THE RECOVERY AND RESILIENCE FACILITY – UNITED IN DIVERSITY OR MORE MULTI-SPEED INTEGRATION

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Abstract

The paper makes insight of the current Recovery and Resilience Facility (RRF) which is the main instrument to mitigate the economic and social impact of the coronavirus pandemic and make European economies and societies more sustainable, resilient and better prepared for the challenges and opportunities of the green and digital transitions. In that respect, the present study compares EU member states' performance in terms of their Recovery and Resilience Plans' implementation so far. First, it compares countries in terms of the timeline for approval of their plans, then in terms of the type of requested funds (grants or loans), and then in terms of funds allocated per country as a share of its GDP. Second, the paper compares countries' priorities within the EU-level priorities in the RRF six pillars. Finally, it compares countries' performance in terms of funds already disbursed (grants and loans) up to the present moment. The conclusion of these observations answers the question where the RRF is contributing to the countries being more coherent in the conditions of contemporary challenges or it will further accelerate the existing multi-speed integration in the EU.

Introduction

NextGenerationEU is a €800 billion financial instrument to support the recovery after the coronavirus pandemic, which also aims to make Europe greener, more digital, and more resilient to the current and forthcoming challenges.

The Recovery and Resilience Facility (RRF) is the centrepiece of NextGenerationEU and represents an instrument for providing grants and loans to support reforms and investments in the EU member states at a total value of €723.8 billion.

Table 1: NextGenerationEU breakdown

1	**Recovery and Resilience Facility (RRF)**	€723.8 billion
	of which, loans	*€385.8 billion*
	of which, grants	*€338.0 billion*
2	**ReactEU**	€50.6 billion
3	**Horizon Europe**	€5.4 billion
4	**InvestEU**	€6.1 billion
5	**Rural Development**	€8.1 billion
6	**Just Transition Funds (JTF)**	€10.9 billion
7	**RescEU**	€2 billion
	TOTAL	**€806.9 billion**

Source: European Commission, 2021a

The Recovery and Resilience Facility entered into force in February 2021 and is going to provide funds to EU member states till the end of 2026. The funds for it will be borrowed on the capital markets by the European Commission that will act on behalf of the EU. RRF's main goal is to have a positive economic and social impact in the EU through financial support for the recovery after the coronavirus pandemic. It also aims at making the European economies and societies more sustainable, resilient and better prepared for the challenges and opportunities of the green and digital transitions.

The RRF funds will be provided in two forms: either as grants (nonrepayable) or as loans (repayable), see fig. 1.

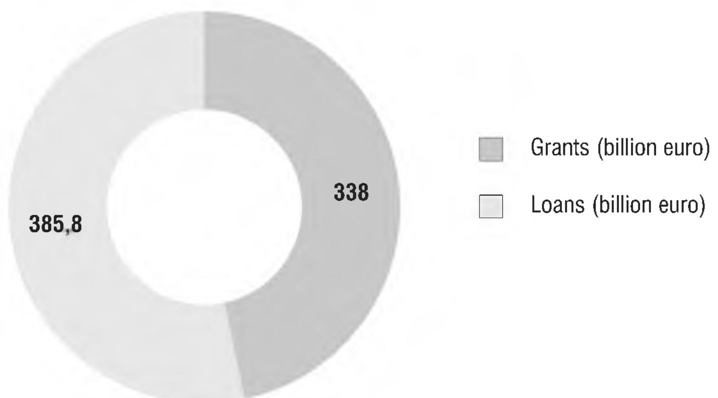


Figure 1: Priorities of the RRF

Source: European Commission, 2021b

In order to be eligible for RRF funds (grants or loans), the member states had to submit their recovery and resilience plans to the European Commission. Each plan sets out the reforms and investments to be implemented by end-2026 and has to effectively address the challenges identified in the European Semester, particularly the country-specific recommendations of 2019 and 2020 adopted by the Council. Throughout the whole period, the member states are required to fulfil specific milestones and targets, and before any disbursements under the RRF, the Commission assesses the satisfactory fulfilment of each milestone and target.

The RRF is structured around six pillars: green transition; digital transformation; economic cohesion, productivity and competitiveness; social and territorial cohesion; health, economic, social and institutional resilience; policies for the next generation.

