Options for a place-based Recovery and Resilience Facility

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In a nutshell

The Recovery and Resilience Facility (RFF) is the key component of the recovery instrument “Next Generation EU” presented by the European Commission as the EU response to the COVID19 outbreak. The instrument aims to help Member States rebuild their economies by funding key public investments and reforms.

Due to its prominent role, the RRF features – from the allocation criteria to the governance – have been the centre of political discussions between Member States. The debate is expected to be quite intense until an agreement on the Multiannual Financial Framework 2021-2027 is reached between EU leaders and the Facility provisions are agreed between the Council of the EU and the European Parliament.

In its analysis on the EU Recovery Plan, the CPMR General Secretariat criticized a lack of territorial dimension or references to the involvement of regional authorities in the Recovery and Resilience Facility. In line with the document and the concerns shared by CPMR members, the CPMR General Secretariat has analysed the instrument’s set-up (section 2) with the aim to present a stronger place-based approach that the Facility could take (section 3).

The document puts forward ideas on how to make the instrument more place-based on four areas:

- **Governance**: We consider key to involve local and regional authorities in the planning and implementation of the RRF investments via a fully-fledged application of the partnership principle.
- **Content of plans and assessment criteria**: The contribution of the RRF to the territorial cohesion should be given more prominence in the definition and assessment of plans.
- **Transfer of funding**: Member States should be given the possibility to transfer funding from the RRF to shared management programmes.
- **Allocation methodology**: An additional criteria should be envisaged to reflect territorial inequalities.
1. Introduction

An ambitious proposal for a recovery scenario. The economic and social fallout of the COVID 19 led the European Commission to present an ambitious plan to kick-start the recovery by addressing the most impacted territories and sectors following the strong demand from a wide spectrum of economic and political actors. In this sense, the European Commission proposed the “Next Generation EU” Recovery Instrument with a budget allocation of 750 bn € borrowed on the capital markets.

The centre of the “Next Generation EU”. The Recovery and Resilience Facility (RFF) will account for the majority (560bn) of the 750bn budget playing a key role in supporting Member States economic recovery by funding key public investments and reforms.

A complex framework built upon preceding EMU instruments. As already hinted in the technical note 10 questions from the CPMR on the revised EU’s recovery plan, the Facility replaces the proposals to create the Reform Support Programme and the Budgetary Instrument for Convergence and Competitiveness. These schemes were meant to establish a dedicated tool mainly intended for the euro area to finance structural reforms and public investments. The two instruments had been discussed for years with the highest political attention.

2. What is the Recovery and Resilience Facility?

- **560 billion EUR will be distributed via grants and loans** to the Member States in order to finance the identified investments and reforms.
  - For the grants (EUR 310 billion in the European Commission proposal), a **maximum amount per Member State will be determined by specific allocation criteria** (population, inverse GDP per capita and the average unemployment rate over the past five years compared to the EU average) limited by specific capping provisions\(^1\). See Annex 1, for each Member State allocation. The amount of investments and the interventions/reforms to be financed are spelled out in so-called recovery and resilience plans that each Member States negotiates and submits to the Commission.
  - Member States will be able to complement the grants via **loans for additional reforms and investments** (EUR 250 billion in the European Commission proposal).
    - Loans should be also requested via the recovery and resilience plan or at any other moment until 2024 together with the justifying amended recovery plan.
    - The maximum loan amount will be the difference between the grant and the cost of the investment, with a capping that the loan should not exceed the 4.7% of the Member State GNI.

- **Temporary tool.** As part of the “Next Generation EU” Recovery Instrument, the Facility will run until 2024. To frontload the funding, at least 60% of the total support via grants should be committed by the end of 2022. If financial resources remain available thereafter, general calls could also be organised by the Commission at EU level to allocate the funding.

- **RFF funding priorities will be defined via the European Semester.** The governance of the instrument will be introduced in the European Semester framework which promotes the

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\(^1\) To avoid excessive concentration of resources: the inverse GDP per capita is capped at 150% of EU average, the deviation of individual country’s unemployment rate from the EU average is capped at 150% of EU average. To account for the generally more stable labour markets of wealthier Member States (with GNI per capita above EU average), the deviation of their unemployment rate from the EU average is capped at 75%.
coordination of economic policies and the discussion between Member States and the European Commission on budgetary plans. In line with the framework procedures:

1. The **European Commission** will propose for each Member State specific **Country Specific Recommendations** where it will identify the main challenges linked to the recovery.

2. **Member States** will submit the **recovery and resilience plans** which will be the basis for the support - to be submitted in April together with the National Reform Programme-. Each plan will address the investments needed:
   - in line with the challenges and priorities identified under the Semester (in the CRS in particular)
   - in line with the policy priorities established in other EU policies tools: National Energy and Climate Plans, Territorial Just Transition Plans and EU Funds partnership agreements and operational programs.

