia.

<sup>121</sup> Commission, [8th cohesion report](#), p. 243.

<sup>122</sup> [2016 Annual report](#), paragraphs 2.24 and 2.25.

<sup>123</sup> [Rapid case review 2019](#): “Outstanding commitments in the EU budget – A closer look”, April 2019, paragraphs 20 and 34-39. [Special report 17/2018](#), paragraphs 20-21 and 83-84.

<sup>124</sup> [Special report 17/2018](#), paragraphs 15 and 87.

<sup>125</sup> [Review 05/2021](#): ‘The EU framework for large transport infrastructure projects: an international comparison’, paragraphs 52-53, p. 27. [Special report 10/2020](#): “EU transport infrastructures: more speed needed in megaproject implementation to deliver network effects on time”, paragraphs 45-48 and 84-86.

transfers to InvestEU programme<sup>126</sup> at partnership agreement level or through programme amendments. In May 2022, the Commission proposed to increase this to 12.5 %, under certain conditions<sup>127</sup>, as one of the REPowerEU measures<sup>128</sup>. We have provided an opinion on this proposal<sup>129</sup>.

- Lastly, both the RRF and the 2021-2027 cohesion policy funds will be implemented in a context of higher prices due to inflation. For the RRF, this will put additional pressure on Member States to control costs or commit additional national funds to complete RRF investments and reforms. For cohesion policy funds, financing is generally based on actual costs incurred. As the increased costs will be borne partly by the EU budget, this will likely result in a higher absorption rate.

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<sup>126</sup> [https://investeu.europa.eu/index\\_en](https://investeu.europa.eu/index_en)

<sup>127</sup> Commission communication on the REPowerEU Plan, COM(2022) 230 final, paragraph 4.3.

<sup>128</sup> [https://ec.europa.eu/commission/presscorner/detail/en/IP\\_22\\_3131](https://ec.europa.eu/commission/presscorner/detail/en/IP_22_3131)

<sup>129</sup> Opinion No 04/2022 concerning the proposal for a Regulation of the Parliament and of the Council amending Regulation (EU) 2021/241 as regards REPowerEU chapters in recovery and resilience plans and amending Regulation (EU) 2021/1060, Regulation (EU) 2021/2115, Directive 2003/87/EC and Decision (EU) 2015/1814 [2022/0164 (COD)].

# Conditions for making payments

## RRF financing is not linked to costs

### The RRF finances reforms and investments based on the achievement of milestones and targets

**55** The Financial Regulation sets out three forms of EU financial support<sup>130</sup>:

- **‘Reimbursement of costs actually incurred’** involves EU funding being reimbursed based on the real costs incurred by the beneficiary. These costs must be substantiated by supporting documents.
- **‘Simplified cost options’** (SCOs) reimburse expenditure at a rate calculated in advance. Standard scales of unit costs and lump sums can link payments to outputs, but not necessarily to results<sup>131</sup>.
- Under the **‘financing not linked to costs’** (FNLTC) model, an operation receives EU funding when it achieves results or meets conditions established previously in legislation. FNLTC was first introduced in 2018, when the Financial Regulation was revised.

**56** The FNLTC model is mandatory for the RRF: it supports Member States to implement reforms and investments entirely based on the achievement of milestones and targets. It does not apply to individual operations, for which Member States may choose any suitable financing model in accordance with their national rules. The achievement of milestones and targets is the only criterion for authorising a payment<sup>132</sup>.

**57** Before the first payment request is submitted, the Commission and the individual Member States sign operational arrangements. These are documents which contain details of how the CID will be monitored, and what evidence the Commission expects

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<sup>130</sup> Article 125(1) of the [Financial Regulation](#).

<sup>131</sup> [Special Report 24/2021](#), paragraph 90.

<sup>132</sup> Recital 18 and Articles 4(2) and 24(3) of the [RRF Regulation](#).

to see to demonstrate that each milestone and target has been achieved<sup>133</sup>. Before any RRF disbursement, the Commission must assess whether the Member State has satisfactorily fulfilled all milestones and targets linked to the specific payment request<sup>134</sup>. In addition, the Member State must provide assurance to the Commission that it has taken measures to protect the EU's financial interests. This is however not checked by the Commission before it authorises the disbursement. It is only subsequently that the Commission carries out ex post verifications and audits on a sample basis in the Member States.

**58** Operational arrangements are drawn up by the Commission and the Member State concerned. The RRF Regulation provides only limited information about their content. The Commission prepared a template for operational arrangements, but issued it only in October 2021, after most CIDs had been adopted.

**59** The Commission also intends to apply the RRF financing model to other areas of the budget. It has already proposed replicating the main principle of the RRF financing in the new Social Climate Fund<sup>135</sup>, intending to manage it using Member States' plans, and where payments are expected to be made upon achievement of pre-agreed milestones and targets. Similarly, from 2023 onwards, the delivery model of the common agricultural policy will follow an approach based on outputs<sup>136</sup>.

### **Cohesion policy finances operations primarily based on the reimbursement of incurred costs**

**60** For cohesion policy funds, the conditions for payment are fulfilment of the relevant enabling conditions, and the submission of the assurance package on the regularity of the expenditure declared by the Member State<sup>137</sup>. The Commission pays the amount requested by the Member State, provided it is below the EU contribution approved for the respective priority under the programme and meets all eligibility

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<sup>133</sup> Article 20(6) of the [RRF Regulation](#). SWD(2022) 12 final, p. 34.

<sup>134</sup> Article 24(3) of the [RRF Regulation](#).

<sup>135</sup> Proposal for a Regulation of the Parliament and of the Council establishing a Social Climate Fund, [COM\(2021\) 568 final](#).

<sup>136</sup> Recital 28 and article 37 of [Regulation \(EU\) 2021/2116](#) on the financing, management and monitoring of the common agricultural policy and repealing Regulation (EU) No 1306/2013. Commission impact assessment, [SWD\(2018\) 301](#), annex 4, section 2.3.

<sup>137</sup> Article 15(5), 91(2) and 98(1) of the [CPR](#).

conditions for the expenditure declared. This also applies when programmes make use of SCOs or FNLTC models.

**61** We previously reported<sup>138</sup> that only a small part of 2014-2020 cohesion spending had been reimbursed using performance-based funding models, almost entirely through SCOs under ESF. So far, almost all ERDF and CF programmes were exclusively implemented based on the reimbursement of incurred costs. The FNLTC model was piloted for just one ERDF project in Austria. For the 2021-2027 period, SCOs have become mandatory for ERDF and ESF+ funded operations up to €200 000<sup>139</sup>. The Commission also expects that the FNLTC model will be used more than in previous programming periods.

### Different application of the FNLTC model for the two instruments

**62** During the 2021-2027 period, the FNLTC model is used differently under the RRF than it is under the cohesion policy. In particular, there are differences in how the terms “milestones” and “targets” are used, and in the way disbursements for achieving them are justified by underlying costs (see [Box 10](#)).

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<sup>138</sup> [Special report 24/2021](#), paragraphs 93, 101 and 127 and Box 8.

<sup>139</sup> Article 53(2) of the [CPR](#).

## Box 10

### Differences in applying the FNLTC model under the two instruments

Disbursements under cohesion policy funds for the 2021-2027 period are:

- related to individual intermediate steps towards expected results;
- based on milestones and targets set in the programmes, which both must be quantitative<sup>140</sup>. Disbursements may also be linked to conditions, which may have qualitative aspects<sup>141</sup>;
- determined on the basis of an ex ante cost estimate, and not on the basis of the actual costs incurred<sup>142</sup>.

Disbursements under the RRF are<sup>143</sup>:

- paid in pre-defined instalments set out in the CID;
- dependent on the achievement of a group of milestones and targets set out in the CID, whereby milestones measure qualitative, and targets quantitative progress towards achievement of reforms and investments<sup>144</sup>;
- linked neither to the ex ante estimated costs for each measure, nor to actual costs incurred<sup>145</sup> (see paragraph 43).

Under both instruments, it is up to the Member States to decide whether the model will also apply between the managing authority and the beneficiary, for cohesion policy funds, or the Member State and final recipient, for the RRF<sup>146</sup>.

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<sup>140</sup> Article 2(11) and 2(12) of the CPR.

<sup>141</sup> Article 51(a) of the CPR.

<sup>142</sup> Article 95(1) and Annex V – Appendix 2 of the CPR.

<sup>143</sup> Article 4(2) and recitals 18, 30, 51 and 52 of the RRF Regulation.

<sup>144</sup> Article 2(4) of the RRF Regulation.

<sup>145</sup> SWD(2021) 12 final, Part 1/2, p. 35.

<sup>146</sup> Recital 41 and Article 95(3) of the CPR. Recital 18 of the RRF Regulation.

