Recovery and Resilience Facility Guidelines
A Reading Guide

October 2020

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EXECUTIVE SUMMARY

1.The **Recovery and Resilience Facility** ("RRF") is the central pillar of NextGenerationEU with a financial capacity of a **total of €672.5 billion** to **support investment and reforms. Grants** will be worth a total of **€312.5 billion** and the remaining **€360 billion** will be provided in **loans**. **Portugal will receive a total of €13.173 billion**.

2. Member States **should submit their National Recovery and Resilience Plans** outlining **national investment and reform agendas** in line with the **EU policy criteria**. The Plans should also enable Member States to enhance their economic growth potential, job creation and economic and social resilience, and to meet the green and digital transitions

3. National Plans should be fully **aligned with EU policy** priorities, mainly the **Green and Digital Transition**.

4. The Commission is responsible for an ***ex-ante* evaluation** of National Recovery and Resilience Plans submitted by the Member States. If serious deficiencies are detected, the **Commission will require Member States to address such deficiencies and include remedies**. The Commission assessment is to be approved by the European Council. A pre-financing of 10% is paid upon approval.

5. The Commission will also **assess the implementation of the Plans** and the satisfactory fulfillment of the relevant milestones and targets. **Payments are made only if milestones and targets are satisfactory fulfilled.**

6. Plans are **assessed by the Commission** and **approved by the Council**. The European Parliaments proposes to have the possibility to **invite Member States representatives to present their recovery and resilience plans** before the relevant Committees.

On the 17th September, the European Commission put forward its **Guidance for the implementation of the Recovery and Resilience Facility** ("Guidance") and its **2021 Annual Sustainable Growth Strategy** ("ASGS").

As it was previously unveiled, the European proposals for the economic recovery after the Covid19 pandemic crisis have two main components: (1) a new recovery instrument named **NextGenerationEU** with a financial capacity of 750 billion Euros, embedded in a (2) a powerful, modern and revamped long-term EU budget for 2021-2027 to drive the green and digital transitions and build a fairer and more resilient economy. Together they have the total financial firepower of the EU budget to €1.85 trillion.

The NextGenerationEU will raise money by temporarily lifting the own resources ceiling to 2.00% of EU Gross National Income, allowing the Commission to use its strong credit rating to borrow €750 billion on the financial markets. This additional funding will be channelled through EU programmes and repaid over a long period of time throughout future EU budgets – not before 2028 and not after 2058. To help do this in a fair and shared way, the Commission proposes a number of new own resources.

	Commission Proposal	Council Political Agreement
Recovery and Resilience Facility	€560 billion	€672,5 billion ↑
Grants	€310 billion	€312,5 billion ↑
Loans	€250 billion	€360 billion ↑
React EU	€50 billion	€47,5 billion ↓
Rural Development	€15 billion	€7,5 billion ↓
Just Transition Fund	€30 billion	€10 billion ↓
Solvency Support Instrument	€26 billion	- ↓
InvestEU	€15,3 billion	€5,6 billion ↓
Strategic Investment Facility	€15 billion	- ↓
Health Programme	€7,7 billion	- ↓
rescEU	€2 billion	€1,9 billion ↓
Horizon Europe	€13,5 billion	€5 billion ↓
Neighborhood, Development and International Cooperation	€15 billion	- ↓
Humanitarian Aid	€15 billion	- ↓

The money raised for NextGenerationEU will be invested across **three pillars (i) Support to Member States with investments and reforms; (ii) Kick-starting the EU economy by incentivising private investments and (iii) Addressing the lessons of the crisis.**

The **Recovery and Resilience Facility** ("RRF") is the central pillar of **NextGenerationEU** that will offer **financial support for investments and reforms**, including in relation to the green and digital transitions and the resilience of national economies, linking these to the EU priorities.

Bellow we will detail, using the information provided by the Commission in its documents, how the will RRF work in practice and how the National Recovery and Resilience Plans should be fashioned according to the Guidelines. The Commission defines the model for the National Plans, as well as all its sections and the information that should be provided. A **template** is suggested to help Member States prepare and present their Recovery and Resilience Plans in a coherent way.

