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Slovenia economy briefing:

NextGenerationEU Instrument: European Commission Approves Slovenia's €2.5 Billion Recovery and Resilience Plan

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NextGenerationEU Instrument: European Commission Approves Slovenia's €2.5 Billion Recovery and Resilience Plan

Summary

The Recovery and Resilience Facility (RRF) is the centrepiece of NextGenerationEU – the European Instrument for recovery, which will provide €800 billion (in current prices) to support investment and reform across the EU. The Slovenian plan is part of the EU's unprecedented coordinated response to the COVID -19 crisis to tackle common European challenges by launching a green and digital transformation and strengthening the economic and social resilience and cohesion of the single market.

The Commission has assessed the Slovenian plan on the basis of the criteria set out in the RRF Regulation. In particular, it assessed whether the investments and reforms planned by Slovenia support the green and digital transition, whether they contribute to effectively addressing the challenges identified in the European Semester and whether they strengthen its economy's growth potential, job creation and economic and social resilience.

On 1 July, the European Commission adopted a positive assessment of Slovenia's recovery and resilience plan, which forms the basis for the disbursement of €1.8 billion in grants and €705 million in EU loans to Slovenia under the Recovery and Resilience Facility. These funds will support the implementation of key investment and reform measures defined in the Slovenian recovery and resilience plan and enable Slovenia to be stronger for new potential COVID-19 waves.

Ensuring green and digital transition in Slovenia

The European Commission recently approved the Slovenian National Plan for recovery and resilience, so Slovenia should receive a provisional payment of €231 million in three months.

The approval of the National Recovery and Resilience Plan is another step towards the country being eligible for €1.8 billion in grants and €705 million in loans. With this, Slovenia will finance 33 reforms and 50 investments. The funding will support the implementation of key investments and reforms from Slovenian Recovery and Resilience Facility. The state will receive 13 percent of all funds upfront, after which it will receive the European funds according to the targets and milestones achieved.

During the review, European Commission found that 42 percent of the funds in the Slovenian plan are earmarked for climate targets. Measures to ensure the country's green transition include investments to promote energy from renewable sources, increase the energy efficiency of buildings and their seismic retrofitting, promote adaptation to climate change and modernize railway infrastructure. 21 percent of the total funds are earmarked for measures to support the digital transition. This includes efforts to digitize public administration, invest in connectivity and digital skills, and digitize businesses, which means that the country meets the European criteria. In the area of green transformation, the Commission points to €230 million for increasing the energy efficiency of buildings, €292 million for decarbonising transport with investment in rail infrastructure and €54 million for improved water supply. In the area of digitalisation, it mentions strengthening digital literacy, better connectivity and the digitalisation of healthcare and other parts of public services and the economy.

Brussels also pointed out that the planned reforms and investments envisage a comprehensive package of mutually reinforcing reforms and investments that contribute to the effective resolution of all or a significant part of the economic and social challenges identified in the EU Council's specific recommendations to Slovenia in the European Semester framework in 2019 and 2020. They mention reforms in the areas of long-term care, health, pension system, labor market, education, research, development and innovation, business environment and public procurement.

The plan represents a comprehensive and appropriately balanced response to the country's economic and social situation, thus contributing adequately to all six pillars of the RRF regulation.

The plan submitted by Slovenia proposes projects in seven European priority areas. These are specific investment projects addressing issues that are common to all Member States, in areas that are important for job creation and growth and that are necessary for the double transition. For example, under the flagship area of retraining and continuing education, Slovenia has proposed a package of €114 million to strengthen the digital skills and competences of pupils and students, workers and civil servants, either as part of the modernisation of the education system or through lifelong learning.

In addition, the assessment concluded that none of the planned measures would significantly affect the environment, which is in line with the requirements of the RRF Regulation.

The control systems put in place by Slovenia are assessed as appropriate for the protection of the Union's financial interests. The plan describes in sufficient detail how the national authorities will prevent, detect and remedy conflicts of interest, corruption and fraud related to the use of the funds.