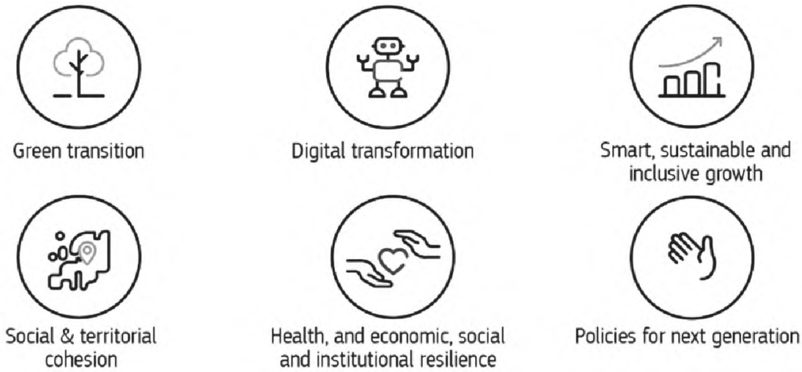


Figure 1: Priorities of the RRF

Source: European Commission, 2021b

EU member states' positions in terms of RRF

Despite the fact that the rules concerning the RRF are the same for all member states, their progress towards these funds seem to progress variably. In order to compare them, first, we compare the countries in terms of the time of the recovery and resilience plans' (RRP) approval, then in terms of the time and the type of the received funds (as of October 2022), and then in terms of funds allocated per country as a share of its GDP. Finally, a comparison is made in accordance with the countries' priorities within the framework of RRF.

Firstly, it can be clearly noted that the EU member states have a very different starting points for their RRPs' implementation. The majority of countries (16 of them) had their plans approved as early as in the middle of 2021, or later during that year. For others, however, this happened in the spring (Sweden, Bulgaria), summer (Poland) and autumn (Netherlands) of 2022. This means big differences in the time for plans' implementation and would inevitably lead to an uneven completion of the targets and milestones of the RRF over time.

Table 2: Time for approval of member states' RRP

Time of approval of RRP	Country
July 2021	Slovakia, Portugal, Austria, Luxembourg, Latvia, Italy, France, Spain, Greece, Germany, Denmark, Belgium, Slovenia, Lithuania, Cyprus, Croatia
September 2021	Ireland, Czechia
October 2021	Malta, Finland, Romania, Estonia
May 2022	Sweden, Bulgaria
June 2022	Poland
October 2022	Netherlands
RRP still not approved	Hungary

Source: Author with data by the European Commission, 2022a

Hungary is the only EU member states, whose RRP has not still been approved over the rule of law concerns (Euronews, 2022). This would mean a great delay for it during its recovery and resilience plan's practical implementation.

Secondly, as it regards to the amount of funds that have been already allocated, the statistics show that 21 EU member states have already received any fund (grant or loan or both) as of October 2022.

Table 2 shows the grants allocated so far. Most of countries have received pre-financing[1] (14 countries), some of them already got first payment (7 countries), while Spain has already received its second payment.

Table 3: Grants allocated to the member states as of October 2022

	Country	Date	Budget Type	Payment Request Description	Amounts (€)
1	Slovakia	29/07/2022	Grants	1st Payment	398 700 990
2	Spain	29/07/2022	Grants	2nd Payment	12 000 000 000
3	Croatia	28/06/2022	Grants	1st Payment	700 000 000
4	Portugal	09/05/2022	Grants	1st Payment	553 441 000
5	Italy	13/04/2022	Grants	1st Payment	10 000 000 000
6	Greece	08/04/2022	Grants	1st Payment	1 717 761 118

[1] Member states can receive a pre-financing equal to 13% of the total amount of their national RRP, provided that the Council implementing decision has been adopted by the end of 2021 (article 13 of the RRF regulation).

7	France	04/03/2022	Grants	1st Payment	7 400 000 000
8	Finland	21/01/2022	Grants	Pre-Financing	271 094 341
9	Spain	27/12/2021	Grants	1st Payment	10 000 000 000
10	Estonia	17/12/2021	Grants	Pre-Financing	126 008 898
11	Malta	17/12/2021	Grants	Pre-Financing	41 132 454
12	Romania	02/12/2021	Grants	Pre-Financing	1 851 159 668
13	Slovakia	13/10/2021	Grants	Pre-Financing	822 716 227
14	Austria	28/09/2021	Grants	Pre-Financing	449 981 847
15	Croatia	28/09/2021	Grants	Pre-Financing	818 406 049
16	Czechia	28/09/2021	Grants	Pre-Financing	914 640 681
17	Slovenia	17/09/2021	Grants	Pre-Financing	231 000 547
18	Latvia	10/09/2021	Grants	Pre-Financing	237 380 000
19	Cyprus	09/09/2021	Grants	Pre-Financing	130 772 986
20	Denmark	02/09/2021	Grants	Pre-Financing	201 682 144
21	Germany	26/08/2021	Grants	Pre-Financing	2 250 000 000
22	France	19/08/2021	Grants	Pre-Financing	5 117 881 402
					56 233 760 352

Source: Author with data by the European Commission, 2022a

As it concerns loans, only 8 EU member states have received such so far (Table 3). The total amount of received loans by now is much smaller than that of allocated grants (around 33 billion euro in loans in comparison to 56 billion euro in grants).