1. THE RECOVERY AND RESILIENCE FACILITY

The RRF, as part of the 1st Pilar of NextGenerationEU, will be embedded in the European Semester and will be available to all Member States but concentrated on the most affected and where resilience needs are the greatest. The RRF will provide €672.5 billion of loans and grants in financial support for the crucial first years of the recovery. It will help Member States to address pre-existing challenges identified in the context of the European Semester and to achieve the EU's policy objectives, especially the green and digital transitions, which are crucial to building a prosperous and sustainable future.

The RRF confirms the EU's aim to pursue a new growth strategy based on the European Green Deal and on the concept of competitive sustainability. The four dimensions of competitive sustainability, namely the **environmental sustainability**, **productivity**, **fairness** and **macroeconomic stability** should remain the guiding principles for the implementation of the RRF.

The implementation of the RRF will be coordinated by the Commission's Recovery and Resilience Task Force in close cooperation with the Directorate-General for Economic and Financial Affairs. A Steering Board chaired by President Ursula von der Leyen will provide a political steer to the Task Force to help ensure the RRF is implemented in a coherent and effective manner.

1.1. RFF AND THE EUROPEAN SEMESTER

The European Semester and the RRF are intrinsically linked and the assessment of the national Recovery and Resilience Plans will be checked against the country-specific recommendations. Member States will be encouraged to submit their National Reform Programmes and their Recovery and Resilience Plans in a single integrated document. This document will provide an overview of the reforms and investments that the Member State will undertake in the coming years, in line with the objectives of the RRF.

When preparing their Plans, Member States should look at the full set of country-specific recommendations addressed to them by the Council, in particular under the 2019 and 2020 Semester cycles. Unless the Commission has assessed the progress with these recommendations as *substantial progress* or *full implementation*, all country-specific recommendations are considered to be relevant. Member States should provide a detailed explanation of how the country-specific recommendations are addressed by the proposed measures.

Important Union priorities that have been addressed in country-specific recommendations and that will contribute to a swift implementation of reforms and investments should be reflected in the Member States' priority setting. These are notably the following:

- The **application of the anti-money laundering framework**, **anti-fraud and anticorruption activities** in the EU as, with more money flows being part of the EU financial system, it will become even more important to detect early the weaknesses in those areas.

- **Reforms linked to improving the business environment**, an **effective public administration**, the **effectiveness of justice systems** and in a broader sense respect of the Rule of Law are essential elements of the Member States' overall recovery strategy as they contribute to ensuring a swift implementation of reforms and investments, including from the private sector.
- The **fight against aggressive tax planning**, since, more than ever, the upcoming economic recovery requires Member States to secure tax revenues for public investment and reforms and avoid distortion of competition between firms.

1.2. RFF FINANCIAL ENVELOPE

The RRF will provide a total of €672.5 billion to support investment and reforms. Grants will be worth a total of €312.5 billion and the remaining €360 billion will be provided in loans.

Funding under the RRF will be made available in accordance with the estimated costs of the proposed reforms and investments contained in comprehensive Recovery and Resilience Plans to be submitted by the Member States. The estimated cost should be in line with the expected impact of the reforms and investments.

- **Reforms**

Reforms should improve the framework conditions in areas such as quality of public institutions and services, as well as the business environment, education or social protection. There are therefore important synergies between reforms and investments covered under the RRF. In some cases, reforms will be essential to ensure the efficient and effective implementation of investments by providing a supportive business and administrative environment and by preventing the misuse of EU funding.

Member States can rely on different elements to indicate the estimated impacts of reforms and to substantiate their expected effectiveness. For instance, reforms can have a major positive impact by raising potential sustainable growth or by strengthening economic and social resilience, ensuring the long-term sustainability of public finances, improving the business environment (especially for SMEs,) or by accelerating the twin transitions.

Examples of such types of reforms are pension reforms, labour market reforms, education and training reforms, reforms improving the business environment by addressing regulatory requirements and red tape or well-designed and comprehensive reform packages in the green and digital sectors.

Reforms can have a larger impact when they reinforce the effects of other reforms or investments through an appropriate combination and sequencing of implementation. Reforms might also bring budgetary savings (such as some pension reforms or the removal of environmentally harmful national subsidies), or increase the revenue potential in the medium to long-run (as a second-round effect from fostering a more efficient, digital and sustainable economy with a higher potential output, lower structural unemployment, increased labour force participation or higher innovation capacity), or from a combination of all these effects.

