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Methodological note

GUIDANCE NOTE ON THE STATISTICAL RECORDING OF THE RECOVERY AND RESILIENCE FACILITY

EUROSTAT, DIRECTORATE D — GOVERNMENT FINANCE STATISTICS (GFS)

SEPTEMBER 2021

VERSION	DATE	CHANGES IN SECTION
1.0	17 NOVEMBER 2020	-
1.1	SEPTEMBER 2021	NEW SECTIONS 4, 5 AND 6 UPDATES IN LEGAL REFERENCES AND DESCRIPTIVE PART

Introduction

1. To ensure an effective response to the economic downturn caused by the coronavirus outbreak, a number of new instruments have been introduced at EU level. The Recovery and Resilience Facility (the 'Facility' or RRF) is an instrument to be implemented via the EU budget, aiming at mobilising investment and supporting reforms and frontload financial support in the first years of recovery.
2. Member States benefit from the RRF funds on the basis of their recovery and resilience plans, which are assessed by the Commission. The assessment of the recovery and resilience plans shall be approved by the Council. The functioning of the RRF is outlined in the Regulation 2021/241 of the European Parliament and of the Council[1]. Similarly to cases of other COVID-19 related measures implemented at the EU level, Eurostat, in consultation with the European statistical community, provides its opinion on the correct application of the existing National Accounts rules and on the proper statistical recording of the RRF.

[1] Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility (OJ L 57, 18.2.2021, p. 17–75).

3. The aim of this note is to outline the functioning of the RRF and highlight the aspects relevant for statistical analysis. The RRF description and Eurostat's analysis are based on the Regulation 2021/241, as well as on the guidance to Member States Recovery and Resilience Plans[2].

Main features of the RRF

4. The Recovery and Resilience Facility has a budget of EUR 672.5 billion, in 2018 prices. The Regulation 2021/241 foresees that the financial support is given in the form of non-repayable grants (up to EUR 312.5 billion) and loans (up to EUR 360 billion). The general objective of the Recovery and Resilience Facility shall be to promote the Union's economic, social and territorial cohesion by improving the resilience, crisis preparedness, adjustment capacity and growth potential of the Member States, by mitigating the social and economic impact of that crisis, by supporting the green and digital transitions.
5. The RRF constitutes the biggest part of the Next Generation EU[3] (NGEU) financial package (up to 750 billion EUR, in 2018 prices). The remaining EUR 77.5 billion of grants is to be provided in other sub-programmes, the biggest being (47.5 billion EUR) the Recovery assistance for Cohesion and the territories of Europe (React EU).
6. The maximum financial contribution[4] is quantified in the Annex IV to the Regulation 2021/241 (please see Annex I to this note). As defined in Article 11 of the Regulation, 70% of maximum financial contribution is calculated taking into account the population, the inverse of GDP per capita and the relative unemployment rate of each Member State. For the remaining 30%, the calculation is based on the population, the inverse of the GDP per capita, and, in equal proportion, the change in real GDP in 2020 and the aggregated change in real GDP during the period 2020- 2021, based on the Commission Autumn 2020 forecasts. The calculation will be updated by 30 June 2022 by replacing the data from the Commission Autumn 2020 forecasts with Eurostat data as regards the actual outturns of GDP.
7. As regards the non-repayable RRF financial support, 70% of the total amount shall be committed by the end of 2022. The remaining 30% shall be committed by the end of 2023. Loans to the Member States are granted after the conclusion of a loan agreement with the Commission, based on a duly substantiated request by the Member State concerned. Loans should be granted until 31 December 2023.
8. Member States have to complete the final milestones and targets for both investment projects and reforms no later than 31 August 2026. Generally, payments of the RRF

[2] SWD(2021) 12 final of 22 January 2021
https://ec.europa.eu/info/sites/default/files/document_travail_service_part1_v2_en.pdf
https://ec.europa.eu/info/sites/default/files/document_travail_service_part2_v3_en.pdf

[3] NGEU concerns also the following initiatives/ programmes: React EU, Horizon Europe, InvestEU, Rural Development, Just Transition Fund, RescEU.

[4] Contribution means here non-repayable (grant) financial support available for allocation or allocated to the Member States under the Facility.

financial contributions and, where applicable, of the loans to the Member States will have to be made by 31 December 2026.

