Key Aspects Regarding the Recovery and Resilience Facility: Priorities, Risks and Perspectives

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Abstract: *The main objective of this paper focuses on the analysis of the Recovery and Resilience Facility from the standpoint of general priorities and risks associated to less funds available for the Member States which are not able to accomplish some of their assumed milestones and targets. High shares of the total value of National Recovery and Resilience Plans are foreseen for the green and digital transitions. Health, education and social sectors, together with institutional development are also taken into account, however these are incomparably lower funded. In the literature are criticized, among others, the strings attached to the disbursements, neglect of social implications, uneven regional distribution, difficulty to implement judicial or pension reform. Changes of the initial plans have been possible, as several countries have already submitted substantially changed plans, in terms of amounts, and/or targets. The European Commission has endorsed them, based on justified "objective circumstances". In spite of all risks and weaknesses, the NRRPs prompt economic recovery and reforms in the EU Member States, in line with the EU's goals and objectives.*

Keywords: National Recovery and Resilience Plans, NRRPs, Recovery and Resilience Facility, RRF, milestones and targets, REPowerEU, green transition, digital transformation

JEL codes: E61, F36, R10, R58.

1 Plans to stimulate economic recovery and reforms in the EU Member States[1]

The Recovery and Resilience Facility (RRF), as the "centrepiece of the NextGenerationEU", is a temporary instrument set up by Regulation (EU) 2021/241 and fine-tuned by Regulation (EU) 2023/435 in order to make EU Member States' economies and societies "more sustainable, resilient and prepared for the green and digital transitions" (European Commission, n.d.). Through the Facility, the Commission raises funds by issuing bonds on behalf of the EU. Every Member State has to dedicate at least 37% of the total value of its National Recovery and Resilience Plan (NRRP) to climate-relevant investments and reforms. The target has already been exceeded, with the foreseen climate expenditure now surpassing 40%. At the same time, the reforms and investments that support digital objectives in Member States' NRRPs are supposed to be at least 20% of total allocation set in the RRF, level already surpassed by 6 percentage points (European Commission, 2023) and even more if one takes into account the REPowerEU chapters.

The RRF is widely seen in the literature as a post-COVID-19 EU reconstruction programme (Picek, 2020) and a short-term Keynesian stimulus (Pisani-Ferry, 2020). Its main goal is to foster structural transformation, especially in less-advanced Member States and those harder-hit by crisis (Pisani-Ferry, 2020). One significant objective is to diversify gas supplies and accelerate the pace of reducing dependence on fossil fuels, in favour of more renewable energy in the energy mix. The intention is to phase out Russian fossil fuel supplies, as underscored by the Communication of May 18, 2022. On this basis, REPowerEU entails additional investment of EUR 210 billion between 2022 and 2027. It supports the European Commission's goal of achieving at least -55 % net greenhouse gas emissions by 2030 and climate neutrality by 2050 in line with the European Green Deal (European Commission, 2022).

The RRF is implemented under direct management by the Commission, but relies on the Member States for compliance with national and EU rules, as in shared management. The measures in the NRRPs have to be implemented by the end of 2026 (Lilyanova, 2023).

[1] The paper was presented at the trilateral Roundtable *Adjustment of the CEE Economies to Long-Term Challenges and Overlapping Crises*, organized online by the Institute for World Economy, Romanian Academy, November 9, 2023.

Priorities established in NRRPs are in line with the EU's goals and objectives alongside six pillars, namely: green transition, digital transformation, smart-sustainable-inclusive growth, social and territorial cohesion, health-economic-social-institutional resilience and policies for the next generation (European Commission, 2023). However they are adapted to the Member States' own particularities in terms of labour market, the state of public finances, ability to maintain a sustainable growth rate (based on productivity and growth factors) (Martinez Mongay et al., 2022) and also in terms of capacity to implement the green and digital transitions.