- **Investments**

Member States should consider an investment as an expenditure on an activity, project, or other action that is expected to bring beneficial results to society, the economy and/or the environment. Promoting social, economic and territorial cohesion, fostering employment creation and mitigating the social impacts of the crisis and promoting sustainable and inclusive growth are explicitly in the scope and objectives of the RRF, and investments in fixed, human and natural capital that contribute to these objectives are encouraged.

Not all types of expenditures will be covered by the RRF and Member States should focus on covering costs that are of a non-recurrent nature. Exceptionally, expenses of a recurrent nature may be financed to the extent that the Member State is able to demonstrate that they will produce longer-term effects in line with the objectives of the RRF, that their financing will be sustainably ensured after the duration of the RRF and that the negative effect on the government balance is only temporary

Investments can take the form of direct investments (e.g. financing a project with public money), or be implemented in more indirect ways (such as building renovations to improve energy and resource efficiency, measures to help digitalize small businesses, development of research and technology infrastructures or large-scale low-carbon technology demonstrators). This can take the form of financial instruments, support schemes, subsidies and other facilities. When structuring the investments, Member States should ensure that all applicable rules are complied with, in particular State aid and competition rules.

1.3. MEMBER STATE ALLOCATION KEY

An allocation key will fix a maximum possible amount for the grant component of the Recovery and Resilience Facility per Member State.

For 70% of the total of €312.5 billion available in grants, the allocation key will take into account the Member State's population, the inverse of its GDP per capita, and its average unemployment rate over the past 5 years (2015-2019), always compared to the EU average. For the remaining 30%, the formula will replace the 2015-2019 unemployment rate indicator by the observed loss in real GDP over 2020 and the observed cumulative loss in real GDP over the period 2020-2021.

Member States may also request a loan under the Facility. The maximum volume of loans for each Member State will not exceed 6.8% of its Gross National Income. However, an increase will be possible in exceptional circumstances subject to available resources.

- **Portugal allocation key**

According to the allocation key approved by the European Council, Portugal will receive € 9.107 million in grants in 2021-2022 (70%) and €4.066 million in 2023.

- **How Member-States can benefit from the Recovery and Resilience Facility**

In order to benefit from the RRF, Member States should submit **draft Recovery and Resilience Plans ("RRP")** outlining national investment and reform agendas in line with the EU policy criteria (the four dimensions of environmental sustainability, productivity, fairness and macroeconomic stability). Member States' RRPs should address the economic policy challenges set out in the country-specific recommendations of recent years and in particular in the 2019 and 2020 cycles. The plans should also enable Member States to enhance their economic growth potential, job creation and economic and social resilience, and to meet the green and digital transitions.

The RRP needs to reflect a substantive reform and investment effort. Both reforms and investments must be coherent and adequately address the challenges in the individual Member State

1.4. RRF PRIORITIES

The RRF will support investments and reforms that will have a **lasting, positive impact on the economy and society**. The measures should address challenges identified in the context of the European Semester, **facilitate the green and digital transitions** and **strengthening the growth potential**, **job creation** and **economic and social resilience** of the Member State.

Based on their relevance across Member States, the very large investments required, and their potential to create jobs and growth and reap the benefits from the green and digital transitions, the Commission strongly encourages Member States to include in their plans investment and reforms in the following flagship areas:

- ***Power up*** – The frontloading of **future-proof clean technologies** and acceleration of the **development and use of renewables**. Support the building and sector integration of almost 40% of the 500 GW of renewable power generation needed by 2030, support the installment of 6 GW of electrolyzer capacity and the production and transportation of 1 million tonnes of renewable hydrogen across the EU by 2025

- ***Renovate*** – The improvement of energy efficiency of public and private buildings. By 2025, contribute to the doubling of the renovation rate and the fostering of deep renovation.

- ***Recharge and Refuel*** – The promotion of future-proof clean technologies to **accelerate the use of sustainable, accessible and smart transport**, charging and refueling stations and extension of public transport. By 2025, aim to build one out of the three million charging points needed in 2030 and half of the 1000 hydrogen stations needed.

- ***Connect*** – The fast **rollout of rapid broadband services** to all regions and households, including **fiber and 5G networks**. Ensure that by 2025 there is the widest possible uninterrupted 5G coverage for all areas.