9. To finance NextGenerationEU, the European Commission (EC), on behalf of the EU, will borrow on the capital markets. To that end, the EU will borrow on average roughly €150 billion per year[5]. In April 2021, the Commission published a Communication and a set of Commission Decisions, setting out its funding approach for the mobilising of the funds for Next GenerationEU. The decisive new element is a diversified funding strategy, under which the borrowing operations are geared towards aggregated funding needs over specific funding periods and not individual payments. The borrowing operations will hence be organised via an overall funding pool. Funding operations can therefore not be linked to individual types of support (non-repayable support or loans) or programmes benefitting from these means.

10. On 1 June 2021, the Commission published its annual borrowing decision and adopted its first NGEU funding plan. The Commission's first funding plan, which covers the period between June and December 2021, outlines how the Commission is going to approach the market in order to raise the necessary market funding. The Commission will issue around €80 billion of long-term bonds in 2021. This will be topped up by tens of billions of euros of short-term EU-Bills to cover the remaining financing requirements. This first funding plan is based on preliminary estimates of the grant and loan needs to Member States. A possible update of the funding plan will follow in September 2021, when the Commission has a more precise overview of the funding needs of the EU Member States in the months to December 2021.

11. New net borrowing activity of the Commission will stop at the latest at the end of 2026. Total redemption of the loans is expected by 31 December 2058.

12. Member States design their own tailored national Recovery and Resilience Plans, taking into account the investment and reform priorities identified as part of the European Semester. These plans set out the reform and investment agenda of the Member State concerned.

13. The Regulation foresees that the Commission assess the Recovery and Resilience Plans ('plans') following a set of criteria, within two months after their submission. The Commission assessment of the Recovery and Resilience Plans shall be approved by the Council, by qualified majority, through an implementing decision, which the Council shall endeavour to adopt within four weeks from the proposal. The decision defines the total financial contribution and the amount of the loan support (in case the Member State requested this). The relevant documents adopted by the Commission are made available on the Commission website[6].

14. The Member States will have an obligation to report, on a bi-annual basis within the European Semester process, on the progress achieved in implementing the Recovery and Resilience Plans.

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[5] https://ec.europa.eu/info/strategy/eu-budget/eu-borrower-investor-relations_en

[6] https://ec.europa.eu/info/business-economy-euro/recovery-coronavirus/recovery-and-resilience-facility_en

15. Member States may submit the requests for payments to the Commission twice a year. After receiving a payment request, the Commission has to assess whether the relevant milestones and targets set out in the decision have been satisfactorily achieved. Where the Commission makes a positive preliminary assessment, it shall ask the opinion of the Economic and Financial Committee (EFC) on the satisfactory fulfilment of the relevant milestones and targets. The EFC should strive to reach consensus. However, if one or more Member States consider that there are serious deviations from the satisfactory fulfilment of the relevant milestones and targets, they may request to refer the matter to the following European Council.

16. The EC shall adopt a decision on the assessment of the fulfilment of the milestones and targets. In case the matter is brought to the European Council, no EC decision will be issued until the discussion in the Council has taken place. The whole process, as a rule, should not take longer than three months after the EC asks for the EFC opinion.

17. In case the assessment is positive, the disbursement of the relevant amounts will be initiated. On the contrary, if the Commission decides that the milestones and targets were not satisfactorily implemented, the payment of all or part of the financial contribution and, where applicable, of the loan, shall be suspended. In case no satisfactory action from the Member State in question is observed within six months, the Commission shall take the decision to reduce the amount of the financial contribution.

18. Member States were expected to officially submit their Recovery and Resilience plans as a rule by 30 April 2021. Article 13 of the Regulation 241/2021 foresees that, when requested by a Member State, a pre-financing up to 13% of the financial contribution, and where applicable, up to 13 % of the loan shall be paid by the Commission to each Member State subject to the adoption of the Council implementing decision. European Union funds disbursed under the Recovery and Resilience Facility will be subject to the external audit of the European Court of Auditors.

Statistical analysis

19. As regards the statistical recording, the RRF raises the following issues:

1) Whether the RRF support via grants should be assimilated, from a national accounts perspective, to the EU funds regularly received by Member States under various common policies and, thus, whether the statistical rule on neutrality for EU flows for government deficit/surplus could be applied also in this case.

2) The nature of the debt raised on the capital markets by the Commission, on behalf of the European Union, to finance the RRF and other programs of the NGEU.