3. The **European Commission** will **assess the recovery and resilience plans** and ensure that the investments identified:
   - strengthen the growth potential and economic and social resilience of the Member State,
   - contribute to enhance economic, social and territorial cohesion,
   - and whether the plan contains measures that are relevant for the green and the digital transition.

   The Commission will within four months of the submission adopt the recovery and resilience plan and set a decision by a way of **implementing act setting out the payment of the financial contribution allocated to the Member State**. The Commission would also assess the request for a loan from the Member State if requested.

4. The **Council of the EU** will adopt strategic orientations and will decide on how the money should be used through an effective economic steering and **binding advice as regards the implementing act of the Commission** (examination procedure).

5. The **European Commission** will directly manage the Funds and ensure the implementation of the Facility. It will provide an **annual report** to the **European Parliament** and the **Council of the EU** on the progress made in the recovery and resilience plans milestones by Member States and the spending under the Facility.

- **Subject to macroeconomic conditionality.** Potential suspension of funding could occur as the Facility funding is linked to the fulfilment of a sound economic governance in line with Art. 15 of the CPR 2021-2027.

- Optional **transfer of shared management programmes resources** to the Facility, upon Member State decision. The resources transferred would account for the total transfers established under the Common Provision Regulation (Art. 21 CPR 2021-2027)
3. How to make the instrument more place based?

3.1 Governance

The governance of the Recovery and Resilience Facility would be essentially centralised at national level. The proposed regulation does not provide any indication on the matter leaving it to the specific constitutional arrangements in each Member States. This is likely to lead to a marginal involvement of local and regional authorities at best. It would be no surprise looking at the low or non-existent level of participation of LRAs in the European Semester process, for instance in the preparation of National Reform Programmes².

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Yet the rationale for involving the regional authorities is very strong. The Recovery and Resilience Facility is intended to target the worst hit regions, implying a territorial diversification of investments. Regional authorities are thus essential in identifying and assessing the specific investment needs spelled out in the plans. Furthermore, a considerable number of reforms that are going to be included in the plans are likely to be “territorially-related”³, as they point at challenges concerning some regions more than other and/or their implementation relies on sub-national levels of government.

The involvement of local and regional would also contribute to increasing the democratic accountability and political ownership of the investments and reforms proposed in the plans.

The design itself of the governance proposed in the regulation reinforces this argument. As highlighted in the aforementioned policy brief of the Jacques Delors Centre⁴, the governance of the instrument is modelled on the same process used for the European Structural and Investment Funds (ESIF), whereby each Member State agrees with the Commission on a “partnership agreement” detailing the strategy and the investment priorities. The same would apply for the RRF plans, except for one key aspect element. Under Cohesion Policy, the partnership agreement shall be prepared with the involvement of the competent regional and local authorities (art. 5 CPR). This is not the case for RRF plans.

OPTION FOR THE FUTURE: Extend the partnership principle to the preparation of the plans under the Recovery and Resilience Fund. The Commission could put forward a Code of Conduct on Partnership similar to the one in force under Cohesion Policy setting the minimum standards for the involvement of the local and regional authorities.

The aforementioned code of conduct on partnership could more broadly address the role of Regions as strategic partners in the EU Semester process. As the CPMR has long called local and regional authorities must be fully involved at national level as partners of the European Semester dialogue in which priority investment policies are shaped.

3.2 Content of plans and assessment criteria

The recovery and resilience plans will be assessed by the Commission based on a set of criteria spelled out in art. 16 and Annex I of the RFF Regulation. The most relevant are: consistency with country-specific recommendations or other documents issued in the context of the European Semester; contribution to addressing the environmental and digital transition; cost of proposed measures vis-à-vis benefits in the long term. A rating system for the assessment of the proposals is established.

The expected contribution of the plans to the territorial cohesion is featured in one of the criteria, namely:

“The recovery and resilience plan is expected to effectively contribute to strengthen the growth potential, job creation, and economic and social resilience of the Member State, mitigate the economic and social impact of the crisis, and contribute to enhance economic, social and territorial cohesion”.

Accordingly, the plan shall provide an explanation on how this territorial cohesion criterion will be fulfilled (art. 15). This is a positive element which should be developed further in the proposal. In the past years, the European Commission has made concrete steps to bring a modicum of territorial dimension into the European Semester framework, specifically via a strong link with Cohesion Policy objectives. Proof of this is the inclusion of investment guidelines on addressing territorial disparities within the Country reports 2019 (Annex D) or on the territorial challenges linked to the climate transition within the Country reports 2020 (Annex D-bis).

The CPR for 2014-2020 and the proposed 2021-2027 provides for an alignment of cohesion funding with the objectives of the Semester. However, the Semester remains for a large part a “spatially blind” process with little attention payed to the territorial impact of reforms.

More importantly, the RRF regulation identifies the social, economic and territorial cohesion as the main policy area and objective of the instrument (artt. 3 & 4). The legal basis of the RFF can be in effect found in art. 175 TFEU.