According to the RRF Regulation, Member States have to report twice a year in the context of the European Semester on the progress made in the implementation of their NRRPs, with the deadlines for the bi-annual reporting at no later than by 30 April and 15 October (European Commission, 2023).

The RRF is performance-based (it has a *performance conditionality regime*): its focus is on achieving certain milestones and targets (M&T) rather than on the costs themselves, unlike traditional spending programmes (Lilyanova, 2023).

Most of the M&T are defined in terms of policy outputs (e.g., the entry into force of a legislation, the creation of a new administrative structure, digitalising a process). The majority of reforms are sector-specific, aimed to enhance the effectiveness of the intended investment in the sector (e.g., reform of the health care system complementing investments in health facilities or services, reform of the electricity sector to facilitate the integration of renewables in the grid). However, the largest NRRPs also include major horizontal reforms in key policy areas (public administration, justice, tax policy, pension systems, labour market policies) (Rubio, 2022).

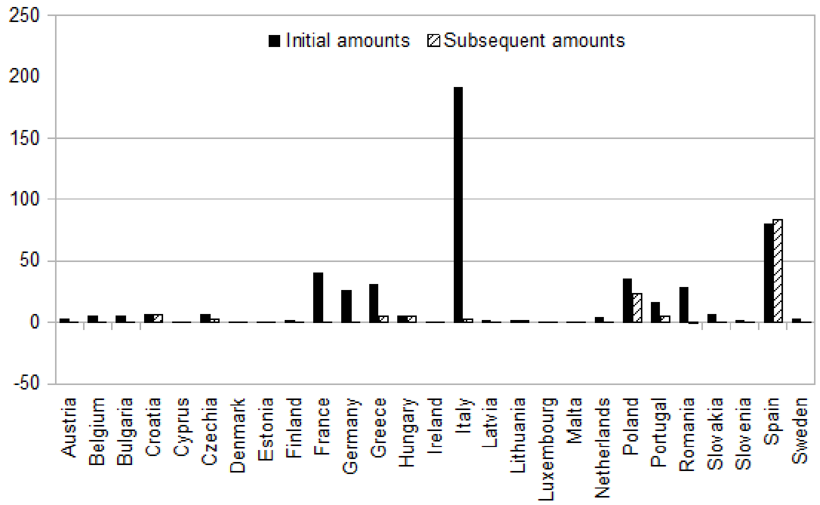
Comparisons between national plans are considered in the literature as "challenging", "because they present data in very different structures. The number and definition of headline categories and the availability of summary information about sub-categories varies from country to country. Nevertheless, the biggest challenge of cross-country comparison is the definition of non-overlapping spending categories, because a particular investment could support various purposes... for example green, social and inclusive growth as well as policies for the next generation" (Darvas *et al.*, 2023).

2 Key data related to NRRPs

The total RRF amount is of EUR 723.8 billion at 2022 prices, of which EUR 385.8 billion in loans and EUR 338 billion in grants. More than the half of the EU Members have originally chosen the option of no allocation of loans. Not only large countries, with the ability to borrow at low interest rates (Germany, France, Spain), but also smaller ones - Austria, Benelux countries, Ireland, Nordic countries, Baltic States, Bulgaria, Croatia, Hungary, Czech Republic, Slovakia, Malta - have *initially* opted only for grants. Subsequently, several of these Member States have required also loans.

According to the original plans, the highest amount was that foreseen for Italy (EUR 191 billion, 26% of the total RRF), followed at distance by Spain (EUR 69.5 billion, 9.6%), France (EUR 40.3 billion, 5.6%), Poland (EUR 35.4 billion, 4.9%), Greece (EUR 30.5 billion, 4.2%), Romania (EUR 29.2 billion, 4%) and Germany (EUR 26.4 billion, 3.6%) (Chart 1). These taken together concentrated circa 60% of the total RRF. For Poland, the loans represented only 1/3 of the total allocation, for Greece 42%, while for Romania 51%.