3) The recording of the RRF loans provided by the Commission to the Member States;

4) The statistical implications of the RRF support for expenditure and other costs incurred by Member States starting February 2020 and the recording of the RRF revenue related to the 2020 expenditure;

5) The determination of who is the final beneficiary of the RRF, and the related accounting consequences;

6) The accounting related to the financial instruments designed and implemented by the Member States, when financed by the RRF non-repayable support (grants).

1) THE RRF NON-REPAYABLE FINANCIAL SUPPORT (GRANTS) AND THE PRINCIPLE OF NEUTRALITY OF EU FLOWS

20. In the past, the EU funds supporting policy objectives of the Union, and earmarked for specific operational programmes in the Member States, were paid as a reimbursement of eligible costs actually incurred by the final beneficiaries. As the EU grants were aimed at compensating expenditure (e.g. investment project) incurred by an entity, there was an undeniable link between the expenditure of the beneficiary and the revenue from the EU.

21. In national accounts, the principle of the EU flows neutrality is well established (ESA 2010 paragraphs 20.296 and 20.298-300). In those cases where the final beneficiary is a government unit, ESA 2010 paragraph 20.299 ensures this neutrality in the following way: the incurred expenditure, made on behalf of the EU, is matched (in time and in size) with an imputed revenue from the EU in the non-financial accounts, and the following settlement in cash is recorded as a financial transaction. In this setting, advance payments by the EU to finance government units are recorded as financial advances (ESA 2010 paragraph 20.300) in the financial accounts, and later on gradually recognized as revenue following the expenditure incurred.

22. The RRF, for its major part, is not designed in order to compensate expenditures. The Regulation mentions that "*the types of financing (…) should be chosen on the basis of their ability to achieve the specific objectives of the actions and to deliver results, taking into account, in particular, the costs of controls, the administrative burden, and the expected risk of non-compliance. This should include consideration of the use of lump sums, flat rates and unit costs, as well as financing not linked to costs as referred to in Article 125(1)(a) of the Financial Regulation.*"

23. This understanding is somehow confirmed by the fact that the management of the RRF grants is not the same as the general procedures applicable to the EU structural funds, where the Commission and the Member States, via the partnership agreements and specific operational programmes, jointly manage the flows. Member States' designated managing authorities provide information on the programme, select projects and monitor the implementation.

24. While some differences exist when comparing the RRF to the usual EU structural funds, and the above article of the Financial Regulation speaks about a 'financing not linked to the costs', this does not mean that the RRF financing can be easily compared to the so-called Cash-flow Facility. In fact, financing not linked to costs is already present under the European Structural and Investment Funds[7].

25. The Cash-flow Facility was providing temporary financial assistance to the EU Member States joining the EU in 2004 and later. This specific issue was discussed between the

[7] See article 125(1) of the Financial Regulation 2018/1046 and articles 46 and 89 of the proposal for Common Provisions Regulation COM(2018) 375 final.

EU and the national statistical authorities in 2007. As an outcome of this discussion, specific provisions on the statistical recording of the cash flow facility were introduced in the Manual of government deficit and debt (MGDD) (Chapter 2.6.1 Grants from the EU budget, paragraph 3). Under the Cash-flow Facility, the funds were provided unconditionally and without any specification of the areas for which they would be spent. The European Institutions did not monitor the way in which the beneficiary Member States used the funds. The EU also did not have the right to stop their monthly payments or claim any amounts to be repaid to the EU budget, and therefore the Cash-flow Facility had rather the nature of current transfers in the context of international cooperation, as defined in ESA 2010 paragraphs 4.121–4.124. The time of recording, in such a case, is the moment when transfers are to be made in the case of obligatory transfers, or the time the transfers are made in the case of voluntary transfers.

26. However, the crucial characteristics of the Cash-Flow Facility do not apply to RRF financing. In the first place, contrary to the Cash-Flow Facility, the RRF will be subject to strong conditionality, linking disbursements from the EU with the accomplishment of pre-defined targets and milestones, and with the possibility of payments being halted. Secondly, the RRF is linked to national plans (Recovery and Resilience Plans; RRPs), with the plausibility and reasonability of the estimated total costs assessed by the Commission via an implementing act, which is subject to adoption by the Council. Thirdly, Member States will report on the progress of the implementation of the national plans, which will be closely monitored by the Commission under the EU Semester and in view of the proposal approved.

