RECOVERY AND RESILIENCE IN CEE COUNTRIES

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Published by:

China-CEE Institute Nonprofit Ltd.

Telephone: +36-1-5858-690

E-mail: office@china-cee.eu

Webpage: www.china-cee.eu

Address: 1052, Budapest, Petőfi Sándor utca 11.

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ISBN: 978-615-6124-65-4

Cover design:

Brád Grafika

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CHINA-CEE INSTITUTE

Budapest, October 2022

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Preface

The COVID-19 pandemic, the worst pandemic in a hundred years, raged all over the world in 2020, Europe was no exception. The pandemic is a rare and serious public health crisis, resulting in the death of a large number of infected people. Besides medical intervention and vaccine rollout, European countries have taken draconian measures such as border closure, restriction of the movement of people, lockdown and curfew, in response to the pandemic. Due to these restrictive measures, economic activities have come to a halt, resulting in a serious economic crisis. Governments tried to bail out the enterprises affected by the pandemic through financial measures, the public finances have taken considerate hit. Private debts also have piled up. The impact of the Covid-19 pandemic exceeds that of the global financial crisis. In 2020, the EU's real GDP dropped by 6.1%. Economic contraction was widespread in Central and Eastern Europe, even Poland as Europe's champion of growth end its the record of nearly 30 years of uninterrupted growth. The economy of the Western Balkans declined by 3.2%. Dealing with the economic fallout of pandemic, especially to promote economic recovery is the common challenge faced by Central and Eastern European countries.

The EU has taken lead in coping with the pandemic-driven economic crisis in Europe. It is worth noting that the EU has taken unprecedented measures to mitigate the economic impact of Covid-19. The decision of establishing the Recovery and Resilience Facility (RRF) was one of the milestone events in EU's history. The aim of the Recovery and Resilience Facility is to alleviate the economic and social impact of the Covid-19 pandemic and make European economies and societies more sustainable, resilient and better prepared for the challenges and opportunities of the green and digital transitions. The EU has not forgotten the Western Balkans as it regards the Western Balkans as its courtyard. The EU's support for the region is Economic and Investment Plan for the Western Balkans, which aims to spur the long-term economic recovery, support a green and digital transition, foster regional integration and convergence with the European Union. This plan is expected to mobilize €30 billion to invest in ten 'flagships' in the areas of green and digital transitions, connectivity and growth. If the RRF is fully used in member states from CEE, if the Economic and Investment Plan for the Western Balkans is fully used, the Central and Eastern European Countries will definately emerge stronger from the pandemic and tap the potential for economic growth.

This book is a collection of reports originally published as the autumn issue of the Weekly Briefing in September, 2021, which is a key finding of the China-CEE Institute. Nevertheless, the views in the book are solely represented by the individual authors instead of the China-CEE Institute.

The China-CEE Institute, registered as a non-profit limited company in Budapest, Hungary, was set up by the Chinese Academy of Social Sciences (CASS) in April, 2017. The China-CEE Institute builds ties and strengthens its partnerships with academic institutions and think tanks in Hungary, other Central and Eastern European countries, as well as other parts of Europe. The China-CEE Institute aims to facilitate scholars and researchers to carry out joint research projects and conduct field studies, to organize seminars and lecture series, to provide training programs for younger researchers and students, and finally to publish academic books, research reports and journal articles.

The authors of the book provide a full picture of national response to the EU's policy framework for tackling the shock from Covid-19 pandemic at the writing time, put the drafting of national recovery and resilience plan in different national contexts, point out the priorities for economic development such as green transition and digital transformation. Their observations are very valued for understading how the EU policy framework affect national policy choice in counteracting adverse consequence of the Covid-19 pandemic. I assume there is still a space to explore the impact of the pandemic on national economy as this is the one of the important initial conditions of national recovery and resilence plan. I am very impressed by the efforts to draft the national recovery and resilience plan by Central and Eastern European countries, the most important thing is to put the plan into practice after approval of the EU. So far, the EU gave green light to member states from CEE except for Hungary. I want to express my gratitude to the auhors, hope these findings can contribute to the understanding the prospect of the economic development in the post-pandemic era in Central and Eastern Europe.