- ***Modernize*** – The **digitalization of public administration and services**, including judicial and healthcare systems. By 2025, ensure the provision of a European digital identity (e-ID) and public administrations should be providing interoperable, personalized and user-friendly digital public services

- ***Scale-up*** – The **increase in European industrial data cloud capacities** and the development of the most powerful, cutting edge, and sustainable processors. By 2025, double the production of semi-conductors in

Europe, to produce 10 times more energy efficient processors and to double the share of EU companies using advanced cloud services and big date (from 16% today)

- ***Reskill and upskill*** – The **adaptation of education systems** to support digital skills and educational and vocational training for all ages. By 2025, the share of Europeans aged from 16 to 74 with basic digital skills should increase to reach 70%. Education systems needs to be further adapted to the challenges of the 21st century. Member States should ensure that pupils' digital competence is significantly improved, in order to reduce the share of 13-14 year old students who underperform in computer and information literacy to under 15%. By 2025, at least four in five VET graduates should be employed and three in five should benefit from on-the job-training

For each flagship, Member States are invited to provide an analysis of the existing national challenges (including the existence of market or systemic failures) related to the development of the European flagships.

2. RECOVERY AND RESILIENCE PLANS

Member States should prepare their RRP setting out a **coherent package of reforms and public investment projects** to be implemented up to 2026 in order to be supported by the Recovery and Resilience Facility. The plans should demonstrate **how the investments and reforms** would effectively **address challenges** identified in the context of the European Semester, particularly the country-specific recommendations adopted by the Council. The plans should also **include measures aimed at addressing the challenges faced by the Member States regarding their green and digital transitions**.

The Recovery Resilience Plans should provide a executive summary with the outline of the main narrative of the plan, enabling the European Parliament, the other Member States, the Commission and the public at large to have an overview of what the RRP will achieve. The Commission provided a Template of what a Recovery and Resilience Plan should cover and what it should look.

As an introduction to their recovery and resilience plans and in the form of an executive summary, Member States are invited to describe: (i) the **main challenges that they are facing** and (ii) how addressing them through the recovery and resilience plan will contribute to the achievement of the following four general objectives:

- **Promoting the Union's economic, social and territorial cohesion -** Member States should outline how their plan will contribute to **enhancing cohesion**, taking into account local, regional and national disparities. Overarching challenges such as those linked to the demographic context can also be explained under this section.

- **Strengthening economic and social resilience** - Member States should outline in this section how the plans will **contribute to strengthening their economic and social resilience**, in particular how the implementation of the plans will support them to come out stronger from this crisis, be better prepared to address future challenges and reinforce the long-term competitiveness of the EU economy.

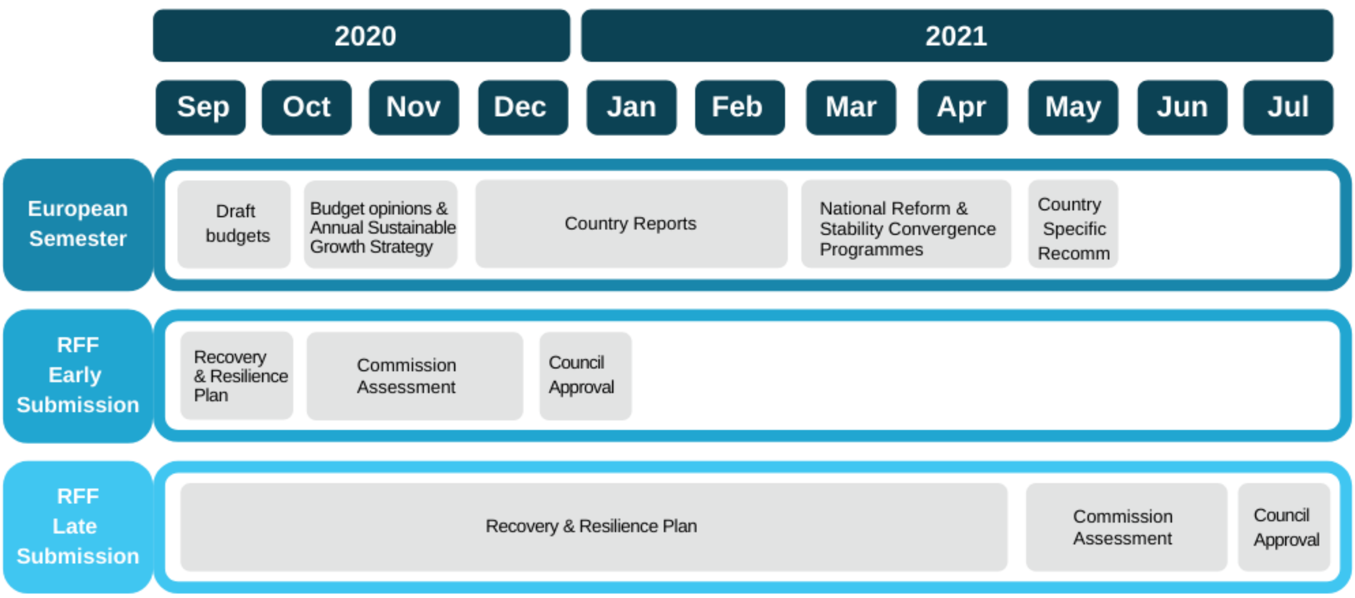
- **Mitigating the social and economic impact of the crisis** - Member States should outline in general terms how the plan **responds coherently to the economic and social fallout** of the crisis and in particular explain how the plan is **expected to achieve a fast and robust recovery**.
- **Supporting the green and digital transitions** - Member States should explain how the plans are **coherent with the priorities of the European Green Deal** and those set out in **"Shaping Europe's digital future"**, in particular how the plan supports actions in full respect of the **climate, environmental, social and digital priorities of the Union** and the 'do no significant harm principle', and how each plan will concretely achieve the 37% climate mainstreaming target and the 20% minimum expenditure level related to digital. Furthermore, they should demonstrate consistency with their National Energy and Climate Plans.