27. Furthermore, the RRF description clearly mentions reforms and investment projects, so at least partially there will be an incurred expenditure that could be matched with the non-repayable financial support (EU contribution).

28. In view of the above, Eurostat and the EDPS WG are of the opinion that, similarly to the ‘traditional’ EU grants, the principle of the EU flows neutrality on the general government net lending/ net borrowing (B.9) should be applied also to the RRF grants.

2) THE NATURE OF THE DEBT RAISED IN THE CONTEXT OF THE RRF

29. The RRF initiative will be financed from the funds raised on the capital markets for the Next Generation EU (totalling up to 750 billion EUR, in 2018 prices). The borrowing will be contracted by the Commission on behalf of the Union and organised in a common funding pool for all NGEU programmes. The funds raised will be repaid, on the one hand, through the future EU budgets during the period 2028 – 2058 and, on the other hand, for funds that are on-lent to Member States, by repayments of these loans based on the contractual agreements between the EC and the respective Member State (see below).

30. Eurostat recalls that, in the past, in all cases when the Commission was contracting loans on behalf of the Union with the aim to on-lend to Member States (e.g. the Balance of Payment facility), the borrowing was treated as EU debt. The debt incurred in the past had corresponding assets in the EU budget – loan liabilities were matched with corresponding claims against the Member State (which in any case remains as debt of the Member State).

31. The novelty element in the case of borrowing in the context of the RRF is that the EU is raising also funds to finance grants and, contrarily to loans, there will be no direct claims on the MS for this component.

32. When funds are raised to finance expenditure, contrarily to borrowing for lending, there will be no future cash flows predesigned to ensure the ability to repay the Union's obligations, unless it is decided to expand the EU's own resources (see below). The repayments will be done through the EU budget.

33. To ensure a smooth repayment of the funds borrowed by the Commission for the RRF and other NGEU programmes, the "Council decision on the system of Own Resources of the European Union"[8], which was approved by all Member States and entered into force on 1 June 2021, foresees that Member States agree to temporarily increase their own resource decision ceilings by 0.6 percentage points. This additional allocation is exceptionally earmarked to cover the financial borrowing obligations of the EU.

34. Given that the Member States will have to commit to increase their own resource ceilings by 0.6 pp to cover interest and principal of the debt issued by the EC, the question could be asked on whether the debt raised to finance the RRF grants should be seen as borrowing done by the EU on behalf of the Member States, or not.

35. Such view could be partly supported by the Opinion of the Council legal service[9]. The latter conducted an analysis on the overall compatibility of the borrowing for the RRF with the principle of the EU budget - annual budgetary balance[10]. The Council legal service concluded that, from a legal point of view, once the *Own resource decision* enters into force, which occurred on 1 June 2021, the maximum amount of borrowing constitutes a claim against the Member States, which becomes an irrevocable, definitive and enforceable guarantee of payment that is given upfront by the Member States.

36. On the other hand, it is common that the own resource ceilings are raised or reviewed to accommodate the EU budget needs. The mere fact that the Member States agree to commit to some future additional resources for the EU budget (in this case to cover the borrowing obligations) may not necessarily mean that the debt raised by the EU to finance grants should be viewed, in national accounts, as the MSs debt.

37. In national accounts, the definition of a loan is well established. ESA 2010 paragraph 5.113 lists the loan characteristics: the conditions governing a loan are fixed beforehand, a loan is an unconditional debt to the creditor and the initiative is usually taken by the borrower.

38. In the case of the RRF funding, there is no match between the grants received from the RRF by the individual Member States and the amounts that potentially will have to be repaid by each individual Member State, as the two elements are calculated on the basis of different criteria. Another aspect is that there is great uncertainty on what amount each Member State will be liable for, in this "loan arrangement". There is no

[8] https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32020D2053

[9] https://data.consilium.europa.eu/doc/document/ST-9062-2020-COR-1/en/pdf

[10] The notion of budgetary balance is stemming from the accounting principles applicable to the EU budget, which differ from the national accounts rules.

fixed repayment amount, and the only set amount is a percentage of the own resource ceiling, which for individual countries might vary over the years quite substantially, especially during periods of uncertain economic downturns.

39. In this context, the analysis of the Council legal service concludes that the commitment of the MS has the nature of a guarantee of payment, which in national accounts, under normal circumstances, constitutes only a contingent liability.