## The extent to which RRF financing is more performance-based than cohesion policy funds remains to be seen

**63** Performance budgeting is the systemic use of information about outputs, results and/or impacts to inform, influence and/or determine the allocation of public funds<sup>147</sup>. The Organisation for Economic Co-operation and Development (OECD) defines three broad categories of performance budgeting<sup>148</sup> (see **Box 11**).

### Box 11

#### OECD classification on performance budgeting

The OECD identifies three broad categories of performance budgeting systems:

- presentational performance budgeting, whereby performance information is produced and shown alongside funding allocations, but not necessarily used to take spending decisions;
- performance-informed budgeting, where such information explicitly influences the allocation of resources; and
- performance-based budgeting, in which funding is linked to outputs and outcomes.

**64** In a previous report<sup>149</sup>, we concluded that much has been done during the 2014-2020 period to strengthen the performance orientation of cohesion policy, but that performance-based financing has not yet become a reality. According to a 2018 Commission study, budget support and a more performance-based financing could constitute a simple and effective mechanism for those parts of the cohesion policy funds where outputs can clearly be attributed to the funding<sup>150</sup>.

<sup>147</sup> OECD, *Incentivising performance in public investment policies delivered at national and subnational levels: Managing across temporal and institutional horizons*, 31 March 2017, pp. 8-9.

<sup>148</sup> OECD, *Budgeting and performance in the European Union: A review by the OECD in the context of EU budget focused on results*, OECD Journal on Budgeting, Volume 2017/1, section 1.2.1.

<sup>149</sup> Special report 24/2021, paragraph 107.

<sup>150</sup> Commission (Ramboll, Ecorys, CSIL): *“Feasibility study for a potential use of Budget Support to deliver ESI Funds”*, 2018, pp. 3 to 7.

**65** The extent to which RRF financing is more performance-based than cohesion policy funds remains to be seen. In any case, as some of the milestones and targets specified in the RRFs relate to inputs or outputs rather than outcomes<sup>151</sup>, the RRF financing does not entirely meet the OECD criteria for performance-based budgeting systems.

### **The RRF can allow faster disbursement of funds**

**66** There are several other differences between the two instruments in the way that payments are disbursed. Payments made so far also indicate that the Commission may disburse funds faster under the RRF than it can for cohesion policy programmes. This is mainly due to payment requests being based on pre-agreed instalments grouping the milestones and targets and differences in how these requests are assessed. This makes checks before disbursements less time consuming. Following a risk assessment, the Commission may however carry out more detailed verifications at a later stage, to address the risks to sound financial management<sup>152</sup> (see [Figure 8](#)).

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<sup>151</sup> Special report 21/2022, paragraphs 87-89.

<sup>152</sup> 2021 Annual reports, paragraph 10.12.



Figure 8 – Conditions for making payments

CONDITIONS	COHESION POLICY	RRF
<b>PRE-FINANCING</b> <i>Member States receive pre-financing</i>	Yearly pre-financing of 0.5 % of the total allocation from 2021 to 2026 for each fund	One pre-financing payment of up to 13 % only for the RRP adopted by the Council in 2021
<b>PAYMENT REQUEST</b> <i>Sent to the Commission, accompanied by a management declaration</i>	Maximum of six payment requests per year per programme Requests based on the costs actually incurred unless use is made of SCOs and FNLTC National co-financing rates of at least 15 % – 60 % depending on the fund and the level of development of the supported region	Maximum of two payment requests per year per Member State Requests based on pre-agreed instalment amounts grouping the milestones and targets Projects are 100 % financed by EU funds
<b>ASSESSMENT</b> <i>Of the payment request by the Commission</i>	Assessment of the expenditure declared by the Member State in the assurance package	Assessment based on the satisfactory fulfilment of the milestones and targets The Commission adopts decision authorising disbursement taking into account Council's opinion
<b>VALIDATION and PAYMENT</b> <i>To the Member States</i>	The Commission validates the payment	
<b>POTENTIAL LOSS</b> <i>Of funds not used</i>	Gradual loss of the yearly committed funds for which a payment request is not made within three years (from 2021 to 2026) or within two years (for 2027) (decommitment procedure)	Funds not paid to the Member State by the end of 2026 are lost

Source: ECA, based on the [CPR](#) and the [RRF Regulation](#).

### Higher pre-financing rates under the RRF compared to cohesion policy

**67** The level of pre-financing – in other words, the proportion of the allocation paid to a Member State before formal payments linked to payment conditions are made – differs between the RRF and cohesion policy funds. The RRF pre-financing rate is significantly higher. For both instruments, pre-financing payments are cleared against future payments<sup>153</sup> (see [Box 12](#)).

<sup>153</sup> Article 90(5) of the [CPR](#). Article 13(2) of the [RRF Regulation](#).

## Box 12

### Pre-financing

Under cohesion policy funds, Member States are entitled to receive yearly pre-financing instalments of 0.5 % of the total support from 2021 to 2026. The Commission will clear the pre-financing for 2021 and 2022 annually, and for 2023 to 2026 by the time of closure of the programmes at the latest<sup>154</sup>.

Under the RRF, a one-off pre-financing rate of up to 13 % of the grant and, if applicable, the loan, is available to Member States<sup>155</sup>. In 2021, all Member States except Ireland requested it.

**68** Under the RRF, the Commission may also recover any pre-financing if no tangible progress is made towards any relevant milestones and targets within the 18 months after the CID is adopted<sup>156</sup>. However, by October 2022, the meaning of “tangible progress” had still not been defined by the Commission.

### For both instruments, the management declarations are linked to their conditions for payment

**69** To proceed with a payment request, the Commission requires a management declaration for both instruments. This certifies that the information submitted is complete, accurate and reliable, and confirms that the underlying expenditure was used for the intended purpose, and complied with all the applicable rules:

- For cohesion policy funds, the managing authority submits one management declaration for each accounting year, irrespective of the number of payment applications<sup>157</sup>. It certifies that the expenditure declared has been legal and regular, and provides information about the results of the interventions.
- As a prerequisite for disbursement under the RRF, each payment request must be accompanied by a management declaration to certify the achievement of the milestones and targets linked to the payment request. In addition, the Member

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<sup>154</sup> Articles 90(2) and 90(5) of the [CPR](#).

<sup>155</sup> Article 13(1) of the [RRF Regulation](#).

<sup>156</sup> Article 24(9) of the [RRF Regulation](#).

<sup>157</sup> Articles 74(1)(f) and 98(1)(b) and Annex XVIII of the [CPR](#).

State must also provide for each payment request a summary of the audits carried out, the weaknesses identified and any corrective actions taken<sup>158</sup>.

**70** There are also differences in the frequency of payment requests. Member States can submit up to two RRF payment requests to the Commission each year, compared to up to six for cohesion policy funds<sup>159</sup>.

### No national or private co-financing required for the RRF

**71** The national co-financing rate of an instrument indicates the proportion of costs not covered by EU funding. Traditionally, mandatory national or private co-financing guarantees a Member State's or beneficiary's commitment and ownership, and ensures value for money in EU-supported interventions. This has also been the general principle for cohesion policy funds. In contrast, the RRF requires no national or private co-financing (see [Box 13](#)).

#### Box 13

##### National co-financing

The national co-financing rates for cohesion policy funds range from 15 % to 60 %, depending on the fund and the level of development of the supported region<sup>160</sup>. In the past, there have been some instances where Member States received 100 % EU financing from cohesion policy funds because of exceptional circumstances, such as the financial crisis of 2008-2009<sup>161</sup>, and for mitigating the effects of COVID-19 pandemic for the 2020-2021 accounting year<sup>162</sup>.

There are no co-financing requirements for RRF and REACT-EU funding<sup>163</sup>.

<sup>158</sup> Article 22(2)(c) of the [RRF Regulation](#).

<sup>159</sup> Article 24(2) of the [RRF Regulation](#). Article 91(1) of the [CPR](#).

<sup>160</sup> Article 112 of the [CPR](#).

<sup>161</sup> Article 77(2) of [Council Regulation \(EC\) 1083/2006](#).

<sup>162</sup> Article 2 of the [Regulation \(EU\) 2020/558](#).

<sup>163</sup> Article 20(4) of the [RRF Regulation](#). Article 92b(12) of the [REACT-EU Regulation](#).

## Under the RRF, decommitments only take place at the end of the eligibility period

**72** In cohesion policy programmes, funding that has not been spent within a certain timeframe is automatically lost. This practice, called ‘decommitment’, is intended to encourage financial discipline in the implementation of programmes, as any lost funding reduces the potential impact of the policy. This gradual decommitment during the eligibility period applies only to cohesion policy funds, not to the RRF (see [Box 14](#)).

### Box 14

#### Decommitment rules

Cohesion policy funds are committed yearly at the start of the period to each Member State, and are lost if they are not used within three years (for 2021 to 2026), and within two years (for 2027)<sup>164</sup>.

Under the RRF, the commitment of financial support is frontloaded in the initial years of the eligibility period. The Commission must commit 70 % of the grants by the end of 2022, and the remaining 30 %, including the loan component, by the end of 2023<sup>165</sup>. Any funds not committed by these time limits, because CIDs were not adopted or because loans were not requested, will be lost.