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Recovery and Resilience: the EU and Albania Facing the Covid Crisis

Marsela Musabelliu

Summary

The European Union (EU) is the by far the largest donor, investor and funding entity for Albania, not only recently, but it stretches out in almost three decades. The proximity of the country to EU borders could not exclude Albania from the lifeline mechanisms and aid the EU sends to its immediate neighbors. While for the members states the Recovery and Resilience Facility was introduced setting out a coherent package of reforms and investment initiatives to be implemented up to 2026, for the non-members states there was presented a separate one.

First introduced in October 2020, the Economic and Investment Plan (for the Western Balkans) is the designated framework with which the EU is facilitating the post-pandemic recovery for Albania.

Introduction

In pandemic times, the Albanian and EU authorities, has not been always in good terms. From the minimal dispatch of vaccines in the Western Balkans (WB), to the non-opening of negotiation talks for Albania, even the official declarations of the Prime Ministers have not spared criticism and sometimes aversion. However, when it was time to start allocating funds for the recovery of Albania after a critical 2020, praise and gratitude (at least in words) were back on the narrative. The EU authorities in charge presented the plan as one for the WB, and in Albania it resonated positively considering the critical need for economic support.

Recovery and Resilience Facility vs. Economic and Investment Plan

The Recovery and Resilience Facility indicates that the Member States will prepare national recovery and resilience plans where they will indicate the support needed from the EU. Member States were invited to notify their

plans before 30 April 2021 but can do so at any point in time until mid-2022.
These plans are assessed by the Commission and approved by the Council. Payments under the RRF will be linked to performance. The Commission will authorize disbursements based on the satisfactory fulfilment of a group of milestones and targets reflecting progress on reforms and investments of the plan. Since disbursements can take place a maximum of twice a year, there cannot be more than two groups of milestones and targets per year. [1]
The Western Balkans are not EU members yet, thus cannot access to significant EU funding available to deal with the COVID-19 emergency and support a recovery. However, the Western Balkans benefit from access to funding for the public sector from official external sources: the EU, the IMF, the World Bank and foreign governments. Official funding available for the COVID-19 emergency (the immediate needs) is similar in size to that available to most EU-CEE countries, ranging from 3.1% to 6.2% of the recipient nation's GDP.
The EU is the largest contributor in this regard. On average, close to 60% of these funds are provided by the EU, around 30% by the IMF and around 10% by the World Bank. The Western Balkans have access to less funding for their medium-term recovery compared to most EU-CEE countries. The EU remains the Western Balkans' main source of financing. [2] First, in May 2020, the EU announced a support package for the Western Balkans worth EUR 3.3bn [3]

[1] European Commission (2021, June 10). NextGenerationEU: Questions and answers on the Recovery and Resilience Facility. Available at https://ec.europa.eu/commission/presscorner/detail/en/qanda_21_3014
[2] Marrano, M.G. (2021, June). Not alone: Financial support of the Western Balkans. UniCredit Research. SUERF Policy Note, Issue No 247. Available at https://www.suerf.org/policynotes/27375/not-alone-financial-support-of-the-western-balkans
[3] European Council, Zagreb Declaration (2020, May 6). Available at https://www.consilium.europa.eu/media/43776/zagreb-declaration-en-06052020.pdf

The package is a mix of loans, grants, guarantees and other instruments to support the public and private sectors, but the Western Balkans suffer from lower funding for the medium-term recovery.
For the Western Balkans it is considered the funding available through the EU Economic and Investment Plan (EIP). The EIP amounts to EUR 9 billion of grant funding from the Instrument for Pre-accession Assistance (IPA III) IPA for the period 2021-27 to finance investment initiatives. [1]
There is no country breakdown available for the EIP, therefore, it can be all estimated on the bases of the previous allocations, using the proportions allocated in the IPA 2014-20. According to some preliminary estimates, funding could range from 7% to 18% of 2019 GDP, therefore a significant amount.
It is important to highlight that this funding has some conditionality. The implementation of the plan goes together with the implementation of reforms that will be jointly agreed under the Economic Reform Programme and recommended in the annual Enlargement Package. In addition, progress on the rule of law will be central.