40. It could be argued that the whole initiative to raise funds to support the EU recovery from the COVID-19 adverse economic effects is coming from the Commission and is presented as the Commission's response measures. The Commission will also have a final say on whether the amount should be disbursed to a Member State and on whether, on the contrary, a payment should be suspended or cancelled.

41. Finally, the question could be raised about the governance of the process and on whether the fact that a number of decisions would be in the hands of Member States would be a reason for re-arranging the debt of the EU through Member States. However, it seems important to underline, in this respect, that Member States seemingly can only delay the Decision of the EC and that no individual Member State will have a veto right on the decisions, as it was the case for the EFSF.

42. Considering the above, Eurostat and the EDPS WG have the view that the borrowing on the markets undertaken by the EC to finance the RRF grants should be considered as debt of the EU. The EU itself will absorb the liability, such that the financing of the EC is to be considered at present as a liability of the EU Budget and a contingent liability for the Union budgetary planning.

3) THE RRF LOANS TO MEMBER STATES

43. A third issue regards the treatment of the RRF loans to Member States. The individual EC loans to Member States, being in conformity to Union law, and being approved by EC/Council decisions, will have features similar to commercial loans. That is, they will have clearly defined terms and conditions for lending and repayments. Furthermore, each loan to a MS will reflect the financing costs of the EC, in accordance with Article 15(3) of the Regulation and Commission Implementing Decision (EU) 2021/1095 on cost allocation methodology.

44. Given that the conditions featured above for the RRF loans to Member States comply with ESA 2010 paragraph 5.113, they will have to be recorded, at the moment they are provided, as Member States debt towards the EU.

45. The expenditure financed by the RRF loans should accrue following ESA2010 rules, and no expenditure neutralisation should take place (as no revenue is to be recorded).

4) THE EXPENDITURE INCURRED BY MEMBER STATES IN 2020 AND THE ASSOCIATED RRF REVENUE

46. The retroactive application of the RRF financing is established in Regulation 2021/241. Article 17.2 reads that "*measures started from 1 February 2020 onwards shall be eligible provided that they comply with the requirements set out in this Regulation*".

47. The main issue for statistical recording is whether the RRF funds neutrality could and/or should be ensured in this case, that is, whether the 2020 government expenditure in the

context of the RRF is to be matched with imputed RRF revenue in a case where the expenditure took place before the RRF Regulation was adopted.

48. The Regulation leaves the possibility for the Member States to include expenditures incurred starting from February 2020 into the Recovery and Resilience Plans (RRPs). It is up to the Member States and the Commission to judge whether such past expenditures could *de facto* be seen as contributing to the reforms and investments in the six pillars of European relevance.

49. An important aspect to consider is whether the eligible amounts could or could not be assessed with certainty before the RRPs are validated by the Commission and approved by the Council. Member States were incurring expenditure in 2020 not having an agreement on the RRF regulation and thus no certainty that such expenditure would be eligible. Moreover in 2019, when the draft budgets for 2020 were developed, there was no knowledge about the RRF initiative and the potential need for certain expenditures to be earmarked and/or identified.

50. The RRF-related legislation was only approved in 2021 (Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021). Thus, when 2020 expenditure was undertaken by the MS, the RRF legislative framework was not even in place, which could justify an exception to the general rule of neutralising EU grants.

51. Considering the above, Eurostat and the EDPS WG have decided to exceptionally deviate from the neutrality rule of the EU grants recording, i.e., not to neutralise expenditure incurred by governments from February 2020 until the end of 2020 (recording therefore the associated government revenue in 2021).

52. The agreement not to neutralise the 2020 expenditure leads to a subsequent issue – when exactly should the RRF revenue associated to 2020 expenditure be accrued.

53. Reading the RRF Regulation, three options that could a priori be seen as appropriate were discussed with the EDPS WG:

    a) at the time when the RRPs are approved by the Council through the adoption of implementing decisions[11] (first such decisions adopted in July 2021);

    b) when the pre-financing will be paid out (first payments in August 2021);

    c) at the time the first payment request will be made by a Member State, on the implementation of milestones and targets (first requests for some Member States expected still in 2021, for others only in 2022).