Under the RRF, once funds are committed, Member States do not run the risk of losing any unused funds during the implementation period of the RRF. All milestones and targets must be met by 31 August 2026<sup>166</sup>. Funds not paid by the end of 2026 will be decommitted<sup>167</sup>.

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<sup>164</sup> Article 105 of the [CPR](#).

<sup>165</sup> Recitals 46-47 and Articles 12 and 14 of the [RRF Regulation](#).

<sup>166</sup> Articles 18(4)(i) and 20(5)(d) of the [RRF Regulation](#).

<sup>167</sup> Article 24(1) of the [RRF Regulation](#).

# Monitoring and cost of implementation

## Different monitoring, reporting and evaluation provisions

**73** Monitoring, reporting and evaluation are necessary to ensure that funds contribute to the objectives set, to identify issues so that they can be addressed in good time, and to gain an overview of progress at EU level. Different provisions apply to the two instruments (see [Figure 9](#)).

**Figure 9 – Monitoring, reporting and evaluation requirements**

REQUIREMENTS	COHESION POLICY	RRF
<b>MEMBER STATES</b>  <i>Monitoring and reporting arrangements</i>	Monitoring by programme, using indicators that are not linked to the payment requests Prescriptive rules on the role of the monitoring committee  Submission to Commission: <ul style="list-style-type: none"> <li>○ Financial data: five times a year</li> <li>○ Performance data: twice a year, including data on common indicators</li> <li>○ Mid-term review (2025)</li> </ul>	Monitoring at central level, using pre-agreed milestones and targets linked to the payment requests Member States can use their existing monitoring systems  Submission to Commission: <ul style="list-style-type: none"> <li>○ Progress on milestones and targets, accompanying each payment request: maximum twice a year</li> <li>○ Two-yearly reports, updating data on common indicators</li> </ul>
<b>COMMISSION</b>  <i>Monitoring and reporting arrangements</i>	Annual performance review meeting Annual Management and Performance Report to the Parliament, in the context of the discharge procedure Display aggregated data on the Open Data platform Report on the outcome of the mid-term review to the Parliament and Council (2026)	Monitoring embedded in the European Semester Analysis and appraisal of the data sent with the payment request Annual report on implementation addressed to the Parliament and the Council Posting of aggregated data on the RRF Scoreboard
<b>COMMISSION</b>  <i>Evaluation</i>	During implementation, at the end of 2024 Ex-post evaluation (2031)	During implementation, in February 2024 Ex-post evaluation (2028)

Source: ECA, based on the [CPR](#) and the [RRF Regulation](#).

## RRF monitoring is linked to milestones and targets

**74** The Commission’s monitoring of the implementation of the RRFs differs significantly between Member States. This is because milestones and targets, and the evidence needed to assess progress made towards them, are specific to each RRF. All Member States must nominate a central authority that provides consolidated reporting to the Commission and bears overall responsibility for monitoring the implementation of the RRF.

**75** There are various reporting requirements associated with the RRF.

- Member States must report bi-annually to the Commission, in April and October, on the progress made with their RRF, specifically on the milestones and targets. This falls under the framework of the European Semester, April’s report being part of the National Reform Programme<sup>168</sup>.
- In the context of the European Semester, Member States must also report bi-annually, in February and August, on the common indicators established for the RRF by a Delegated Act<sup>169</sup>.
- The Commission reports annually on the implementation of the RRF to the Parliament and the Council<sup>170</sup>. The Commission’s first annual report was published in March 2022; it concluded that implementation was underway<sup>171</sup>.
- As planned, the Commission provided a one-off review report to the Parliament and the Council at the end of July 2022<sup>172</sup>, according to which the implementation of reforms and investments of the Member States’ RRFs is underway<sup>173</sup>.

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<sup>168</sup> Article 27 of the [RRF Regulation](#).

<sup>169</sup> Article 2(3) of the [Commission Delegated Regulation \(EU\) 2021/2106](#) on supplementing Regulation (EU) 2021/241 of the Parliament and of the Council establishing the RRF by setting out the common indicators and the detailed elements of the recovery and resilience scoreboard.

<sup>170</sup> Article 31 of the [RRF Regulation](#).

<sup>171</sup> COM(2022) 75, p. 64.

<sup>172</sup> Article 16 of the [RRF Regulation](#).

<sup>173</sup> Commission review report on the implementation of the RRF, [COM\(2022\) 383 final](#), p. 30.

- The Parliament may invite the Commission to a “recovery and resilience dialogue” meeting every two months<sup>174</sup>. By October 2022, seven such meetings had taken place.

**76** In our recent report, we noted that the RRF milestones and targets are output- (or even input-) rather than outcome-oriented. This limits the possibility of measuring the performance of measures and ultimately their impact on the EU policy objectives of the RRF<sup>175</sup>.

### Performance disconnected from financial reporting for cohesion policy

**77** Performance-monitoring arrangements for cohesion policy funds are set out in the CPR. These arrangements are binding for all Member States and are disconnected from payments, both in terms of the timing and the process, except in the case of output-based SCOs and FNLTC:

- The monitoring committee of each programme meets at least once a year and examines, among other things, progress made in implementing the programme and achieving its milestones and targets<sup>176</sup>.
- The Commission examines performance with each Member State at an annual performance review meeting<sup>177</sup>.
- Each programme will undergo a mid-term review in 2025 to determine allocation of half of the funding for 2026 and 2027, examining, inter alia, progress in achieving the milestones taking into account major difficulties encountered in the implementation<sup>178</sup>.
- Progress in achieving programme objectives is also examined based on the final performance report<sup>179</sup>.

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<sup>174</sup> Article 26 of the [RRF Regulation](#).

<sup>175</sup> [Special report 21/2022](#), paragraphs 88-89.

<sup>176</sup> Articles 38(1), 38(3) and 40(1) of the [CPR](#).

<sup>177</sup> Article 41(1) of the [CPR](#).

<sup>178</sup> Articles 18 and 86(1) of the [CPR](#).

<sup>179</sup> Article 43 of the [CPR](#).

**78** Member States must report data on cohesion policy programme implementation to the Commission more frequently than they do for the RRF; they must electronically transmit financial implementation data five times a year, and performance data twice a year<sup>180</sup>. The CPR does not require the Commission to report annually to the Parliament and the Council, but information is included in the programme statements attached to the draft budget<sup>181</sup> and in Annual Management and Performance Report as part of the discharge procedure<sup>182</sup>.

### **Efforts were made to increase transparency of monitoring data, but other issues remain**

#### **Similar approaches to ensure transparency in the use of EU funding**

**79** The Commission has adopted similar approaches to both instruments to ensure transparency in the use of EU funding and to demonstrate progress in implementation. In the case of the RRF, the Commission has set up an online platform called the Recovery and Resilience Scoreboard, which is publicly accessible<sup>183</sup>. It fulfils a function similar to that of the open data platform under the cohesion policy funds (see [Box 15](#)).

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<sup>180</sup> Article 42(1) of the [CPR](#).

<sup>181</sup> Article 41(3)(h) of the [Financial Regulation](#).

<sup>182</sup> Article 318 [TFEU](#).

<sup>183</sup> [Commission Delegated Regulation \(EU\) 2021/2106](#).



## Box 15

### Online public platforms for performance data

The RRF's Recovery and Resilience Scoreboard<sup>184</sup> gives an overview of progress made in programme implementation. It includes data on the achievement of milestones and targets, committed and disbursed funds, the trend in common indicators within the structure of the six pillars, and thematic analyses<sup>185</sup>. The Commission is legally required to update the scoreboard at least twice a year using the data submitted by Member States in the context of the European Semester<sup>186</sup>. In fact, it is updated more frequently than this: it provides live data on payments and fulfilled milestones and targets.

The cohesion open data platform is a publicly available website that visualises data on the financing and achievements of cohesion policy funds<sup>187</sup>. For the 2014-2020 period, it presents the latest data available for the programmes with the planned amounts, daily updates on EU payments, annual information on the achievement of common indicators, and thematic analyses. Since October 2022, it displays planned investment and indicator targets from adopted 2021-2027 programmes.

**80** The Commission considers that “Member States are the beneficiaries of the RRF funds, which, once disbursed, enter the national budget”<sup>188</sup>. However, the use of the RRF funds must still comply with all applicable EU and national rules. Member States as the beneficiaries and borrowers of the funds, together with the Commission, must take appropriate measures to ensure that. Member States must also ensure that final recipients acknowledge that they have received EU funding<sup>189</sup>. However, not every measure contributing to investments and reforms supported under the RRF is specified in detail in the RRFs or in the CIDs. This carries the risk that EU financial support provided through the RRF may not be visible to recipients and citizens.

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<sup>184</sup> Recovery and Resilience Scoreboard.

<sup>185</sup> Article 1 of Commission Delegated Regulation (EU) 2021/2106.