NB: Member statescan request a loan worth up to 6.8% of their 2019 Gross National Income as part of the submission of their recovery and resilience plan.

Table 4: Loans allocated to the member states as of October 2022

	Country	Date	Budget Type	Payment Request Description	Amounts (€)
1	Portugal	09/05/2022	Loans	1st Payment	609 000 000
2	Italy	13/04/2022	Loans	1st Payment	11 000 000 000
3	Greece	08/04/2022	Loans	1st Payment	1 845 493 144
4	Romania	13/01/2022	Loans	Pre-Financing	1 942 479 890

5	Cyprus	09/09/2021	Loans	Pre-Financing	26 041 600
6	Italy	13/08/2021	Loans	Pre-Financing	15 938 235 352
7	Greece	09/08/2021	Loans	Pre-Financing	1 654 580 060
8	Portugal	03/08/2021	Loans	Pre-Financing	350 870 000
					33 366 700 046

Source: Author with data by the European Commission, 2022a

Thirdly, another interesting observation, which is directly connected to the potential effects of the RRPs' implementation, is the different amount of funds allocated to each country, which also represent a different share of the respective country's GDP (see Table 4).

Table 5: Amount of maximum grant allocation (billion euro) and share of total RRP funds as share of national GDP (%)

Country	Maximum GRANT allocation (billion euro)	RRP allocation as Share of GDP (%)
Belgium	5.9	1,17%
Bulgaria	6.3	approx. 9,75%
Czechia	7.1	2,95%
Denmark	1.6	0,46%
Germany	25.6	0,72%
Estonia	1.0	3,16%
Ireland	1.0	N/A
Greece	17.8	9,72%
Spain	69.5	5,77%
France	39.4	1,57%
Croatia	6.3	11,01%
Italy	68.9	3,88%
Cyprus	1.0	4,29%
Latvia	2.0	5,56%
Lithuania	2.2	4,02%
Luxembourg	0.1	0,13%
Hungary	7.2	N/A

Malta	0.3	2,15%
Netherlands	6.0	N/A
Austria	3.5	0,86%
Poland	23.9	N/A
Portugal	13.9	6,58%
Romania	14.2	5,93%
Slovenia	1.8	3,42%
Slovakia	6.3	6,52%
Finland	2.1	0,83%
Sweden	3.3	approx. 0,6%
EU 27	338.0	

Source: Author with data by the European Commission, 2022a

The distribution of funds among the member states has been made according to a complex system of calculations. The RRF regulation (Regulation (EU) 2021/241 of the European Parliament and of the Council) envisages a special way for distribution of the grants between the countries: „*70 % of that maximum financial contribution is calculated on the basis of the population, the inverse of the GDP per capita and the relative unemployment rate of each Member State, and 30 % of that maximum financial contribution should be calculated on the basis of 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*" (this is subject to additional re-calculation in 2022). Until 31 December 2022, the Commission shall make available for allocation 70 % of the total amount of grants, and from 1 January 2023 until 31 December 2023, the Commission shall make available for allocation 30 % of the rest amount of grants. The final goal is to achieve a financial contribution that addresses the actual needs of member states to undertake and complete the reforms and investments in their recovery and resilience plans.

The direct result of this way of calculation is the wide-varying shares of financial support to the countries expressed as a share of their GDP. However, since the distribution is made on objective assessment of the countries' needs, this should mean that this would be a fair and efficient distribution of funds. According to experts, the RRF allocation key ensures stronger macroeconomic support for more vulnerable countries, since in 2021-22 the funds will be distributed on the basis of income per capita and past unemployment developments, whereas for 2023 the past unemployment developments will be replaced by the observed declines in real GDP in 2020-21. In the case of the euro area this would mean that the agreed distribution of funds will imply sizeable net financial support for those euro area countries that face the biggest economic and fiscal challenges after the pandemic (f.e. Greece, Spain and Italy), (Giovannini et al).