54. Option c) (to record the revenue at the time of the first payment request) would seem the least appropriate, as its timing is the least certain and might not even fall within 2021. Article 24 of the Regulation, foresees that, upon implementation of the milestones and targets, indicated in the RRP, a Member State will submit to the Commission a duly justified request for payment. The Member State may submit such request twice a year. After the request is made, the legislation foresees further steps leading to the

[11] The legislative procedure allows the EC two months for evaluation and for making proposal to the Council. The latter has four weeks to approve the assessment of the RRP by means of an implementing decision.

disbursement of cash (e.g. Commission assessment of the fulfilment of the milestones and targets; EFC opinion in case of positive EC assessment, Commission Decision on disbursement of grant and loan instalments).

55. As for option b), it is likely that many Member States will receive cash from pre-financing in August / September / October 2021. Article 13 of the Regulation foresees that, once the Council adopts its implementing decision approving the Commission's assessment of the RRP, the Commission shall – if requested by the Member State – make a pre-financing payment, amounting to 13% of non-repayable assistance (grants) and to 13% of the loan support. The Commission, to the extent possible, shall make a corresponding payment within two months after the adoption by the Commission of the legal commitment. However, the claims for reimbursements of costs incurred in 2020 and the requests for pre-payment are different in nature and there is no connection between them, while the amounts could substantially differ as well. Moreover, it is not guaranteed that all MSs will request pre-financing, such that this recording option does not ensure harmonization.

56. Option a) (recognising revenue at a time of the approval of the RRP) is the most appropriate. Indeed, in case a RRP receives a positive evaluation from the Commission, the plan is expected be approved by the Council (first such decisions were adopted in July 2021), and the 2020 expenditure to be covered by the RRF is at this moment, tentatively, known. Thus, the approval of the plan can be seen as establishing the claim by the Member States against the EU for reimbursement of costs that occurred in 2020 and were included in the RRP.

5) FINAL BENEFICIARY OF THE RRF GRANTS

57. To recall, the current rules for the statistical recording of the EU flows foresee statistical neutrality for general government net lending/ net borrowing (B.9), regardless of whether or not the beneficiary is a general government entity. EU flows must however be neutralised differently depending on whether the final beneficiary is a government entity or an entity outside the perimeter of government. From the statistical recording point of view, the issue is nevertheless important, as the EU funds neutralisation is undertaken at the level of the final beneficiary, by way of synchronising expenditure incurred on behalf of the EU with the imputed EU revenue. While there is no impact on government B.9, the levels of government expenditure and revenue are impacted.

58. In case of the European structural and investment funds (ESIF), the beneficiary is defined as a public or private body or a natural person, responsible for initiating or both initiating and implementing operations. Even though there is no specific definition of a beneficiary in the RRF Regulation (particularly in Article 2 on definitions), the Regulation outlines the RRF scope as the provision of support to the Member States in their implementation of reforms and public investment. De facto, Member States' governments would ensure the implementation of the RRP and be compensated for the successful implementation of milestones and targets. Therefore, it would seem that the Member State's government would fit the definition of beneficiary, as set in the mentioned above Regulation laying down common provisions on the ESIF.

59. In this context, several Member States raised the question of who should be considered the final beneficiary in the context of the RRF. The RRF Regulation also provides some

further references on who should be seen as beneficiary. For example, Article 18 of the Regulation specifies that: "*Financing not linked to costs should apply at the level of payments from the Commission to Member States as beneficiaries, irrespective of the reimbursement in any form of financial contributions from Member States to final recipients*." Further in the text, it reads: "(…) *costs related to the borrowing of funds for the loans* [provided by the Commission to the Member State] *referred to in this Article shall be borne by the beneficiary Member States*" and "*implementing the Facility, the Member States, as beneficiaries or borrowers of funds under the Facility, shall take all the appropriate measures to protect the financial interests of the Union* (…)".

60. In the RRF context, the areas eligible for the support are falling mostly within the sphere of government activities (e.g. economic cohesion, health, economic, social and institutional resilience, social and territorial cohesion, education and skills) and, *de facto*, government is applying for the funds – through the RRPs – and government is managing the use of the funds. On this basis, Eurostat and the EDPS WG agreed to consider, by convention, government as the final beneficiary of the RRF funds.

