N O V E

GUIDE TO NEXT GENERATION EU

What is in the EU Recovery Instrument and how can it be accessed?

AUGUST 2020

NEXT GENERATION EU – AN OVERVIEW

On 21 July 2020, the 27 European Union (EU) heads of state or government reached a deal on the bloc's next 7-year budget (Multiannual Financial Framework, or MFF) and the new Recovery Instrument, also known as Next Generation EU (NGEU). NGEU is a temporary emergency instrument created to jump-start the EU's recovery, and which will complement the MFF by leveraging €750 billion of additional investment that would help Member States implement reforms, create jobs, and promote recovery, whilst supporting the EU's green and digital transitions.

To raise these €750 billon, the European Commission (EC) will, via an Own Resources Decision, borrow funds on the capital markets on behalf of the EU. The funds will be allocated as follows: **€390 bn in grants** and **€360 bn in loans**. These funds will be channelled through **7 individual programmes**,[1] with the **Recovery and Resilience Facility (RRF)** being the major one (Figure 1).

This Guide explores and explains what NGEU **will consist of**, how the **funding will be accessed by Member States**, who the **key decision-makers** are, and what the **next steps** will be.

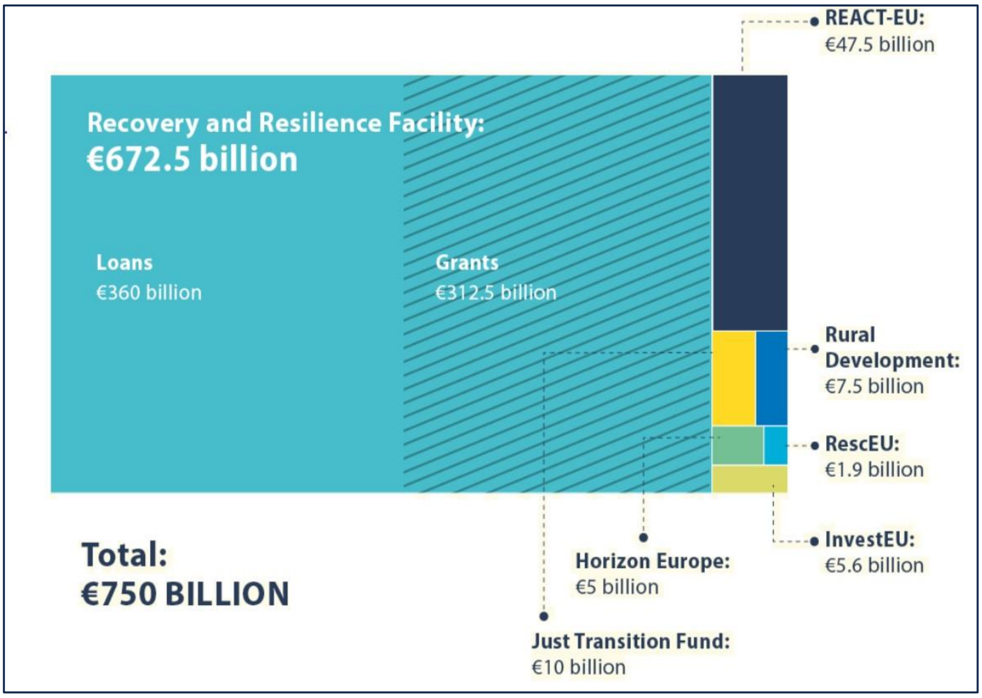

Figure 1: NGEU per-programme allocation

[1] Recovery and Resilience Facility, ReactEU, Horizon Europe, InvestEU, Rural Development, Just Transition Fund, and RescEU

STATE OF PLAY

Commenting on the outcome of the July European Council (EUCO) meeting, the **European Parliament's negotiators** on the MFF **were critical** of elements of the compromise, such as **cuts to the core MFF** (such as funding for health, R&I, and the neighbourhood) and insufficient **modernisation of the own resources** system. They warned that the **Parliament's consent should not be taken for granted**. Several political groups have tabled a motion for a resolution confirming the Parliament's **readiness to enter into negotiations** immediately and **setting out the conditions for its consent to the MFF**.

Contested elements in the upcoming negotiations between the Parliament and the Council include: funding for **research and innovation**, **health**, and the **Just Transition Fund**, as well as a firm commitment to introducing **new own resources**, and a strong mechanism on **respect for the rule of law as a condition for Member States to access NGEU money**.