2.1. TIMELINE

The deadline for the submission of the RRP is **30 April 2021**. However, the Commission encourages Member States to submit their **preliminary draft plans from 15 October 2020**. Member States may finalize their plans following the initial presentation of the drafts to the Commission.

The RRPs submitted by April 2021 will determine how the first 70% of the grants will be spent and the remaining 30% to be committed in 2023, will be allocated to Member States later in 2022. Even if RRPs can be reviewed and new commitments added, all funds (grants or loans) must be committed to projects by the end of 2023. Also, Member States can amend their RRPs at any time in 2021-2023, when they submit requests for loans. Member States can apply for loans for additional reforms or investment at any time until the end of 2023. After 2023, disbursements will occur (until 2026) but no more funds can be committed.

The Commission is available at all levels to engage with Member States on the preparation of their plans.



2.2. MILESTONES AND TARGETS

RRPs should include detailed and **objective milestones** and **targets** that are the measures of progress towards the achievement of a reform or an investment, specifying a stage to be reached by a certain date.

Progress towards the achievement of a reform or an investment will be measured through the targets and milestones. Milestones and targets should be clear, realistic, well defined, verifiable, and directly determined or otherwise influenced by public policies. The following distinction should be made:

- A **target** is a quantitative result on an agreed indicator (number of investment projects, number of beneficiaries, etc.). The choice of targets should reflect the implementation of reforms and investments, and therefore be operational.
- A **milestone** does not reflect amounts but rather an objectively verifiable qualitative achievement (adopted legislation, realized investment project, full operationalization of IT systems, etc.), and details desirable content and characteristics.
- **A baseline** reflects the state, quantitative or qualitative, of the variable that a given indicator is measuring immediately prior to the start of the intervention and/or at the point of submission of the recovery and resilience plan. Care should be taken that the baseline is already established and/or can be easily and objectively measured

Milestones and targets should be associated to a **clear timeline**, which will feature in the implementing decision. All milestones and targets will be given an indicative date by which they are expected to be reached. Member States will be expected to adhere to this timeline to make sure that the reform and investment programme takes place without undue delay. As there will be several reforms and investments happening in parallel, several milestones and targets will need to be fulfilled for one payment to be made. Disbursements will therefore be tied to the satisfactory completion of a group of milestones and targets reflecting progress on several reforms and investments of the plan. Since payment can happen maximum twice a year, there cannot be more than two groups of milestones and targets per year.

For the purpose of the RRF, a milestone or target is considered as either fully met or not met. Should there be a need to set intermediary steps towards reaching a specific milestone or target, they can be indicated as such in the plan and reported on, but only indicators defined as milestones and targets can be tied to a disbursement.

Member States will **report on their progress at least biannually**, when submitting payment requests. The information provided in the reporting by Member States will be used by the Commission to monitor the RRPs, to decide on payment requests, and to report on progress and performance of the RRF. For this purpose, the report shall detail the Member State's progress towards or achievement of the agreed milestones and targets, accompanied by qualitative information where relevant and suitable evidence demonstrating the achievement.