<sup>186</sup> Articles 27 and 30 of the RRF Regulation.

<sup>187</sup> Cohesion Open Data Platform.

<sup>188</sup> COM(2022) 75, p. 60.

<sup>189</sup> Article 34(2) of the RRF Regulation.

## Limitations of the monitoring data

**81** Monitoring data is used to measure the progress and achievements of EU interventions. The most important sources of data are the common output and result indicators together with their baselines, milestones and targets, as applicable (for the cohesion policy programmes), and the milestones and targets (for the RRFs). We have previously commented on the large number of programme-specific indicators<sup>190</sup>, which can neither be aggregated to measure performance at EU level nor be used for comparisons between and across different cohesion policy programmes and RRFs<sup>191</sup>. The same applies to the milestones and targets for the RRF. There is only a limited number of common indicators to measure the overall performance of both instruments at EU level (see [Box 16](#)).

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<sup>190</sup> [Special report 24/2021](#), paragraph 42. [Briefing paper 2018](#): “Future of EU finances: reforming how the EU budget operates”, February 2018, paragraph 38. [Special report 02/2017](#): “The Commission’s negotiation of 2014-2020 Partnership Agreements and programmes in Cohesion: spending more targeted on Europe 2020 priorities, but increasingly complex arrangements to measure performance”, paragraphs 106-109, 113-115, 131, 147.

<sup>191</sup> [Briefing paper 2018](#): “Simplification in post-2020 delivery of Cohesion Policy”, May 2018, paragraph 59.

## Box 16

### Monitoring data

Programme- and RRP-specific indicators:

- Over the 2014-2020 period, more than 22 000 programme-specific indicators were set. The number of programme-specific indicators for the 2021-2027 period will be known when all programmes are adopted.
- A large number of milestones and targets were created for the RRFs by the Council so far: 5 889 in total, 2 166 for reforms and 3 723 for investments<sup>192</sup>. In some cases, these are complemented by intermediary steps, further increasing their total number<sup>193</sup>.

Common indicators :

- The fund-specific regulations set 87 common indicators for the 2014-2020 period. Member States selected the ones that were relevant to their cohesion policy programmes, and set targets to be achieved by the end of the period. The number of common indicators for the 2021-2027 period has increased to 234. All programmes will report on all common indicators regardless of whether targets have been set for them or not.
- The Commission was required to adopt a delegated act establishing common indicators to show the overall results of the RRF<sup>194</sup>. The Regulation defined 14 common indicators, of which the majority were the same as those in the cohesion fund-specific regulations<sup>195</sup>. However, they do not have associated targets to be achieved, and are not systematically linked to each RRF. They therefore give an overview of the RRF's performance.

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<sup>192</sup> Data from the RRF scoreboard as at October 2022.

<sup>193</sup> Commission Staff Working Document, "Identifying Europe's recovery needs", SWD(2020) 98 final, p. 36. Out of the selected Member States, intermediary steps were used in Spain and Romania.

<sup>194</sup> Article 29(4) of the [RRF Regulation](#).

<sup>195</sup> Annex to [Commission Delegated Regulation \(EU\) 2021/2106](#). Annexes I and II of the [ERDF/CF Regulation](#). Annex I of the [ESF+ Regulation](#).

**82** In the past, we have highlighted the difficulty in striking a good balance between the need to obtain meaningful monitoring data and the need to produce it at a reasonable cost<sup>196</sup>. Collecting, storing and reporting data for these indicators contributed significantly to administrative costs. Nevertheless, for the RRF, each milestone or target measures progress towards achieving a specific reform or completing an investment, and is used as a basis for disbursements.

**83** DG ECFIN checks the monitoring data for the RRF, and DGs REGIO and EMPL for the cohesion policy funds. Since an operation can be financed by both instruments, and since there are no checks to ensure that monitoring data is not disclosed twice, there is a risk that achievements may be doubly reported.

### **Ex-post evaluations come too late to inform the legislative proposals for the next period for both instruments**

**84** The Commission must carry out evaluations of both instruments in the course of implementation in 2024, and ex-post evaluations two years after the end of the eligibility periods to assess the long-term impact<sup>197</sup>. Member States must also carry out evaluations assessing one or more of the criteria set out in the Better Regulation Guidelines<sup>198</sup> (or other relevant criteria) and the impact of each programme<sup>199</sup>.

**85** The ex-post evaluations of both instruments will be available after the Commission's legislative proposals for the post-2027 cohesion policy framework have been drawn up. This means that only the evaluations and reviews carried out in the course of the implementation can inform the legislative proposals for the next period<sup>200</sup>. However, as we have pointed out previously<sup>201</sup>, the Regulations do not require the Commission to coordinate the evaluations during implementation for the RRF and the mid-term review of cohesion programmes planned in 2024 and 2025

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<sup>196</sup> [Special report 02/2017](#), paragraphs 131-132 and 154. [Briefing paper 2019](#): "Delivering performance in Cohesion", June 2019, paragraph 49.

<sup>197</sup> Article 32 of the [RRF Regulation](#). Article 45(2) of the [CPR](#).

<sup>198</sup> SWD(2021) 305, p. 23.

<sup>199</sup> Article 44(1) and 44(2) of the [CPR](#).

<sup>200</sup> [Briefing paper 2019](#): "Delivering performance in Cohesion", June 2019, paragraphs 107 and 109.

<sup>201</sup> [Special report 24/2021](#), paragraphs 81 and 124, and recommendation 2(b).

respectively, despite the lessons that could be learnt from an integrated approach covering both instruments.

## The cost of implementation will be difficult to assess for both instruments

**86** The cost of implementing an instrument includes various administrative expenditure (see [Box 17](#)).

### Box 17

#### Costs of implementing an instrument

The activities involved in preparing and implementing an instrument generate administrative costs at:

- Commission level: expenditure connected with programme approval and the supervision and verification of programme implementation, such as staff costs, studies, evaluations, analyses, dissemination of information actions and consultancy;
- Member State level: expenditure for programme preparation and management, monitoring, evaluation, information and communication, and control and audit activities, such as staff costs, consultancy, and IT costs.

**87** Calculating the cost of implementing the cohesion policy funds is not easy. The technical assistance provided to support Member States is a cost reimbursed from the EU budget, so it is a known amount. However, there is little or no information available on other administrative costs. The Commission carries out studies to estimate these global administrative costs; the last one was published in 2018<sup>202</sup>. In the past, we have found that cohesion policy is implemented at a comparatively low cost to other European and international programmes. However, we also noted that the data underlying these studies was incoherent, inconsistent and incomplete<sup>203</sup>.

<sup>202</sup> Commission (Spatial Foresight and t33), “[New assessment of ESIF administrative costs and burden](#)”, 2018.

<sup>203</sup> [Special report 07/2020](#): “Implementing Cohesion policy: comparatively low costs, but insufficient information to assess simplification savings”, paragraphs 41 and 67.

**88** Similarly, it will be difficult to estimate the cost of implementing the RRF, not least because the RRF Regulation does not require administrative costs to be reported to the Commission.

# Control and audit

## Different control and audit provisions

**89** The design of the control and audit framework must ensure that EU funds are implemented in line with the principles of sound financial management<sup>204</sup>, are legal and regular<sup>205</sup> and that the EU's financial interest is protected<sup>206</sup>. It must be adapted to the risks identified for the form of EU financial support specific to each instrument.

**90** For both cases, Member States implement a control and audit framework designed to provide the Commission with assurance that it may release payments, while the Commission conducts additional checks to verify the reliability of the framework in the context of preparing its annual activity reports and the declaration of assurance contained therein for the discharge procedure (see *Figure 10*).

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<sup>204</sup> Article 33 of the [Financial Regulation](#).

<sup>205</sup> Article 36(2) of the [Financial Regulation](#).

<sup>206</sup> Article 135 of the [Financial Regulation](#).