Last but not least, there is a clear difference in the focus that the EU member states put on the various priorities. Despite the minimum targets defined for the climate change and digital priorities, these requirements don't mean full harmonization and it is evident that the countries put different emphasis on the six priority pillars.

On first place is the climate change priority, which will help achieve the EU's targets to reduce net greenhouse gas emissions by at least 55% by 2030 and to reach climate neutrality by 2050. The RRF Regulation requires that at least 37% of the total allocation in each RRP shall support climate objectives. This is done so by the member states that have envisaged over EUR 198 billion to this priority or about 40% of the total plans' allocation. On second place is digital transformation - accounting for 29% of the total RRF funds, on third place are the policies related to health, economic, social and institutional resilience also reflecting the responses to the COVID pandemic (16%) and 12% of the funds will contribute to policies for next generation, including education and skills (European Commission, 2022b).

However, looking on national level the figures widely vary. A number of member states will use more than half (when the minimum set is 37%) of their funds towards climate objectives - Austria, Bulgaria, Denmark, Finland, Luxemburg and Malta.

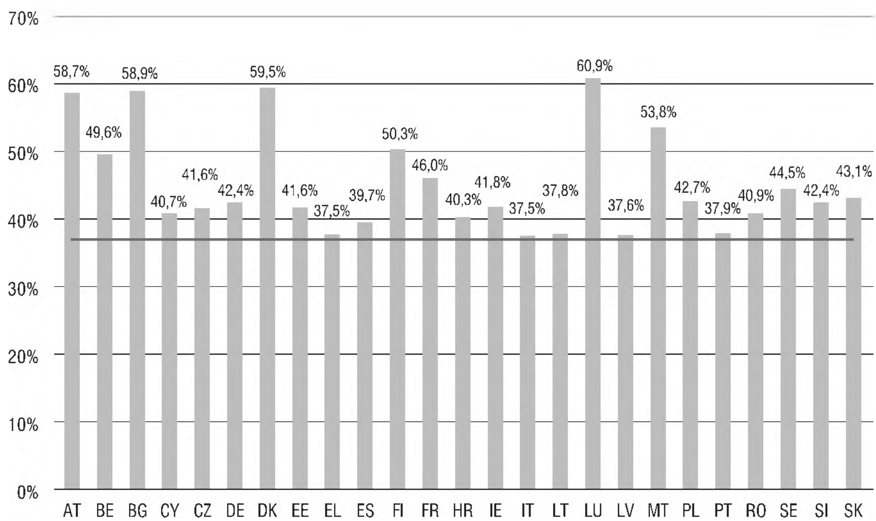


Figure 2: Contribution to climate objectives as share (%) of RRP allocation

Source: European Commission, 2022b

Another example are the measures regarding the digital transformation (deployment of next generation digital infrastructures and advanced technologies, digital skills development for the population and the workforce, and support to the digitalisation of enterprises and public services). The RRF Regulation requires that at least 20% of the total allocation in each RRP supports digital objectives. The reforms and investments proposed by the member states have exceeded the 20% digital target, reaching more than 127 billion euro, which represent over 26% of the total allocation of the funds. But again, we see a great variety of figures among the European countries: a number of them will invest more than half (when the set minimum is 20%) of their funds into digitalisation: Germany and Austria – approximately 53%, Luxembourg, Lithuania and Ireland – approximately 32% (Figure 3).