Economic and Investment Plan (for the Western Balkans) and Albania
In July 2021, European Commission President Ursula von der Leyen and Neighborhood and Enlargement Commissioner Olivér Várhelyi, met heads of state and government from the Western Balkans for the eighth time in the context of the 'Berlin Process' to advance on their regional co-operation and European integration agenda.[2] The main aim during and after this meeting was the response in economic terms to the pandemic in the Western Balkans. Further, it was discussed on how the funding should be

[1] Deutche Welle Albanian (2020, October 6). KE: 9 miliardë Euro plan ekonomik dhe investimesh për BP. Available at https://www.dw.com/sq/ke-9-miliard%C3%AB-euro-plan-ekonomik-dhe-investimesh-p%C3%ABr-bp/a-55181351
[2] EUreporter (2021, July 7). Berlin Summit: Western Balkans strengthen regional co-operation and foster closer ties with the EU. Available at https://www.eureporter.co/world/western-balkans/2021/07/07/berlin-summit-western-balkans-strengthen-regional-co-operation-and-foster-closer-ties-with-the-eu/

channeled in face of new challenges that the pandemic has brought on the area.

The Economic and Investment Plan identifies 10 investment flagships and aims to spur the long-term recovery, accelerate a green and digital transition, and foster regional cooperation and convergence with the EU. It will help attract public and private investments, backed by the Western Balkan Guarantee Facility, which has a potential to mobilize up to €20 billion. [1]

The subdivision applies as follows:

FLAGSHIP 1 – Connecting East to West

FLAGSHIP 2 – Connecting North to South

FLAGSHIP 3 – Connecting the coastal regions

FLAGSHIP 4 – Renewable energy

FLAGSHIP 5 – Transition from coal

FLAGSHIP 6 – Renovation wave

FLAGSHIP 7 – Waste and Waste water management

FLAGSHIP 8 – Digital infrastructure

FLAGSHIP 9 – Investing in the competitiveness of the private sector

FLAGSHIP 10 – Youth Guarantee

It is visible from the above where priorities lie for the EU in the Western Balkan. Attention will be placed mainly to energy interconnections and the use of renewable energy sources will be increased. The new Green Agenda for the region will cover green transition, decarbonization, depollution of air, etc. Increase financial support to strengthen the competitiveness of micro and Small and Medium Enterprises (SMEs) in strategic advance the Digital Agenda for the Western Balkans, and so on.

Albania and the Economic and Investment Plan

According to official documents released Albania will benefit in four out of ten areas of the plan:

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[1] European Commission (2020, November). Economic and Investment Plan for the Western Balkans. Available at https://ec.europa.eu/neighbourhood-enlargement/sites/default/files/factsheet-economic-and-investment-plan-2020.pdf

AREA 1: *Flagship 3 - Connecting the Coastal Regions*

It is expected that the following will be completed or advanced by 2024: The Rail Route 2 linking the capitals of Tirana and Podgorica, and extended to the port of Durres, is a key project for the region and will be enhanced through the rehabilitation of 120 km of railway line in Albania towards the border with Montenegro.

Major steps will be taken to complete the "Blue Highway" along the coast from Croatia down to Greece: the Tirana road bypass will be completed and two further sections in Albania plus the Budva bypass in Montenegro will be substantially advanced.

AREA 2: *Flagship 4 – Renewable Energy*.

Increased use of renewable energy sources will be supported, in line with the region's potential and national preferences. The following concrete projects could be supported: - The Fierza Hydro Power Plant rehabilitation in Albania will be completed, and the construction of the Skavica Hydro Power Plant advanced, in order to increase the potential for the country and ultimately the region with view to increase export of electricity from clean energy.