RECOVERY AND RESILIENCE FACILITY – NGEU'S CORE COMPONENT

As mentioned above, the Recovery and Resilience Facility (RRF) represents the **lion's share** of NGEU funding - **€672.5 bn**, of which **loans €360 bn** and **grants €312.5 bn.**

NATIONAL RECOVERY AND RESILIENCE PLANS – AN OVERVIEW

The RRF money will be channelled through **national recovery and resilience plans** which would set out Member States' reform and investment agenda for the **years 2021-23**. The plans will be reviewed and **adapted as necessary in 2022** to take account of the final allocation of funds for 2023. The plans should outline **reforms and investments** for **addressing the challenges** identified in the context of the **European Semester**, in particular those related to the **green and digital transitions**. They should also explain how they contribute to the **growth potential, resilience** and **cohesion** of the concerned Member State (MS).

PROCEDURE FOR ADOPTION

Member States will submit their recovery and resilience plans to the Commission. This can be done **each year until 2022, at the latest by 30 April of each year**. For 2020, this can be done **already in October**.

The **recovery and resilience plans** shall be **assessed by the Commission within two months of the submission**, on the basis of transparent criteria. The criteria of consistency with the **country-specific recommendations**, as well as strengthening the **economic and social resilience** of the MS should receive the **highest score of the assessment**. Effective contribution to the **green and digital transitions** will also be a requirement for a positive assessment.

The assessment of the recovery and resilience plans shall be **approved by the Council, by qualified majority on a Commission proposal**, through an implementing act, **within 4 weeks of the proposal**. The Commission will adopt a **decision setting out the financial contribution** that the MS will benefit from (to include **grants** and, if so requested, **loans**), as well as the **milestones** and **targets** (Figure 2).

- With regards to **grants**, the amount per MS for **2021-22** will be determined based on a pre-defined allocation key which takes into account **population, GDP per capita** and **unemployment**. For **2023,** the unemployment criterion is **replaced by the loss in real GDP** observed over 2020 and by the cumulative loss in real GDP over the period 2020-2021. The indicators are thus more favourable to countries **worst hit** by the crisis.

- **Loans will serve as top-ups.** They will **complement grants** and provide additional financing for MS that have higher financing needs due to **more ambitious reforms and investments**. **MS may request a loan** – only for implementing their reforms and public investments – which needs to be justified by the higher financial needs linked to the recovery and resilience plans. The maximum volume of the loans for each MS will **not exceed 6.8% of its GNI**.

The grants and loans will be **disbursed in instalments** upon **completion of milestones and targets** as defined by MS in their recovery and resilience plans.

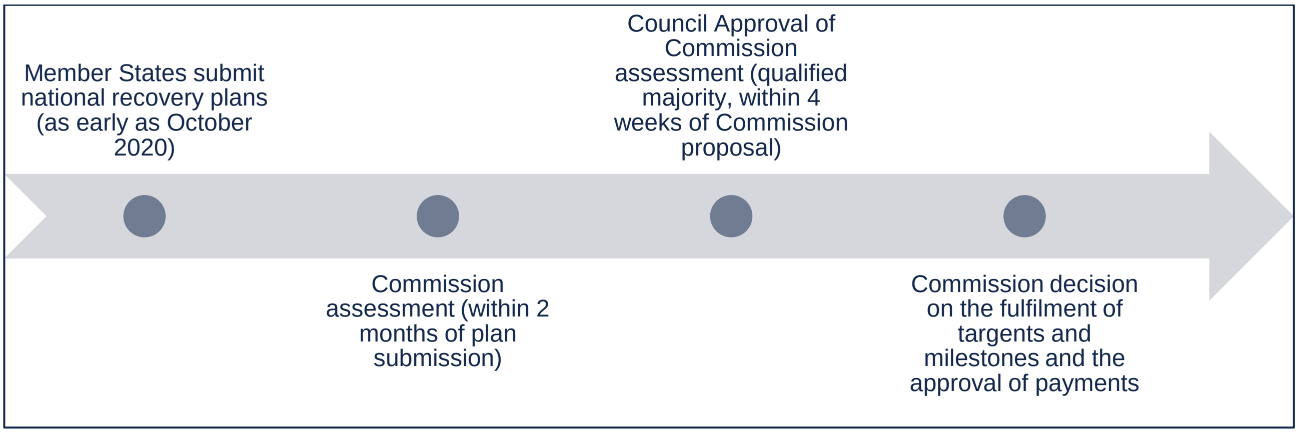

Figure 2: Timeline for the adoption of national recovery plans

CRITERIA FOR ASSESSMENT

The Commission will assess the importance and coherence of national recovery and resilience plans **taking into account seven criteria** set to ensure that the plans support reforms and public investment which significantly contribute to the **Green and Digital transitions**, while **ensuring equal treatment among the Member States**. Assessment will look into whether the recovery plans:

1) Contribute to addressing **issues identified in the country-specific recommendations** by the Commission in the European Semester.
2) Contribute to the **green and the digital transitions** or address the challenges resulting from them.
3) Have a **lasting impact** on the Member State concerned.
4) Strengthen the **growth potential**, **job creation**, and **economic and social resilience**, mitigate the social and economic impact of the crisis, and contribute to economic, social and territorial cohesion.
5) **Justify the estimated costs** and they commensurate to the expected impact on jobs and growth.
6) Contain measures which are **coherent actions**.
7) Contain envisaged **timetables, milestones and targets**, and the related indicators.

The Commission will **analyse each criterion** based on **two elements**: 1) **scope** and 2) **rating.** The **scope** element will consider qualitatively the breadth and the relatedness of the plans to each individual criterion, whilst the **rating** element will be based on three-pronged gradation of **high** (A), **medium** (B) and **low** (C).

KEY DECISION-MAKERS

Following the EUCO agreement of July 21, Commission President **von der Leyen** (VDL) announced that a **Recovery and Resilience Task Force** will be created **within the EC's Secretariat-General** which will be tasked with the **implementation of the RRF** (Figure 3).

Effective as of 16 August, the Task Force, under VDL's authority, will **support MS with the elaboration of their recovery and resilience plans**, ensure that plans **comply with the regulatory requirements**, deliver on the objectives of the **green and digital transitions**, monitor the **implementation of financial support** and **coordinate the European Semester** in this period of time.

The Task Force will be led by Deputy Secretary-General **Céline Gauer** as **Acting Head**, and **Eric Von Breska** and **Maria Teresa Fabregas** as Directors responsible for the respective countries and policy areas. Experts from the **country desks in DG ECFIN** will also be involved in the assessment process.