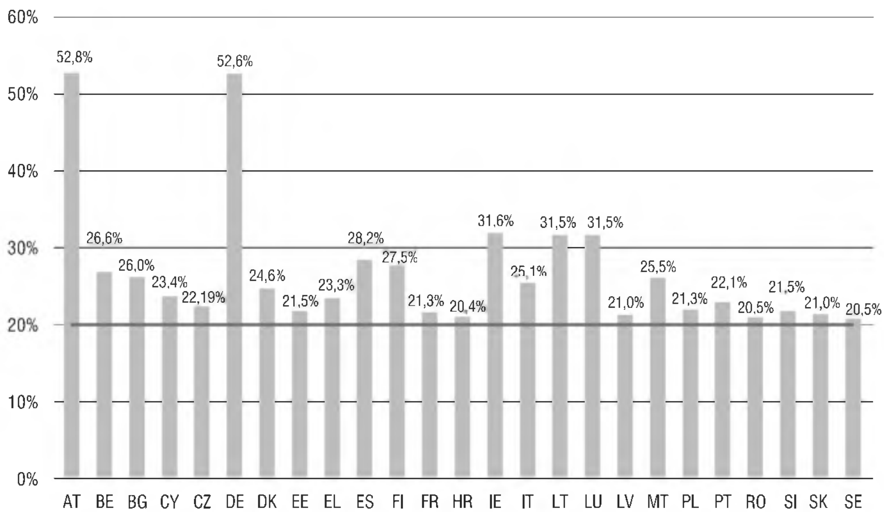
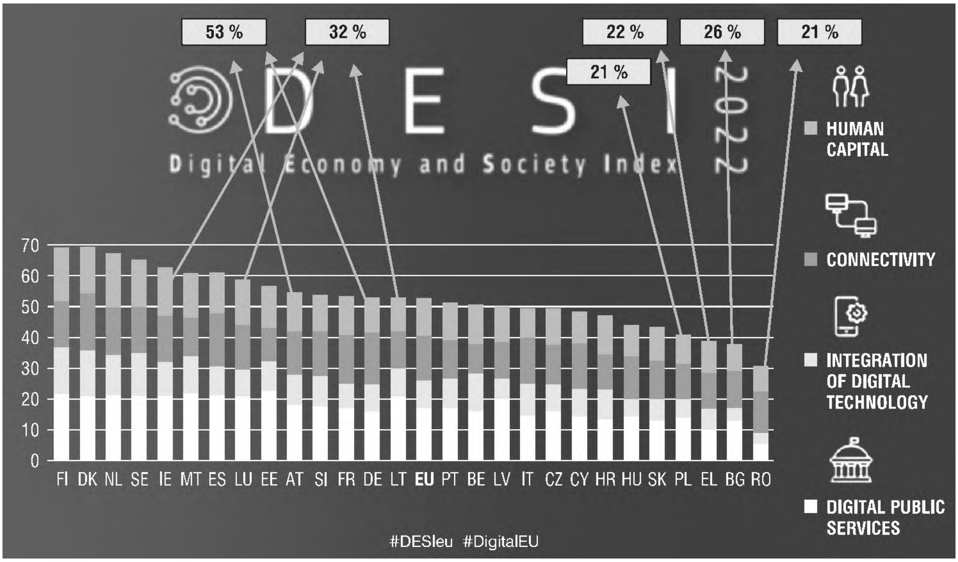


Figure 3: Contribution to digital objectives as share (%) of RRP allocation

Source: European Commission, 2022b

Taking into consideration that these countries are also among the best-performing countries in terms ofdigitalisation, then question arises as to whether the differing targets will lead to even bigger differentiation, and respectively to smaller cohesion among the EU member states.

Figure 4 shows the performance of the European states in digitalisation according to the Digital Economy and Society Index (DESI). Ireland and Luxemburg are on 5th and 8th place respectively, and they are planning to invest around 32% of their RRF funds in further digitalisation. Austria and Germany, which are performing better than the EU average in terms of digitalisation, are planning to invest more than half of their RRF funds to support the digital transformation (Figure 4).



Legend: ▭ - contribution to digital objectives as share (%) of RRP allocation of certain EU countries

Figure 4: EU member states' performance according to DESI (2022) and contribution to digital objectives as share (%) of RRP allocation of certain EU countries

Source: Author with data of European Commission, 2022b and European Commission, 2022c

This would imply a certain higher speed of digitalisation in the countries, which are currently not only forth-runners in terms of digitalisation but which are also planning to invest much more in that sphere than the rest in the short-run. This would with high probability lead to an increasing differentiation in digitalisation performance indicators among the EU member states and to a decreasing or stagnating level of cohesion among them.

Conclusion

It is difficult to answer whether the RRF would contribute to the EU member states' cohesion – economic, social, in terms of climate change or digitalisation. It is certain that setting common goals, targets and indicators makes the EU more coherent in the conditions of contemporary challenges, especially in the still unclear processes of green and digital transitions. However, the pace of progress of the EU countries towards the set goals could be further differentiated due to the various times of implementation, the different amount of funds that are going to be invested and the varying present countries' positions, and this could further accelerate the existing multi-speed integration in the EU. Despite united in diversity, the countries may widely and further differ in their achievements towards climate goals, digitalisation and social inclusion goals. This way, future studies could explore the existence of multi-speed European integration in the contemporary goals and policies, and would verify the statements of some researchers (Brudzińska, 2018) that say that: „*Flexible integration has not broken the Union, it helped it to survive*“.

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