Figure 10 – Control and audit

BY TYPE	COHESION POLICY	RRF
<b>INTERNAL CONTROL AND AUDIT</b>		
<i>BEFORE PAYMENT</i>	<p>Member States provide assurance on the set-up of their management and control systems</p> <p>The Commission assesses Member States' control systems when approving partnership agreements and programmes</p>	<p>Member States describe their internal control systems in their RRF's</p> <p>The Commission assesses Member States' control systems and sets further milestones where necessary</p>
<i>AT PAYMENT</i>	<p>Member State level</p> <ul style="list-style-type: none"> <li>○ Legality and regularity of payments is based on the accuracy and veracity of expenditure, and compliance with the applicable EU and national rules</li> <li>○ Managing authorities carry out first-level checks on operations and exclude irregular expenditure declared by beneficiaries</li> <li>○ Audit authorities provide assurance on expenditure declared, management and control systems and the accounts</li> </ul> <p>The Commission carries out control and audit activities, including systems audits and audits on a sample of operations</p>	<p>Member State level</p> <ul style="list-style-type: none"> <li>○ Legality and regularity of payments is based on achievement of milestones and targets.</li> <li>○ Compliance with the applicable EU and national rules to protect the EU financial interests</li> </ul> <p>The Commission assesses whether milestones and targets have been satisfactorily fulfilled, failing which payment is suspended in part or in full</p>
<i>AFTER PAYMENT</i>	<p>The Commission:</p> <ul style="list-style-type: none"> <li>○ Carries out compliance audits in respect of the legality and regularity of expenditure declared, and system audits</li> <li>○ Suspends payments associated with expenditure affected by an irregularity or serious deficiency</li> </ul>	<p>The Commission carries out:</p> <ul style="list-style-type: none"> <li>○ ex post audits of milestones and targets, reported by the Member States following a risk assessment</li> <li>○ system audits of the monitoring data collection systems (before or after payment)</li> <li>○ system audits of measures to protect the EU financial interests, and ad hoc audits where serious irregularities are suspected</li> </ul>
<b>EXTERNAL AUDIT</b>	By the ECA	By the ECA

Source: ECA, based on the CPR and the RRF Regulation.



## Cohesion policy checks mainly focus on the regularity of expenditure declared

**91** In cohesion policy, control and audit focus mainly on the eligibility of costs incurred by beneficiaries and declared by managing authorities for each of the programmes. The Member States have specific responsibilities in connection with the checks to be carried out<sup>207</sup> (see **Box 18**).

### Box 18

#### The control and audit framework for cohesion policy funds at Member State level

The programme authorities in the Member States must fulfil detailed requirements.

- Managing authorities, when expenditure is reimbursed based on real costs, must check that expenditure complies with the applicable legislation, including public procurement and state aid rules, and the conditions for support of the programme<sup>208</sup>. For SCOs and the FNLTC model, management verifications are exclusively intended to verify that the conditions for reimbursement by the Commission have been satisfied<sup>209</sup>. Managing authorities should also have data on the beneficial owners of the recipients of the funds<sup>210</sup>, and publish the list of operations selected, including the beneficiaries<sup>211</sup>.
- Audit authorities must provide the Commission with an annual control report and an audit opinion that provides assurance as to the legality and regularity of declared expenditure, the effective functioning of the management and control systems and the completeness, accuracy and veracity of the accounts<sup>212</sup>.

**92** The Commission's assurance for making a payment comes mainly through checks on the regularity of the expenditure declared performed by the national authorities as

<sup>207</sup> Article 63(1) of the [Financial Regulation](#). Recital 55 of the [CPR](#).

<sup>208</sup> Articles 74(1)(a) and 95(3) and recital 34 of the [CPR](#).

<sup>209</sup> Articles 94(3) and 95(3) of the [CPR](#).

<sup>210</sup> Article 69(2) of the [CPR](#).

<sup>211</sup> Article 49(3) of the [CPR](#).

<sup>212</sup> Article 77(3) and recital 63 of the [CPR](#).

well as by the system audits carried out by them. The Regulation is also specific about the audit work required at Member State level, including the establishment of a clear audit trail, templates, and an audit timetable<sup>213</sup>. The Commission plays a supervisory role and, through its own audit work, satisfies itself that the systems set up by Member States function effectively and efficiently<sup>214</sup>.

**93** We have previously highlighted weaknesses in the work of audit authorities in the Member States and the Commission's supervision thereof<sup>215</sup>, affecting a significant share of the assurance packages<sup>216</sup>. Recently, we also noted a need for further clarification of the arrangements for providing assurance to the Commission when the FNLTC model is applied<sup>217</sup>.

### **RRF checks focus on the satisfactory fulfilment of milestones and targets**

**94** The control and audit framework for the RRF focuses on the satisfactory fulfilment of milestones and targets. It also reflects Member States' responsibility for ensuring that the instrument is implemented in compliance with EU and national rules (see [Box 19](#)).

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<sup>213</sup> Articles 70, and 77 to 82 and Annexes XIII, XIX to XXII of the [CPR](#).

<sup>214</sup> Article 70(1) of the [CPR](#).

<sup>215</sup> [Special report 26/2021](#): "Regularity of spending in EU Cohesion policy: Commission discloses annually a minimum estimated level of error that is not final", paragraphs 26, 29, 39 and 84. [2020 Annual reports](#), paragraph 5.38. [2019 Annual reports](#), paragraph 5.39.

<sup>216</sup> [2021 Annual reports](#), paragraphs 5.41-5.42.

<sup>217</sup> [Special report 24/2021](#), paragraph 128 and recommendation 4.

## Box 19

### The control and audit framework under the RRF at Member State level

- Member States are required to set up an internal control system to ensure that the use of RRF funds complies with the applicable EU and national law. They may use their own national budget management system to do this<sup>218</sup>. They must also keep track of data on RRF final recipients and a list of funded measures<sup>219</sup>, even if this information is not made publicly available. This information can be requested for audit and control purposes by the Commission, OLAF, EPPO and the ECA<sup>220</sup>.
- Audit is also part of Member States' control responsibilities. Member States must state in their RRFs which national body is responsible for audit. A summary of the audits carried out, including weaknesses and corrective actions taken, must accompany each payment request<sup>221</sup>.

**95** In the RRF approval process, the Commission assessed the control and audit framework described by Member States in their RRFs<sup>222</sup>. This assessment does not cover risks associated with non-compliance with public procurement and state aid rules. All 26 frameworks of the RRFs adopted by October 2022 were assessed as adequate. In 19 cases the Commission agreed specific milestones with the Member State to remedy deficiencies identified before the first disbursement is made<sup>223</sup>, excluding the pre-financing.

**96** The Commission had also shared a self-assessment checklist on control systems with the Member States in March 2021, before any RRF was submitted. However, some aspects of the Commission's audit methodology for the RRF, such as the audit trail and sampling methods, were finalised only after the RRFs were adopted. The Commission finalised its audit methodology as late as December 2021, after the first payment requests were submitted. This may have created uncertainty regarding

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<sup>218</sup> Article 22(1) of the [RRF Regulation](#).

<sup>219</sup> Article 22(2)(d) of the [RRF Regulation](#).

<sup>220</sup> Article 22(2)(e) of the [RRF Regulation](#).

<sup>221</sup> Article 22(2)(c)(ii) of the [RRF Regulation](#).

<sup>222</sup> Article 19(3)(j), Article 24(3), Recital 18 and criterion 2.10 in Annex V of the [RRF Regulation](#).

<sup>223</sup> SWD(2021) 12, Part 1/2, p. 48. COM(2022) 75, p. 61.

responsibilities and the scope of controls and audits, which may in turn have led to inconsistent implementation across the Member States.

**97** The Commission’s assurance for payments comes primarily from its desk checks on the satisfactory fulfilment of milestones and targets for each installment. During the implementation period, the Commission also carries out system audits of the monitoring data collection system in the Member States. These audits may be carried out before or after the disbursements are made. In addition, the Commission may also carry out ex-post audits on the reporting of milestones and targets in the Member States; these audits are only carried after the disbursement has been made. We are currently working on an audit on the design of the RRF audit and control framework. We plan to publish our report in 2023.

### **The method for applying suspensions or making partial payments for the non-attainment of milestones and targets under the RRF awaits clarification**

**98** In cohesion policy, as we previously reported, there are no preventive measures or financial corrections for underachievement of results<sup>224</sup>. This is also the case for the 2021-2027 period. However, the Commission must carry out an annual performance review meeting for each programme together with the Member State to monitor progress towards the agreed milestones and targets. Where there are significant deviations that could affect the implementation of the programme, the Member State must adopt remedial measures and inform the Commission within three months<sup>225</sup>.

**99** This is different for the RRF where the Commission must suspend all or part of a payment if it considers that one or more milestones and targets have not been satisfactorily achieved. Once such a suspension is made, unless the Member State remedies the situation within six months, the Commission must reduce the amount of financial support<sup>226</sup>. However, the Commission still needs to clarify the method to

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<sup>224</sup> [Special report 04/2017](#): “Protecting the EU budget from irregular spending: The Commission made increasing use of preventive measures and financial corrections in Cohesion during the 2007-2013 period”, paragraph 25. [Special report No 36/2016](#): “An assessment of the arrangements for closure of the 2007-2013 cohesion and rural development programmes”, paragraph 48.

<sup>225</sup> Article 41 of the [CPR](#).

<sup>226</sup> Articles 24(6) and 24(8) of the [RRF Regulation](#).

determine the share of a payment that is to be suspended or reduced for the non-attainment of milestones and targets, as we have also highlighted in our 2021 annual report<sup>227</sup>. The absence of a clearly set out method carries the risk that partial payments may not be consistently applied to Member States.