6) FINANCIAL INSTRUMENTS FINANCED BY THE RRF GRANTS

61. The Commission staff working document - Guidance to Member States Recovery and Resilience Plans - Part 1[12], dated 22 January 2021, specifies explicitly that investments undertaken by beneficiary Member States might take the form of Financial Instruments (FIs) and thus could include guarantees, loans, equity and venture capital instruments and the setting up of the dedicated investment vehicles. The FIs could be set up also via the national compartment of the InvestEU and their implementation could be entrusted to the implementing entities (e.g. national promotional institutions). A special condition is added for the FIs: "*any reflows (i.e. interests on the loan, return on equity, or principal repaid, minus associated costs) linked to these instruments that the Member States would generate would need to be reinvested for the same policy objectives, including beyond 2026*".

62. The EC Guidance to Member States Recovery and Resilience Plans mentions that "*In order to maximise the use of the Recovery and Resilience Facility and the potential for leveraging, unfunded solutions, making use of intermediaries (be they private or public), offer a better solution than funded solutions, on the ground of the principle of cost efficiency that is embedded in the Regulation. In <u>exceptional cases,</u> and depending on the size, maturity or risk profile, Member States would be able to rely on funded solutions*"[underline added]. It thus seems that, generally, the so-called unfunded instruments (guarantees) are preferred, and funded instruments would be rather an exception. In addition, Member States are encouraged to use the national compartment of the Invest EU.

63. In the GFS context, the recording of government investment financed from the RRF and undertaken in the form of a financial flow needs to be clarified only for transactions financed from the RRF grants, as for RRF grants the principle of EU flows neutrality is applicable. Money raised from the RRF loans will be recognised as government borrowing and thus no neutralization is applicable, because no government revenue is

[12] https://ec.europa.eu/info/sites/info/files/document_travail_service_part1_v2_en.pdf

to be recorded.

64. A preliminary analysis of the government financial operations to be financed from the RRF funds and included in the RRPs showed that many RRPs are mentioning support to SMEs, start-ups and micro enterprises, usually in the form of loans, but also equity and guarantees. In the majority of cases, national promotional institutions will be implementing such programmes. In many cases, an initial capital increase aimed at building up a fund or strengthening the promotional institution is foreseen.

65. FIs are principally meant to target areas identified as market failures, linked with the RRF objectives and they are subject to State aid rules. They are also aimed at risky areas that are unable to attract enough private investment, given the current economic situation. It is therefore expected that, without further replenishments, the funds will gradually diminish. Simultaneously, the funds will be revolving, i.e. any reflows will have to be reinvested for the same policy objective, including beyond the RRF financing period (i.e., 2026). Considering this, it would seem that, in substance, the RRF FIs would not differ from the FIs implemented via the EU funds under the current programming period.

66. Considering the above, Eurostat and the EDPS WG are of the opinion that the recording of the FIs financed from the RRF grants should follow the same rules as the FIs financed from the regular EU flows (see MGDD 2.6.3), that is, be B.9 neutral for general government (as a beneficiary).

67. More specifically, in case of one-off guarantees and loan programmes, a payable towards the RRF should be created at inception, this amount then being gradually decreased – with counterpart revenue from the EU – following guarantee calls and loan cancellations (recorded as expenditure).

68. In case of FIs undertaken in the form of capital injections, normal capital injection rules, as described in ESA 2010 and the MGDD, when deciding on the statistical classification of the equity and venture capital instruments should apply. Similarly, the existing ESA 2010 and MGDD provisions should be applied in deciding on the type of guarantees (one-off versus standardised).

Annex I[13]

Maximum financial contribution per EU Member State		
	Share as % of total	Amount (million)
BE	1,75	5925,27
BG	1,85	6268,71
CZ	2,09	7071,68
DK	0,46	1551,75
DE	7,58	25619,18
EE	0,29	969,52
IE	0,29	989,19
EL	5,26	17773,90
ES	20,57	69528,05
FR	11,65	39377,07
HR	1,86	6296,83
IT	20,39	68895,83
CY	0,30	1006,17
LV	0,58	1963,09
LT	0,66	2224,69
LU	0,03	93,53
HU	2,12	7175,84
MT	0,09	316,47
NL	1,76	5962,32
AT	1,02	3462,17
PL	7,06	23856,99
PT	4,12	13910,39
RO	4,22	14248,02
SI	0,53	1777,32
SK	1,87	6329,99
FI	0,62	2085,81
SE	0,97	3289,25
Total	100,00	337969,00

[13] For more details, please refer to Annex IV of the RRF Regulation.