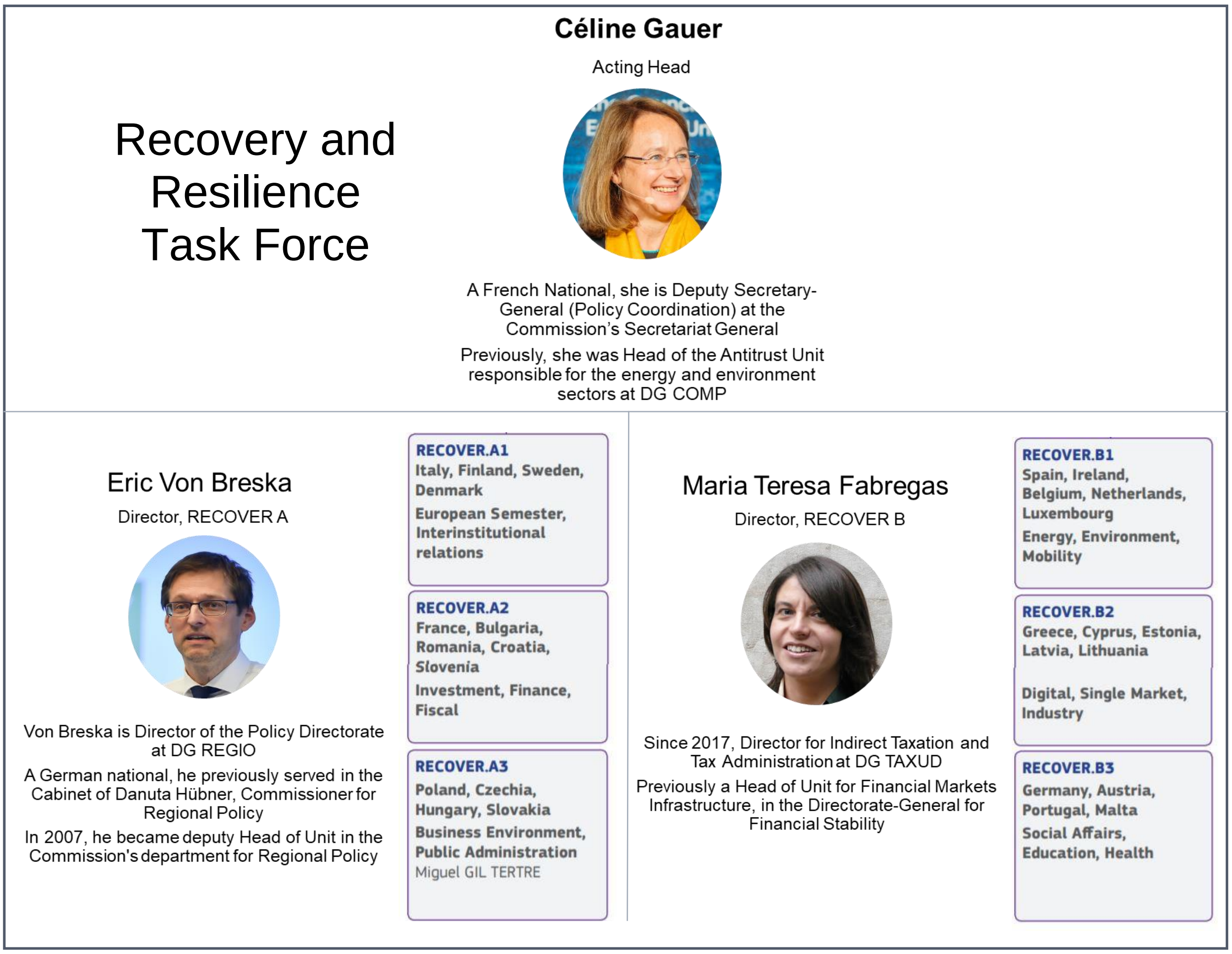

Figure 3: Recovery and Resilience Task Force

OTHER PROGRAMMES UNDER NGEU

While the **resources for the RRF increased further** as a result of the EUCO agreement, the funds that NGEU was planned to provide to various EU instruments (e.g. **Horizon Europe** and **Just Transition Fund**) were **reduced.** In some instances (e.g. **Health programme**, **development and humanitarian aid**) such top-ups were **eliminated altogether**. Below is a summary of what funding NGEU will provide to other programmes, different from the RRF.

Programme	Size	NGEU Funding Overview
ReactEU	€47.5 bn	ReactEU will top-up Cohesion funding which is intended to put Member States and regions on a more equal economic standing.
Horizon Europe	€5 bn	Horizon Europe's €75.9 bn from the MFF will be complemented by €5 bn, despite the big losses R&I suffered as a result of the EUCO real.
InvestEU	€5.6 bn	InvestEU will serve as a single EU investment support mechanism which mobilises public and private investment that fulfil the criterion of additionality, addressing market failures and obstacles to sustainability, competitiveness and inclusive growth.

Rural Development	€7.5 bn	Funding that would support Pillar II (Rural Development) of the CAP which will be intended to help farmers meet the EU's climate ambitions.
Just Transition Fund	€10 bn	The Just Transition Fund will help funding a shift to cleaner industries. Its distribution key will be in line with the Commission's proposal, including a maximum amount and proportionate reduction in the minimum aid intensity. Access to the JTF will be limited to 50% of national allocation for MS that have not yet committed to implement the objective of achieving climate-neutrality by 2050, while the other 50% will be made available upon acceptance of such commitment.
RescEU	€1.9 bn	RescEU will strengthen EU civil protection response to disasters. Funding for its health cluster will be increased, including the stockpile of medical and protective equipment.

NEXT STEPS

The Parliament and the Council now have to take up negotiations and **finalise the work on all legal acts**, including the RRF regulation. Upon successful agreement between the two institutions, the European Parliament needs to provide its **consent** for the approval of the MFF and NGEU package, expected to take place in October. As such, the EP cannot amend the proposal but can rather approve or reject it.

Additionally, the Decision on increasing the EU's **Own Resource ceilings**, which authorises the Commission to borrow the €750 billion on the capital markets **to fund the NGEU**, would need to be **unanimously approved by the Council** and **ratified by MS' national parliaments**, following **European Parliament consent** (which the EP already promised to provide after the summer).

For funds to be legally disbursed, the approval of this decision needs to be completed. According to an indicative EC timeline, the process is **supposed to be finished by 31 December**, but it could possibly extend **into 2021**.