## The application of the measures to protect the EU's financial interests for the RRF needs to be further clarified

### Payment retentions to protect the EU budget are needed for the cohesion policy funds

**100** Payment retentions protect the EU budget from the financial consequences of errors in Member States' cost declarations which may be detected after disbursement. In cohesion policy, the Commission applies such retentions to each interim payment. For the 2021-2027 period, the percentage decreased to 5 %<sup>228</sup>, compared to 10 % in the previous period. In the past we have recommended a legislative review to ensure that the retained payment is adequately protected before it is released<sup>229</sup>.

**101** No such mechanism is in place for the RRF, as the Commission agrees on the conditions for disbursement in advance when it negotiates the RRP, and only assesses whether the relevant milestones and targets have been met before authorising payment.

### For cohesion policy funds, the Commission can apply payment suspensions and financial corrections to protect the EU's financial interests

**102** Measures to protect the EU budget aim to ensure that only regular spending is financed. Primarily, it is the Member States' responsibility to detect, correct and prevent irregularities<sup>230</sup>. If this is not adequately done, the Commission may use a series of additional measures to protect the EU budget.

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<sup>227</sup> 2021 Annual reports, paragraph 10.28 and recommendation 10.2.

<sup>228</sup> Article 93(2) of the CPR. Article 130(1) of the 2014-2020 CPR.

<sup>229</sup> Special report 26/2021, paragraph 77 and recommendation 1.

<sup>230</sup> Article 103 of the CPR.

**103** For cohesion policy funds, the Commission can suspend payments until Member States have taken the necessary corrective actions and, if necessary, impose financial corrections (see [Box 20](#)).

## Box 20

### Use of financial corrections and suspensions to protect the EU budget under cohesion policy

Under cohesion policy, financial corrections are imposed when an irregularity has been declared or accepted by the Member State. The Commission may impose them in the case of serious deficiencies in the Member State's management and control systems which have led to systemic errors or for individual irregularities<sup>231</sup>. Depending on the seriousness of the deficiencies, the Commission may impose a flat-rate correction of 5 %, 10 %, 25 % or even 100 %<sup>232</sup>. However, this does not necessarily lead to a reduction of the amount of support made available to a programme, as other regular expenditure can be claimed for other measures<sup>233</sup>. Whether this happens in practice, however, depends on the Member States' ability to declare additional expenditure. The competent authority in the Member State must recover any irregular amounts paid to beneficiaries<sup>234</sup>.

Net financial corrections in cohesion policy are used when an irregularity was not adequately corrected by the Member State. Only a net financial correction implies the loss of financial support for the Member State by the EU budget<sup>235</sup>.

Finally, the Commission can also apply payment interruptions and suspensions as preventive measures<sup>236</sup>. These result in a deferral of payments from the EU budget, putting additional pressure on the Member States to take the necessary corrective action<sup>237</sup>.

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<sup>231</sup> Article 104(1) of the [CPR](#).

<sup>232</sup> Article 104(1) and Annex XXV of the [CPR](#).

<sup>233</sup> Article 104(4) of the [CPR](#).

<sup>234</sup> Article 69 of the [CPR](#).

<sup>235</sup> Article 104(1) and 104(4) of the [CPR](#).

<sup>236</sup> Articles 96 and 97 of the [CPR](#).

<sup>237</sup> [Special report 04/2017](#), paragraphs 14-17 and Box 1.

**104** In the past, for cohesion policy funds, we have noted that the Commission made increasing use of preventive measures and financial corrections in the 2007-2013 period. We have also noted that the regulatory provisions of the 2014-2020 period significantly increased the Commission's ability to protect the EU budget from irregular expenditure<sup>238</sup>. Until 2021, as we have reported, the Commission has not imposed any net financial corrections on Member States for the 2014-2020 period<sup>239</sup>.

### **For the RRF the Commission relies more on the effectiveness of national systems to protect the EU's financial interests**

**105** For the RRF, the Commission also has the power to proportionately reduce the financial support allocated to Member States and to recover any amount due or to ask for early repayment of loans. The Commission can do so for serious irregularities related to fraud, corruption, conflict of interest or a serious breach of obligations, as well as cases of incorrect information regarding the fulfilment of milestones and targets being provided by Member States<sup>240</sup>.

**106** To recover or ask early repayment of loans, the Commission must establish that irregularities or serious breaches of obligations have occurred. If a deficiency in the control system of a Member State for the RRF leads to a serious breach of the financing agreement, the Commission may reduce the EU financial support and recover 5 %, 10 %, 25 % or even 100 % of the financial contribution allocated to the Member State, or in case of a loan ask for early repayment<sup>241</sup>. However, unlike for cohesion policy funds, there is no common control framework as Member States use their national systems for implementing the RRF. In the absence of further criteria and guidance on the application of recoveries by the Commission, there remains a risk that these flat rates may not be consistently applied to Member States.

**107** Regardless of the management mode, the Commission is ultimately responsible for implementing the EU budget<sup>242</sup>. In particular, the Commission must ensure that the financial interests of EU are effectively protected; to do so, it must obtain sufficient

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<sup>238</sup> [Special report 04/2017](#), paragraphs 141-143 and 149.

<sup>239</sup> [2021 Annual reports](#), paragraph 1.44. [2020 Annual reports](#), paragraph 1.43.

<sup>240</sup> Article 22(5) of the [RRF Regulation](#).

<sup>241</sup> Article 22(5) of the [RRF Regulation](#). Article 19 of the financing agreements.

<sup>242</sup> [2021 Annual reports](#), paragraph 1.33.

assurance from Member States that they implement the RRF in compliance with the EU and national law. As compared to cohesion policy funds, it also relies to a higher degree on the effectiveness of national systems to prevent, detect and correct irregularities and the timely information thereof reported by the Member States. Nevertheless, the Commission considers that it can authorise disbursements as long as milestones and targets are achieved<sup>243</sup>, even if it may be aware of irregularities in using the funds detected at Member State level.

### **Member States can use different systems to report irregularities detected for cohesion policy funds and the RRF**

**108** The protection of the EU's financial interests also involves measures taken to counter any illegal activities that may affect the EU budget<sup>244</sup>. This requires a system to be in place to counter fraud, corruption and conflicts of interests at Member State level, and involves checks being performed by the Commission as laid down in the RRF audit strategy.

**109** For cohesion policy funds, Member States must report irregularities they detect in the Commission's Irregularity Management System (IMS)<sup>245</sup>, and expenditure under examination is excluded from the accounts<sup>246</sup>. The required information includes the identity of the beneficiaries involved. For the RRF, Member States are not legally obliged to report irregularities in the IMS, but may do so on a voluntary basis. Instead, all Member States must report suspected fraud cases in their management declaration that accompanies the payment request.

### **Potential for using integrated data mining and risk-scoring tools not yet fully exploited by cohesion policy and the RRF**

**110** Nearly 10 years ago, the Commission created a single data-mining and risk-scoring tool, 'Arachne', for uploading details of risky economic operators<sup>247</sup>. The Commission recommended that Member States use Arachne in connection with both

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<sup>243</sup> Article 24 of the [RRF Regulation](#).

<sup>244</sup> Article 325 [TFEU](#).

<sup>245</sup> Article 69(12) of the [CPR](#).

<sup>246</sup> Article 98(6) and Annex XVIII of the [CPR](#).

<sup>247</sup> Article 22(4) of the [RRF Regulation](#) and recital 72 of the [CPR](#).



instruments. Its usefulness, however, depends on the data uploaded by Member States, and so far not all of them use it<sup>248</sup>. So far, 19 Member States have committed to using Arachne for the RRF. By October 2022, it was not yet clear how many Member States had committed to using it for the 2021-2027 cohesion policy programmes.

**111** In the past, we have highlighted Arachne’s potential as an effective fraud prevention tool<sup>249</sup>. However, recently we found that the utility of Arachne was limited by its restricted scope of application in the context of shared management<sup>250</sup>. For example the IMS is not linked to Arachne. The revision of the Financial Regulation will provide an opportunity to make the use of integrated data mining and risk-scoring tools mandatory for all methods of EU budget implementation in the post-2027 period.

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<sup>248</sup> Annual Activity Report 2020 – Directorate-General Regional and Urban Policy, p. 55. [Special report 01/2019: “Fighting fraud in EU spending: action needed”](#), paragraph 86.

<sup>249</sup> [Special report 01/2019](#), paragraphs 85-88 and recommendation 3.3. [Special report 10/2015: “Efforts to address problems with public procurement in EU cohesion expenditure should be intensified”](#), paragraphs 90-94 and recommendation 6.

<sup>250</sup> [Special report 11/2022: “Protecting the EU budget – Better use of blacklisting needed”](#), paragraph 85.

## Closing remarks

**112** Our review illustrates that the Recovery and Resilience Facility (RRF) and the cohesion policy funds have considerable similarities. At the same time, both instruments differ in many respects due to their different purposes. Cohesion policy is the EU's main long-term investment policy to promote the economic, social and territorial development of Member States and regions, and the RRF is a temporary crisis-response tool to mitigate the impact of the COVID-19 pandemic on Member States' economies and to enhance the resilience of the EU and its Member States against future shocks.