2.3. ASSESSMENT AND DISBURSEMENTS

- **Ex-ante assessment**

The Commission will assess the RRPs based on transparent criteria. In particular, the Commission assessment will consider whether the investments and reforms set out in the plans:

- contribute to effectively addressing challenges identified in the relevant country-specific recommendations;
- contain measures that effectively contribute to the green and to the digital transitions; and
- contribute to strengthening the growth potential, job creation and economic and social resilience of the Member State.

RRPs submitted by the Member States to the Commission will need to include sufficiently detailed milestones and targets. The indicators chosen to ascertain the fulfillment of the milestones and targets, and therefore used as a basis for payment requests, should be clear and simple to measure.

Should the Commission **detect serious deficiencies** while assessing the draft plan, it will **require these to be addressed in the final plan**, possibly through the inclusion of an action plan including remedies going forward. If these deficiencies have not been addressed in a satisfactory manner in the final plan, the Commission's proposal to the Council for approval of the plan will signal this and indicate that disbursements will be conditional on the Member State addressing any such deficiencies by a set date, through the inclusion of such a requirement as a milestone of the plan.

The Commission's assessment of the plans will be approved by the Council by means of an implementing decision following a proposal from the Commission.

In line with the conclusions of the European Council, a pre-financing of 10% of the financial contribution to each Member State should be paid. This payment could be made upon the approval of the plan through the Council implementing decision and adoption of the legal commitment by the Commission.

- **Assessment during implementation**

Upon completion of the relevant agreed milestones and targets indicated in its recovery and resilience plan, the Member State will present a request to the Commission for a disbursement of financial support. The Commission will prepare an assessment and ask the opinion of the Economic and Financial Committee (EUCO) on the satisfactory fulfillment of the relevant milestones and targets. In exceptional circumstances where one or more Member State considers that there are serious deviations from the satisfactory fulfillment of the relevant milestones and targets of another Member State, they may request that the President of the European Council refer the matter to the next European Council.

Member States will submit their payment request, and payment will be made if the milestones and targets have been satisfactorily met and the related data reported are indeed reliable. The Commission will control the fulfillment of the conditions for disbursement. To this end, the Member States will accompany each payment claim with the information necessary to allow the

Commission to assess the fulfillment of the conditions for disbursement. If the milestones and targets are not satisfactorily met, payments will be suspended and, eventually, the financial contribution could be reduced.

The Commission will adopt the decision on disbursement under the "examination procedure" of comitology.

The European Parliament is proposing that the competent committees may invite Member States representatives responsible of the recovery and resilience plan and, where appropriate, Independent Fiscal Institutions to appear before the committees to present the recovery and resilience plan. Relevant information shall be made available by the Commission to the European Parliament and the Council simultaneously and on equal terms. Also, the Parliament wants the Commission to provide quarterly reports to the European Parliament and the Council on the implementation of the RRF, including information on the progress made with the Recovery and Resilience Plans of the Member States.

- **Disbursements**

Under the RRF, payments will be **linked to performance**. The Commission will authorize disbursements based on the achievement of the **agreed milestones and targets** up to the deadline for payments in 2026. If the milestones are not met, no payment will happen. Whereas the allocation of the total financial contribution without prejudice to the maximum allocations by Member State as per Recovery and Resilience Facility allocation key will be determined based on the estimate of the total cost of the Member State's recovery plan, the disbursements will not be linked to the costs incurred. These disbursements then go to the general budget of the Member State.

Therefore, the **main focus of the control will be on the achievement of the milestones and targets**. The Commission will implement the RRF under direct management with Member States as beneficiaries.

If the Member State has not satisfactorily implemented the milestones and targets, the Commission will suspend all or part of the financial contribution to that Member State.

2.4. REFORMS

Member States should tag the green and digital content of the proposed reforms and investments. Member States will have to specify whether the reform or investment contributes principally (100%), contributes significantly (40%) or has no impact (0%) on each of these objectives.

- **Green Deal**

Member States should explain to what extent the plan will **contribute to achieving climate neutrality** and the 2030 energy and climate targets entailed in the National Energy and Climate Plans. They should also explain how it respects the 37% climate mainstreaming target.