OPTION FOR THE FUTURE: The contribution of the plans to the territorial cohesion could feature more prominently in the list of assessment criteria, namely through a standalone criterion. The plans shall feature a separate section addressing this objective. The section should also spell out how territories with geographical specificities mentioned under the relevant articles of the TFEU or accession treaties should be targeted.

Another horizontal assessment criterion that it appears important to take into account is whether the plan provides a sufficient appraisal of the territorial impact of the reforms and investment spelled out in the plan (see previous section). Art. 16 shall indicate this as an element to be included in the plans.

3.3 Transfer of funding

Art. 6 of the proposed regulation provides for the possibility of transferring resources under shared management to the Recovery and Resilience Facility if Member States so request. It is understood that the transfers would be capped according the art. 21 of new CPR, which has been significantly reinforced under the amended CPR tabled with the revised MFF.

The logic behind moving resources from shared management to other EU direct management instruments has been called into question in different ways. For a start, it may harm the distributional and territorial dimension of Cohesion Policy funding. That applies also to the Recovery and Resilience Facility.

Throughout successive programming period Cohesion Policy has developed a robust layer of requirements to improve the efficiency and accountability of spending. Conversely, the Recovery and Resilience Facility would rely on more loose and less detailed obligations, essentially working as “budget support”. The risk cannot be ruled out that its funds are thus partially misspent. The Commission will certainly have less control although the funds are officially under direct management. In the light of this, it would appear logical to propose the possibility of transfers from the RRF to shared management programmes, where more control and transparency can be exerted on the use of funds.
The RRF regulation itself offers a sound legal justification for such transfers to Cohesion Policy. Firstly, the legal basis of the RRF is art. 175 of the Treaty on the Functioning of the European Union (TFEU), which establishes the economic, social and territorial cohesion as a key objective of Member States economic policies.

Secondly, the investments under the RRF shall be consistent with the priorities and challenges identified within the Cohesion Policy partnership agreements and operational programmes (art. 14). Moreover art. 22 of the regulation provides for a strong “complementarity, synergy, coherence and consistency” between the RRF and “different instruments at Union, national and, where appropriate, regional levels”.

One major objection is that the deployment of cohesion funding follows complex rules and has a timing which do not chime well with the need for quick investments to support the recovery. However, both the CRII/CRII+ packages and REACT-EU preside over a massive, albeit temporary, relaxation of cohesion rules. While the additional EUR 55 € from the Recovery Instrument allocated to cohesion policy via REACT-EU may be well enough, the possibility to transfer more resources to cohesion policy should still be granted. Many cohesion policy programmes in Member States that are not getting much from REACT-EU are close to reach full absorption, at least in terms of commitments. They should be given the possibility to tap into sources other than REACT-EU. RRF funding can also be transferred to 2021-2027 cohesion programmes.

The CPMR has also long called for a harmonised and coherent level playing field regarding requirements for EU funding (state aid notification process, auditing, reporting...).

**OPTION FOR THE FUTURE:** Reverse the logic of art. 6 by proposing the possibility to transfer RRF resources to shared management programmes or allow the transfers in both ways.

### 3.4 Allocation methodology

The break-down per country (maximum financial contribution) is calculated through a specific formula taking into account three criteria: inverted GDP per capita, population, the average unemployment rate over the past 5 years compared to the EU average (2015-2019). Corrective mechanisms (capping) are envisaged to avoid excessive concentration.

The three picked criteria overlook the existence of territorial inequalities, in some cases acute, within individual Member States. This could lead in some instances to a suboptimal distribution of the funding in partial contrast with the core purpose of the instrument to foster cohesion. To avoid this, the criteria for the allocation of the funding should be revised to take account of the levels of development at NUTS2 level in Member States.

**OPTION FOR THE FUTURE:** The allocation methodology for the RRF should take inspiration from the Berlin formula for the allocation of Cohesion Policy funds. The three criteria should be complemented with an additional indicator reflecting territorial inequalities. For instance, the fourth criteria could take the form of a prosperity gap, i.e. the difference between the GDP per capita in the NUTS2 regions and that of the EU average. This would be applied only to regions whose GDP is below 100% of the EU average. Corrections will be in place to take account of the number of regions below 100% (as some Member States may have far less than others) and relative wealth of the Member State.
### Annex 1 - Maximum amount per Member State via the Resilience and Recovery Facility

**Recovery and Resilience Facility (RRF) non-repayable support**

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<tr>
<th>Country</th>
<th>% of total</th>
<th>EUR mn, 2018 prices</th>
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<tr>
<td>BG</td>
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Source: European Commission

The Conference of Peripheral Maritime Regions (CPMR) represents more than 150 regional authorities from 24 countries across Europe and beyond. Organised in geographical commissions, the CPMR works to ensure that a balanced territorial development is at the heart of the European Union and its policies.

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