**113** Both the 2021-2027 cohesion policy funds and the RRF are still in their early stages of implementation. Deploying the RRF simultaneously with the cohesion policy funds will provide additional insights in how the differences in the regulatory framework affect implementation and results.

This review was adopted by the Court of Auditors in Luxembourg at its meeting of 8 December 2022.

*For the Court of Auditors*

Tony Murphy  
*President*

# Annexes

## Annex I – Previous ECA reports

### Special reports

- [Special report 10/2015](#): “Efforts to address problems with public procurement in EU cohesion expenditure should be intensified”
- [Special report 36/2016](#): “An assessment of the arrangements for closure of the 2007-2013 cohesion and rural development programmes”
- [Special report 02/2017](#): “The Commission’s negotiation of 2014-2020 Partnership Agreements and programmes in Cohesion: spending more targeted on Europe 2020 priorities, but increasingly complex arrangements to measure performance”
- [Special report 04/2017](#): “Protecting the EU budget from irregular spending: The Commission made increasing use of preventive measures and financial corrections in Cohesion during the 2007-2013 period”
- [Special report 17/2018](#): “Commission’s and Member States’ actions in the last years of the 2007-2013 programmes tackled low absorption but had insufficient focus on results”
- [Special report 01/2019](#): “Fighting fraud in EU spending: action needed”
- [Special report 07/2020](#): “Implementing Cohesion policy: comparatively low costs, but insufficient information to assess simplification savings”
- [Special report 10/2020](#): “EU transport infrastructures: more speed needed in megaproject implementation to deliver network effects on time”
- [Special report 16/2020](#): “The European Semester – Country Specific Recommendations address important issues but need better implementation”
- [Special report 14/2021](#): “Interreg cooperation: The potential of the European Union’s cross-border regions has not yet been fully unlocked”
- [Special report 24/2021](#): “Performance-based financing in Cohesion policy: worthy ambitions, but obstacles remained in the 2014-2020 period”

- [Special report 26/2021](#): “Regularity of spending in EU Cohesion policy: Commission discloses annually a minimum estimated level of error that is not final”
- [Special report 11/2022](#): “Protecting the EU budget – Better use of blacklisting needed”
- [Special report 21/2022](#): “The Commission’s assessment of national recovery and resilience plans: overall appropriate but implementation risks remain”

### Reviews and briefing papers

- [Briefing paper 2018](#): “Future of EU finances: reforming how the EU budget operates”, February 2018
- [Briefing paper 2018](#): “Simplification in post-2020 delivery of Cohesion Policy”, May 2018
- [Rapid case review 2019](#): “Allocation of cohesion policy funding to Member States for 2021-2027”, March 2019
- [Rapid case review 2019](#): “Outstanding commitments in the EU budget – A closer look”, April 2019
- [Briefing paper 2019](#): “Delivering performance in Cohesion”, June 2019
- [Review 05/2021](#): “The EU framework for large transport infrastructure projects: an international comparison”

### Annual reports





















- 2016 [Annual report](#), chapter 2
- 2019 [Annual reports](#), chapter 5
- 2020 [Annual reports](#), chapter 2
- 2021 [Annual reports](#), chapters 1, 2 and 10








### Opinions

- [Opinion No 06/2020](#) concerning the proposal for a regulation of the Parliament and of the Council establishing a Recovery and Resilience Facility

- [Opinion No 04/2022](#) concerning the proposal for a Regulation of the Parliament and of the Council amending Regulation (EU) 2021/241 as regards REPowerEU chapters in recovery and resilience plans and amending Regulation (EU) 2021/1060, Regulation (EU) 2021/2115, Directive 2003/87/EC and Decision (EU) 2015/1814 [2022/0164 (COD)]

## Annex II – The planned contribution of the RRF to the six pillars broken down by Member State























		<b>Pillar 1</b> <i>Green transition</i>	<b>Pillar 2</b> <i>Digital transformation</i>	<b>Pillar 3</b> <i>Smart, sustainable and inclusive growth and jobs</i>	<b>Pillar 4</b> <i>Social and territorial cohesion</i>	<b>Pillar 5</b> <i>Health, economic, social and institutional resilience</i>	<b>Pillar 6</b> <i>Policies for the next generation</i>
	Belgium	64 %	30 %	32 %	48 %	11 %	15 %
	Bulgaria	64 %	33 %	47 %	27 %	18 %	11 %
	Czechia	66 %	24 %	40 %	33 %	23 %	14 %
	Denmark	59 %	24 %	86 %	18 %	13 %	
	Germany	47 %	53 %	51 %	11 %	29 %	9 %
	Estonia	42 %	22 %	71 %	21 %	43 %	1 %
	Ireland	56 %	32 %	40 %	49 %	10 %	13 %
	Greece	44 %	23 %	86 %	29 %	12 %	5 %
	Spain	50 %	30 %	42 %	56 %	14 %	8 %
	France	53 %	21 %	53 %	28 %	21 %	23 %
	Croatia	76 %	26 %	45 %	26 %	15 %	12 %
	Italy	46 %	30 %	48 %	50 %	15 %	12 %
	Cyprus	52 %	25 %	65 %	25 %	19 %	13 %
	Latvia	39 %	22 %	46 %	54 %	26 %	13 %
	Lithuania	44 %	36 %	53 %	25 %	25 %	18 %
	Luxembourg	65 %	33 %	43 %	46 %	13 %	
	Hungary						
	Malta	55 %	23 %	28 %	41 %	34 %	19 %
	Netherlands	71 %	26 %	52 %	37 %	7 %	7 %
	Austria	52 %	41 %	44 %	45 %	9 %	9 %

		<b>Pillar 1</b> <i>Green transition</i>	<b>Pillar 2</b> <i>Digital transformation</i>	<b>Pillar 3</b> <i>Smart, sustainable and inclusive growth and jobs</i>	<b>Pillar 4</b> <i>Social and territorial cohesion</i>	<b>Pillar 5</b> <i>Health, economic, social and institutional resilience</i>	<b>Pillar 6</b> <i>Policies for the next generation</i>
	Poland	56 %	23 %	24 %	68 %	21 %	9 %
	Portugal	55 %	23 %	48 %	47 %	19 %	8 %
	Romania	57 %	21 %	42 %	46 %	22 %	13 %
	Slovenia	57 %	23 %	33 %	36 %	36 %	15 %
	Slovakia	51 %	21 %	48 %	24 %	38 %	17 %
	Finland	54 %	35 %	50 %	39 %	21 %	1 %
	Sweden	56 %	29 %	18 %	67 %	14 %	15 %
	<b>EU average</b>	<b>55 %</b>	<b>28 %</b>	<b>47 %</b>	<b>38 %</b>	<b>20 %</b>	<b>12 %</b>






Source: ECA, based on the estimated primary and secondary contribution of RRF funds planned for each measure towards two of the six pillars as reported by the Commission in the [‘Recovery and Resilience Scoreboard’](#) for 25 of the 26 RRFs adopted by the Council by end of October 2022.

## Annex III – Allocation of the 2021-2027 cohesion policy funds, the RRF grants (provisional and final allocation) and the RRF loans activated