Member States should consider reforms and investments to support the climate transition as a matter of priority. All national RRPs will therefore need to focus strongly on both reforms and investments supporting the climate transition. To follow the commitment of the European Council to achieve a climate mainstreaming target of 30% for both the multi-annual financial framework and Next Generation EU, each recovery and resilience plan will have to include a minimum of 37% of expenditure related to climate. Progress towards other environmental objectives is also important, in line with the European Green Deal.

The Commission encourages Member States to propose flagship investment and reform initiatives aimed at, for example, **accelerating the development and use of renewables**, **improving the energy and resource efficiency** of public and private buildings, and **accelerating the use of sustainable, accessible and smart transport**.

All reforms and investments included in the recovery and resilience plans will need to respect the 'do no harm' principle, meaning that they should not be to the detriment of climate and environmental objectives.

Member States will need to factor in the need to ensure a just and socially fair transition, across green policy areas. This means, in particular, that national recovery and resilience plans should be developed in full coherence with proposed Territorial Just Transition Plans under the Just Transition Mechanism.

The Commission's assessment of each Member State's National Energy and Climate Plan which will be presented in October will provide important guidance for Member States to rely upon while drafting their plans.

- **Digital Transition**

The Commission proposes that each RRP includes a **minimum level of 20% of expenditure related to digital**. For the digital transition, particular attention will be paid to the contribution of the measures proposed to the **digital transformation of the economic or social sectors** (including public administration, including justice and health system and public services). When explaining to what extent the proposed measures contribute to the digital transition or to addressing the challenges resulting from it, Member States are invited to take as a reference, wherever possible, existing indicators such as those included in the Digital Economy and Society Index (DESI).

The objective should be improving not only the competitiveness, but also the resilience, agility and security of companies and public actors, while ensuring inclusiveness. Member States can for instance use the following categories to check the objectives of their investments:

- Connectivity
- Digital-related investment in R&D
- Human capital
- E-government, digital public services and local digital ecosystems
- Digitalization of businesses
- Investment in digital capacities and deployment of advanced technologies
- Greening the digital sector

2.5. COHERENCE WITH OTHER INITIATIVES

RRPs should be consistent with the relevant country-specific challenges and priorities identified in the context of the European Semester, with the **National Reform Programmes** ('NRPs'), the **National Energy and Climate Plans** ('NECPs) and the **Partnership Agreements** and **programmes** to be adopted under the sectoral legislation concerning Union funds. In order to maximize the potential of the different tools supporting the economic recovery, it will be critical to ensure that they operate in synergy and that this is reflected in the different documents. Strong coordination mechanisms need to be established prior to the designing and implementing of reforms and investments under the RRF. In addition, it is in the collective interest to make sure that resources are channelled in such a manner that the level playing field in the Union is ensured.

2.6. CROSS-BORDER AND MULTI-COUNTRY PROJECTS

Cross-border and multi-country projects are essential for the recovery and to strengthening Europe's resilience and are of a particular relevance for the flagship initiatives; they have the potential to better integrate value chains and deepen the Single Market.

Cross-border and multi-country projects or projects having a Single Market dimension such as the important projects of common European interest can go beyond the sphere of infrastructure investments. For instance, Member States are encouraged to work together to develop technologies and systems for a functioning clean hydrogen market, develop European battery technology capabilities, develop joint capabilities in advanced digital technologies such as European data cloud, microelectronics and processors, high-performance computing or quantum, partnerships to deploy the Pact for Skills, or support the circular economy, cross-border cooperation in strategic sectors such as space, defense and secure connectivity. They can also invest to reinforce market surveillance infrastructures (testing laboratories, IT systems), digitalization and wider usage of a common IT system, and in the deployment of sufficient human resources.

Cross-border initiatives could also be linked to EU initiatives (e.g. Industrial Alliances or Horizon Europe R&I partnerships), including projects also supported by EU programmes such as InvestEU, Horizon Europe, Creative Europe, Connecting Europe Facility, the Single Market Programme, the Innovation and Modernization funds and Digital Europe, to increase the coherence and effectiveness of funding. In all of the above, special attention needs to be paid to including SMEs in these projects and initiatives.

2.7. LOANS

Member States need to justify requests for loan support by higher financial needs linked to additional reforms and investments. Member States are invited to describe each of the components supported by a loan in the same manner and following the guidance provided for the non-repayable financial contribution.

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