

ECA MEMBER IVANA MALETIĆ

Thank you, Damijan. Together with my colleague Jorg, I would also like to welcome you to this press briefing. First let me explain what we are talking about and why it matters: The RRF was established in 2021 to help EU countries recover from the Covid pandemic and build resilient economies. It finances investments and reforms in six pre-defined thematic areas, including the green transition and the digital transformation.

With the RRF the EU also pioneered on a large scale a new financing model decoupled from costs. To receive funding, EU countries must achieve milestones and targets predefined in their national plans. In terms of the figures, the RRF amounts to €650 billion, which makes the RRF the largest EU instrument to date and we are practically talking about doubling the EU's financial power over a short period of time.

The review we publish today summarizes the main messages set out in our audits, reviews, annual report chapters and opinions on the RRF. It aims to contribute to the ongoing discussion on the post-2027 multiannual financial framework, in particular with regard to any future instruments based on financing not linked to costs.

Our main message is the following: although the RRF has played a crucial role in the EU's post-pandemic recovery, we found indeed that the RRF suffers from several weaknesses in terms of performance, accountability and transparency.

Our key critical points, which you can see on screen are:

- The RRF is not a performance-based instrument
- Limited focus on results; no information on actual costs
- Not clear what we got for the money
- Incomplete picture of who the final recipients are
- Payment conditions not clearly defined
- Risk of overlap with other EU funds
- Insufficient assurance that control systems adequately protect EU financial interests
- Funds recovery only possible in specific cases
- Measures not always addressing key challenges
- Funding not always proportionate to progress
- Borrowing brings risks

Now let me elaborate on some of these key messages.

Firstly, in our view, the RRF focusses on progress in implementation rather than performance and “Financing not linked to costs” does not, in itself, make it a performance-based instrument.

Although RRF funds are paid upon fulfilment of milestones and targets, these milestones and targets generally refer to output, e.g. the number of buildings renovated or kilometres of railways, or even input, e.g. spending a certain amount of funds, and information on results is limited so far.

In addition, the European Commission does not collect data on actual costs and therefore the RRF’s value for money cannot be assessed and it remains unclear, what the citizens got for their money.

Secondly, the RRF faces delays, which poses risks for the completion of the funded measures and is ultimately jeopardising the achievement of the RRF’s objectives.

Although 42 % of the funds have been disbursed, only 28 % of the milestones and targets have been satisfactorily fulfilled by the end of 2024. Consequently 72% of the milestones and targets are still to be completed by August 2026. Furthermore, as you can see from these figures, the disbursement of funds is not necessarily proportionate to the milestones and targets achieved nor does it reflect their relative importance. This may result in a significant proportion of RRF funding being paid without member states having completed the corresponding measures (investment projects and reforms).

We must also bear in mind that disbursement of EU funds to national budgets does not mean that the money has reached the final recipients and the real economy.

In fact, there is no complete picture of who the final recipients are. In some countries they included institutions granting the funding such as the European Investment Bank.

In light of all these elements, EU policymakers must not allow any future similar instrument without ensuring sufficient information on results, actual costs, and final recipients and, therefore, a clear answer to the question of what citizens get for their money.

ECA MEMBER JORG KRISTIJAN PETROVIČ

Thank you, Ivana and Damijan. Dear journalists, I would also like to warmly thank you for your interest.

I will speak about the need for more accountability, better control, and risks in financing the growing debt caused by the RRF, so that you can get a full picture of the lessons to be learnt.

Speaking of accountability

Our message here is crystal clear: for future performance-based budgets, funding must be better linked to results and it must have clearly defined rules. Otherwise, such a system should not be used.

It is really important that future spending programmes are designed and run in a way that is not detrimental to accountability.

Speaking of controls

The RRF's control safeguards are still not robust enough despite recent improvements.

For example, the Commission mainly relies on member states to prevent, detect and correct serious irregularities and to ensure compliance with EU and national rules. We could speak about member states' self-policing in a way. But there's the rub: we found that some member states control systems have important weaknesses.

And to make matters worse, the EU's executive cannot impose financial corrections, such as recovery of funds, for individual breaches of procurement rules. This means that the Commission could make payments in full even when public procurement irregularities have occurred. The exception are only cases of serious irregularities such as fraud.

Furthermore, some EU countries receive considerable funds before they complete the projects. And they could end up keeping the money without completing those projects. This poses of course a risk to the EU's financial interests.

Now let me say a few words about how the RRF will be paid back. The RRF is almost entirely financed by borrowing from the financial markets. This is the first instance of such large-scale borrowing by the EU. The Commission managed to raise funds for the RRF both rapidly and successfully. In the first

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few years, this was done when interest rates were historically low. However, interest rates have since risen, and financing costs could be more than double the initial estimates by 2026.

Together with repayments, this will put significant pressure on future EU budgets. The debt repayments will start in 2028 and all RRF debt must be repaid by 2058 by both the Commission for grants and member states for loans. This means the RRF will have to be paid back largely by the next generation of EU taxpayers, as the name NextGenEU aptly suggests.

Where any future borrowing is concerned, it is important that the EU should properly mitigate interest rates' risks. And very importantly, it should set out a loan repayment plan upfront, specifying where the money will come from, because this was not the case for the RRF.

And why do the messages that the two of us just mentioned, matter now? They matter because we are at a critical juncture in terms of EU's financial planning with the next MFF currently being discussed, including the extent to which financing not linked to costs will be used.

Therefore, it is absolutely crucial that EU policymakers draw lessons from the RRF's weaknesses when forging future budgets based on performance rather than costs.

We live in an unpredictable world, and the EU needs to make the most out of its resources. The RRF was set up to help the EU economies become more resilient. But this must not be done at the expense of performance, transparency, and accountability, as this can backfire by eroding the citizens trust in EU spending.

As auditors, we are here to help the EU run better. This is also a fundamental reason for coming up with this review at this point in time. EU policy makers now have a unique opportunity to draw lessons from the RRF when designing future instruments based on performance rather than costs. A simple copy paste is not an option.