in billion euros

		COHESION POLICY FUNDS 2021-2027					RRF GRANTS*			RRF LOANS ACTIVATED	Cohesion Policy Funds 2021-2027, RRF grants (final allocation) and RRF loans activated			
		ERDF	ESF+	CF	ETC	TOTAL	Provisional Allocation until 30.6.2022		Final Allocation as of 30.6.2022					
							70 % of the amount available	30 % of the amount available	TOTAL	70 % of the amount available	30 % of the amount available	TOTAL		
	Belgium	1.1	1.2		0.4	<b>2.7</b>	3.6	2.3	5.9	3.6	0.9	<b>4.5</b>		<b>7.2</b>
	Bulgaria	5.7	2.6	1.3	0.1	<b>9.8</b>	4.6	1.6	6.3	4.6	1.1	<b>5.7</b>		<b>15.3</b>
	Czechia	10.4	2.7	6.4	0.3	<b>19.8</b>	3.5	3.5	7.1	3.5	4.1	<b>7.6</b>		<b>27.4</b>
	Denmark	0.1	0.1		0.3	<b>0.5</b>	1.3	0.2	1.6	1.3	0.1	<b>1.4</b>		<b>1.9</b>
	Germany	10.9	6.5		1.0	<b>18.4</b>	16.3	9.3	25.6	16.3	11.7	<b>28.0</b>		<b>46.4</b>
	Estonia	1.7	0.5	0.8	0.1	<b>3.1</b>	0.8	0.2	1.0	0.8	0.1	<b>0.9</b>		<b>4.0</b>
	Ireland	0.4	0.5		0.3	<b>1.2</b>	0.9	0.1	1.0	0.9		<b>0.9</b>		<b>2.1</b>
	Greece	11.5	5.8	3.0	0.1	<b>20.4</b>	13.5	4.3	17.8	13.5	3.9	<b>17.4</b>	<b>12.7</b>	<b>50.5</b>
	Spain	23.5	11.2		0.7	<b>35.4</b>	46.6	22.9	69.5	46.6	30.6	<b>77.2</b>		<b>112.6</b>
	France	9.1	6.7		1.1	<b>16.8</b>	24.3	15.0	39.4	24.3	13.1	<b>37.4</b>		<b>54.3</b>
	Croatia	5.4	2.0	1.2	0.2	<b>8.7</b>	4.6	1.7	6.3	4.6	0.9	<b>5.5</b>		<b>14.3</b>
	Italy	26.6	14.5		1.0	<b>42.1</b>	47.9	21.0	68.9	47.9	21.1	<b>69.0</b>	<b>122.6</b>	<b>233.6</b>
	Cyprus	0.5	0.2	0.2	0.0	<b>0.9</b>	0.8	0.2	1.0	0.8	0.1	<b>0.9</b>	<b>0.2</b>	<b>2.0</b>
	Latvia	2.5	0.7	1.0	0.0	<b>4.3</b>	1.6	0.3	2.0	1.6	0.2	<b>1.8</b>		<b>6.0</b>
	Lithuania	3.5	1.1	1.4	0.1	<b>6.1</b>	2.1	0.1	2.2	2.1	0.0	<b>2.1</b>		<b>8.2</b>
	Luxembourg	0.0	0.0		0.0	<b>0.1</b>	0.1	0.0	0.1	0.1	0.0	<b>0.1</b>		<b>0.1</b>
	Hungary	13.4	5.5	2.6	0.2	<b>21.7</b>	4.6	2.5	7.2	4.6	1.2	<b>5.8</b>		<b>27.5</b>
	Malta	0.5	0.1	0.2	0.0	<b>0.8</b>	0.2	0.1	0.3	0.2	0.1	<b>0.3</b>		<b>1.1</b>
	Netherlands	0.5	0.4		0.4	<b>1.3</b>	3.9	2.0	6.0	3.9	0.8	<b>4.7</b>		<b>6.0</b>
	Austria	0.5	0.4		0.2	<b>1.1</b>	2.2	1.2	3.5	2.2	1.5	<b>3.7</b>		<b>4.8</b>
	Poland	47.4	14.9	9.3	0.6	<b>72.2</b>	20.3	3.6	23.9	20.3	2.3	<b>22.6</b>	<b>11.5</b>	<b>106.3</b>
	Portugal	11.5	7.5	3.4	0.1	<b>22.5</b>	9.8	4.1	13.9	9.8	5.8	<b>15.6</b>	<b>2.7</b>	<b>40.8</b>



COHESION POLICY FUNDS 2021-2027						RRF GRANTS*						RRF LOANS	Cohesion Policy Funds 2021-2027, RRF grants (final allocation) and RRF loans activated
						Provisional Allocation until 30.6.2022			Final Allocation as of 30.6.2022			ACTIVATED	
	ERDF	ESF+	CF	ETC	TOTAL	70 % of the amount available	30 % of the amount available	TOTAL	70 % of the amount available	30 % of the amount available	TOTAL		
 Romania	17.1	8.2	3.5	0.4	<b>29.2</b>	10.2	4.0	14.2	10.2	1.9	<b>12.1</b>	14.9	<b>56.2</b>
 Slovenia	1.5	0.7	0.7	0.1	<b>3.1</b>	1.3	0.5	1.8	1.3	0.2	<b>1.5</b>	<b>0.7</b>	<b>5.2</b>
 Slovakia	8.1	2.4	1.6	0.2	<b>12.4</b>	4.6	1.7	6.3	4.6	1.4	<b>6.0</b>		<b>18.3</b>
 Finland	0.9	0.6		0.2	<b>1.7</b>	1.7	0.4	2.1	1.7	0.2	<b>1.9</b>		<b>3.6</b>
 Sweden	0.8	0.7		0.4	<b>1.9</b>	2.9	0.4	3.3	2.9	0.3	<b>3.2</b>		<b>5.2</b>
Technical Assistance	0.8	0.3	0.1	0.0	<b>1.3</b>								<b>1.2</b>
Transnational Cooperation		0.2			<b>0.2</b>								<b>0.2</b>
Interregional Innovation	0.6				<b>0.6</b>								<b>0.6</b>
European Urban Initiative	0.6				<b>0.6</b>								<b>0.6</b>
Interregional Cooperation				0.6	<b>0.6</b>								<b>0.6</b>
<b>TOTAL EU</b>	<b>217</b>	<b>98</b>	<b>37</b>	<b>9</b>	<b>361</b>	<b>234</b>	<b>104</b>	<b>338</b>	<b>234</b>	<b>104</b>	<b>338</b>	<b>165</b>	<b>864</b>

\* **Note to RRF grants:** pursuant to Article 11 of the RRF Regulation, the calculation of the maximum financial contribution for the 30 % of the allocated grant amount per Member State was updated on 30 June 2022. This was done to take into account the latest data on the GDP for 2020 and 2021.

Source: ECA, based on Commission data, Annex IV of the RRF Regulation and the Commission note to the Council and Parliament 'RRF: update of the RRF maximum financial contribution' of 30.6.2022. The amounts are rounded for presentation purposes.

# Acronyms and abbreviations

**CEF:** Connecting Europe Facility

**CF:** Cohesion Fund

**CID:** Council Implementing Decision

**CPR:** Common Provisions Regulation

**CRII:** Coronavirus Response Initiative

**CSR:** Country-Specific Recommendations

**DG ECFIN:** Directorate-General for Economic and Financial Affairs

**DG EMPL:** Directorate-General for Employment, Social Affairs and Inclusion

**DG REGIO:** Directorate-General for Regional and Urban Policy

**ERDF:** European Regional Development Fund

**ESF+:** European Social Fund+

**ETC:** European Territorial Cooperation

**FNLTC:** Financing Not Linked To Costs model

**GDP:** Gross Domestic Product

**GNI:** Gross National Income

**MFF:** Multiannual Financial Framework

**NGEU:** NextGenerationEU

**OECD:** Organisation for Economic Co-operation and Development

**RRF:** Recovery and Resilience Facility

**RRPs:** Recovery and Resilience Plans

**SCOs:** Simplified cost options

**TFEU:** Treaty on the Functioning of the European Union

# Glossary

**Country-specific recommendations:** Annual guidance which the Commission issues, as part of the European Semester, to individual Member States on their macroeconomic, budgetary and structural policies.

**Do no significant harm:** Principle that investment measures should have no major detrimental environmental impact.

**European Pillar of Social Rights:** Framework for delivering new and more effective social rights for EU citizens.

**European Semester:** Annual cycle which provides a framework for coordinating the economic policies of EU Member States and monitoring progress.

**Milestone:** For cohesion policy, intermediate value in relation to an output indicator used under a specific objective, to be achieved by a pre-determined date. For the RRF, qualitative measure of progress towards the achievement of a reform or an investment.

**Multiannual financial framework:** The EU's spending plan setting priorities (based on policy objectives) and ceilings, generally for seven years. It provides the structure within which annual EU budgets are set, limiting spending for each category of expenditure.

**Partnership agreement:** An agreement between the Commission and a Member State or third country/-ies in the context of an EU spending programme, setting out, for example, strategic plans, investment priorities or the terms of trade or development aid provision.

**Single project pipeline:** The number of projects that a Member State intends/can implement, which are in the process of 'maturing' with the studies required for their implementation.

**Target:** For cohesion policy, pre-agreed final value to be achieved in relation to an indicator used under a specific objective. For the RRF, quantitative measure of progress towards the achievement of a reform or an investment.

## ECA team

This report was adopted by Chamber II Investment for cohesion, growth and inclusion spending areas, headed by ECA Member Annemie Turtelboom. The task was led by ECA Member Ladislav Balko, supported by Branislav Urbanic, Head of Private Office and Zuzana Frankova, Private Office Attaché; Friedemann Zippel, Principal Manager; Chrysoula Latopoulou, Head of Task; Cristina Jianu, Deputy Head of Task; Marion Boulard, Mariya Zhekova, Francisco Carretero Llorente and Lena Rangus, Auditors. Alexandra Mazilu and Agnese Balode provided graphic design support.



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**This review provides a comparative analysis of cohesion policy funds and the Recovery and Resilience Facility (RRF).**

**The two instruments have considerable similarities, but also differ in many respects. The cohesion policy is the EU's main long-term investment policy to promote economic, social and territorial development, while the RRF is an ad hoc, temporary 'crisis response' tool. It aims to mitigate the impact of the COVID-19 pandemic on the EU economy and to enhance the resilience of the EU and its Member States against future shocks.**

**Both the 2021-2027 cohesion policy funds and the RRF are still in their early stages of implementation. In the coming years, simultaneous deployment of the two instruments will show how their different approaches achieve their respective objectives.**

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