Meanwhile, Slovenia is still withholding the appointment of the delegated prosecutors. The European Public Prosecutor's Office is dedicated to fighting fraud in European Union and the misuse of European funds. As this independent body of the European Union is responsible for investigating, prosecuting and punishing offences affecting the Union's financial interests, the non-appointment of the delegated prosecutors may have had an impact on the assessment of Slovenia's national plan. High EU officials have often been highly critical. European Commissioner for Justice Didier Reynders has repeatedly asked Slovenia to appoint the delegated prosecutors within the European Public Prosecutor's Office (EPPO) as soon as possible, which the Slovenian government has not done.

European Chief Prosecutor Laura Koevesi was also highly critical of the steps taken by the Slovenian government, saying that there appeared to be a lack of sincere cooperation between the Slovenian authorities and the European Public Prosecutor's Office, which seriously undermined confidence in the effective management and control of European funds in Slovenia.

It is not always easy to absorb and spend well EU funds

It is good that Slovenia can finally use development instruments again, which did not exist before, but according to some experts, the composition of funds is not development-oriented enough.

Like Italy and Spain, the two biggest recipients of Brussels' Covid-19 recovery fund, Slovenia too could face administrative bottlenecks in the coming years in using the unprecedented EU financial aid. On the development side, Slovenia is already weak. For example, in 2016 Slovenia announced a tender for development investment funding of €55 million to support nine programs, but now only €20 million are planned for four projects. If we combine the current planned figures for all development purposes (research, development, innovation, digitalisation, entrepreneurship and retraining) in the Recovery and Resilience Facility as well as in the Cohesion Funds, Slovenia does not even cover a gap compared to the countries it competes with, let alone compared to the leading countries it wants to catch up with. In order to close the gap with countries such as Czech Republic, Estonia and also Croatia, these funds would have to be increased by a hundred million per year, and to catch up with the developed countries, by €180 million.

The most important thing at this point is that the Recovery and Resilience Facility have been approved, which is good because Slovenia can now use these instruments. At the same time, more needs to be done in cohesion policy – i.e. a significant increase in funds for development. Experts estimate that the share of funds should be at least double – now 16 percent – in order to catch up with countries like Czech Republic or Estonia and remain at least roughly competitive.

In July, the Commission adopted a proposed decision that Slovenia would receive €1.8 billion in grants and €705 million in loans under the RRF. Slovenia will have to implement a total of €2.5 billion worth of investments and reforms proposed in the national recovery plan by the end of 2026. Implementation of the planned reforms will be a condition for disbursement of the funds.

On 28 July, the EU Council unanimously approved the Slovenian proposal and allowed Slovenia to disburse €231 million in pre-financing. This amount represents 13% of the grant awarded to Slovenia. The Commission will authorise further disbursements subject to satisfactory achievement of the milestones and targets set out in the Recovery and Resilience Plan, i.e. taking into account progress in the implementation of investments and reforms.

Conclusions

The Slovenian Recovery and Resilience Plan, finally adopted by the EU Council at the end of July, combines investments for a green and digital transition with reforms of long-term care, health care and pension systems for the benefit of all Slovenian citizens. This forward-looking economic recovery plan will help Slovenia emerge stronger from the crisis and embark on a greener and digital path. These investments, from the commitment to increase energy efficiency and seismic retrofitting of buildings to the digital transformation of public administration and healthcare, will bring benefits to the Slovenian economy and society for many years to come. The plan also has a strong social dimension through reforms to the national pension and health care systems to improve social protection, along with programs to improve skills and better access to affordable housing. The plan will also significantly boost public investment. In total, it includes no less than 50 initiatives – from renovating buildings to improving water systems, and from improving railway infrastructure to digitizing public services. Last but not least, measures to increase competition, modernize public procurement, consolidate capital markets and reduce administrative burdens will also strengthen Slovenia's competitiveness.