Chart 1: Initial and new amounts of NRRPs by country, including REPowerEU (EUR billion)



Notes: For Bulgaria, the modified version of its RRP reflects the amount of **EUR** 5.7 billion in grants instead of the initial EUR 6.3 billion. The revision is part of the June 2022 update to the RRF grants allocation key and reflects Bulgaria's comparatively better economic outcome in 2020 and 2021 than initially foreseen. Similar reductions are recorded also by Croatia, Cyprus, France etc. For other countries, such as the Czech Republic, one can remark the upward revision of its maximum RRF grant allocation, as a result of the June 2022 update to the RRF grants allocation key, which and reflects the Czech Republic's comparatively worse economic outcome in 2020 and 2021 than initially projected. There are mentioned other factors such as: supply chain disruptions; the increased costs of construction due to higher costs for raw materials; the high inflation experienced in 2022 and 2023, which affected the costs of public procurement.
Source: Own representation based on European Commission (2023b; 2023c; 2023d; 2023e).

In the initial form, the funds as a share of GDP varied between 1% and 17%, the largest share being that of Greece (17%), followed by Romania (12%), Croatia and Italy (11%), Bulgaria (9%) and Portugal (almost 8%).

It is worth noting that the amounts are not allocated according to GDP or population. For 70% of the total amount available in grants, the allocation takes into account the Member State's population, the inverse of its GDP per capita, and its average unemployment rate during 2015-2019, always compared to the EU average. For the remaining 30%, the formula replaces 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. As regards loans, their maximum value for each Member State cannot exceed 6.8% of its Gross National Income. However, an increase is possible “in exceptional circumstances subject to available resources” (European Commission, 2020).

Several countries have submitted substantially changed plans, in terms of amounts, and/or targets. One relevant example is that of *Spain*. The European Commission approved the country's request for EUR 83 billion in relief loans and RePowerEU financing. As regards grants, it will receive an additional EUR 7.7 billion after a recalculation, plus other EUR 2.6 billion to offset the energy price shock in the wake of Russia's invasion of Ukraine. As many as 52 changes to the initial draft in the face "objective circumstances" have been accepted. Spain will not implement any more a pay-as-you-go system for motorway use as a disincentive for polluting transport, and Madrid has now committed instead to boosting rail freight transport. It is worth noting that **"**Spain had been unable to achieve some of its milestones and reforms due to early elections in July and that inflation and supply chain disruptions have altered some targets". Spain is one of the most advanced in terms of RRF Payment Progress, as is has already received EUR 37 billion in the first three approved payments.

Another significant case in point is that of *Poland*. Its **changes** to the original plan endorsed by the Commission on November 21, 2023, are based on the need to factor in, among others, "objective circumstances hindering the fulfilment of certain measures as originally planned, including the high inflation experienced in 2022 and 2023 and supply chain disruptions caused by Russia's war of aggression against Ukraine" and "the request to take up an additional EUR **23 billion** in available RRF loans". The foreseen amounts are: EUR 22.5 billion RRF, EUR 2.8 billion REPowerEU grants allocation and EUR 34.5 billion in RRF loans (EUR 23 billion new RRF loans and EUR 11.5 billion in loans in the original plan), totalling EUR 59.8 billion (European Commission, 2023c).

Also on November 21, 2023, the European Commission endorsed *Greece*'s modified RRP, which includes a REPowerEU chapter. It was accepted **the request to take up EUR 5 billion in available RRF loans and incorporate EUR 768 million in additional RRF grants under REPowerEU."** In addition, Greece has proposed several changes to its original plan. In particular, the modified plan includes **four newly added or enhanced reforms** in the areas of primary healthcare, combating tax evasion, property rights and the financial sector. The modified plan also includes **four new investments**, three of which are underpinned by the need to factor in the damage caused by the catastrophic wildfires and floods that hit Greece in August and September 2023" (European Commission, 2023d).

The above-mentioned case studies underscore that significant changes in the initial NRRPs have been possible due to the Commission’s acceptance of their necessity, based on justified "objective circumstances".

3 Risks and perspectives

One of the most quoted risks mentioned in the literature is the failure to meet M&T, associated to less funds available for the Member States which are not able to accomplish some of their M&T.

The number of M&T attached to each national NRRP is very large. Progress towards the fulfilment of an action (an investment project or a reform) is measured through various intermediate and final milestones and targets. It ranges from 70-100 for the smallest NRRPs to 300-500 for the largest ones (the Spanish, Greek and Italian NRRPs) (Rubio, 2022). It is well-known that no funds are allocated to the Member States for M&T that have not been satisfactorily fulfilled (European Commission, 2023).

The risk of non-disbursement is also mentioned by Corti and Ruiz de la Ossa (2023). The authors point also to the limits of the M&T system to monitor RRF investments: it is possible for a country to be compliant with the indicators agreed with the Commission, but this does not ensure objectives such as reducing regional and local inequalities. "While this will not affect the RRF disbursements, it certainly risks hampering the measures' effectiveness and ultimately disappointing (and possibly angering) those citizens that have been patiently waiting for these promised new services. To be clear, the M&T arrangement currently in place formally works but it falls far short in meeting the requirements and expectations of performance budgeting" (p. 5).

M&T are described in detail and the possibilities to revise them are very limited. Any modification requires a qualified majority vote by the Council and is only accepted in case relevant milestones and targets are no longer achievable, either partially or totally, due to "objective circumstances" (Rubio, 2022).

The conditional financial support has been intensely criticized in the literature, in terms of "harming democratic standards and social rights". However, RRF advocates for investment and reform, instead of an austerity approach (Bekker, 2021).

In the literature have been also underlined weaknesses in the social policy area. For instance the Slovak plan "is exclusively focused on healthcare, without providing relevant reforms to properly address the high risk of poverty or social exclusion, the high level of inequality and the limited access to social protection for some population groups" (Corti et al., 2021). Hacker (2022) points that "the process of transforming the German economy structurally to be greener and more digitalised" has "neglected the social implications".

The Romanian plan has been described as "extremely ambitious", "well written and articulated", and "it seems to correctly identify the critical points of the Romanian economy and society and to address them precisely". Nevertheless, the main challenge for Romania, seems to be the implementation of the plan: "The current political situation, as well as Romania's history as a late absorber of European funds, may give rise to a certain scepticism" (Dimitriu, 2022). For Poland, Florczak *et al.* (2022) emphasize that the disbursement of funds for implementing the relevant objectives is subject to meeting conditions related to reform of the judicial system. In Slovenia's case, "proposed projects do not take uneven regional distribution sufficiently into account" (Domadenik Muren & Franca, 2022).

It is evident that the RRF has contributed to a supplementary complicated EU governance architecture, and it remains to be seen whether it will lead to a fairer society (Menegatti & Rainone, 2022).

4 Conclusions

The main goal of the NRRPs is to stimulate the twin transition, green and digital. Other goals refer also to health, education, social issues. The green transition is seen as the most important one, as reflected by its current shares in the total programs of various Member States. It supports the objective to make the EU independent from Russian fossil fuels well before 2030. Most of the modified plans have a stronger focus on green transition, as highlighted by higher shares of allocations for climate objectives.

The amounts allocated to each country, as well as the share of grants in the NRRPs vary considerably among the EU Member States. One can remark a high concentration of funds in several countries and also an inclination of several countries to reject loans and access only grants.

The strings attached to the disbursement of funds have been intensely criticized in the literature, however there is no conditionality related to the austerity approach. In spite of all risks and weaknesses, the NRRPs prompt economic recovery and reforms in the EU Member States, in line with the EU's goals and objectives.

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