AREA 3: *Flagship 5 - Transition From Coal*

The transition from highly polluting coal to more sustainable and green sources of energy production will be key for the region to meets its commitments under the Paris Agreement. The following concrete projects could be supported: - As part of the Trans Adriatic Pipeline, the construction of the Fier-Vlora gas pipeline in Albania will be completed, and the Ionian-Adriatic pipeline along the coast will be prioritized, facilitating a major

AREA 4: *Flagship 7 – Waste and Waste Water Management*

Sustainable and reliable ways of managing water supply, waste water and waste disposal are crucial for the protection of the environment and of the health of citizens and can have positive impacts on tourism in the region.

Integrated regional waste management systems in Albania, (as well as Montenegro, North Macedonia and Serbia) going hand-in-hand with the closure of non-compliant landfills, will be established. Similar investments elsewhere in the region should also be supported in the future, including better management of waste in cross-border areas. [1]

However, according to Enlargement Commissioner "*the Plan will never work, if the region does not work as one. If we do not have a regional market, there is no point in building highways, where the trucks will have to stop every hundred kilometers at the borders.*" [2] In Albania this declaration was used by PM Edi Rama as an endorsement for the so-called "Mini-Schengen" or the "Open Balkans" initiative.

Rama argued that the new economic plan (EIP), is a concrete, tangible proof of many good reasons and a deep conviction that stands in the vision of the Regional Schengen; the vision of a region.[3]

Conclusion

As of mid-2021 there is not clear how will the Albanian side absorb its share of the Economic and Investment Plan. When Várhelyi was asked in Tirana on how will this funding be implemented he answered that he explained it but it is up to the Albanian authorities to implement it.

It is clear where and how the EU is going to channel the funds for the next 5 to 6 year, however it is not clear whether Albania is ready to implement on the grounds these funding. Feasibility studies are needed, focus groups

[1] European Commission (2020 October 6). Communication on An Economic and Investment Plan for the Western Balkans. Available at https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/communication_on_wb_economic_and_investm ent_plan_october_2020_en.pdf

[2] Várhelyi, Olivér (2021, June 10). Remarks by Commissioner Olivér Várhelyi at press conference with Prime Minister of Albania Edi Rama. Available at https://ec.europa.eu/commission/commissioners/2019-2024/varhelyi/announcements/remarks-commissioner-oliver-varhelyi-press-conference-prime-0_en

[3] Rama, Edi (2021, June 10). Joint press conference of the Prime Minister Edi Rama and the EU Commissioner for Neighborhood and Enlargement Olivér Várhelyi following bilateral meeting. Available at https://kryeministria.al/en/newsroom/varlehyi-be-plan-madhor-ekonomik-per-shqiperine-dhe-ballkanin-perendimor/

are required, preventives for projects are demanded beforehand, and of course conditionality is key.

The Quarry and Architectural-Building Stone Exploitation Industry in Bosnia and Herzegovina

Zvonimir Stopić

Summary

The quarry and architectural-building stone exploitation industry in Bosnia and Herzegovina had been a significant economic segment of the country before the 1990's. Bosnia and Herzegovina holds significant stone resources in all three forms: magmatic, metamorphic and sediment stone, thus holding major potential for the country's struggling economy. But the lack of strategic planning, coordination at all levels of interest as well as overwhelming export present important challenges that hold the progress of this industrial sectors. While quality stone materials and products from local companies hold a small local market and are oriented towards export, the cheaper and less qualitative imported stone is prevalent in constructions projects in Bosnia and Herzegovina, holding stone import at around 85 %. Most obvious case is that of the former stone exploiting giant company "Granit" from Jablanica which produces quality granite and had been in a bankruptcy status for the last decade. While there are some positive examples like the Chinese invested company "Kremnica", the industry is not being supported by the state enough to become significant in the countries economy, while the companies are at a microlevel and local investors are disinterested in the business that takes years to gain back investments on such an unstable market as is that of Bosnia and Herzegovina.

Introduction

There is no general state strategy for architectural-building stone exploit in Bosnia and Herzegovina, but the industry is in the jurisdiction of the two entities, Republika Srpska and Federation on Bosnia and Herzegovina, which hold the right to the exploit concessions. According to the data of

Federal Institute of Geology of Bosnia and Herzegovina (*Federalni zavod za geologiju Bosne i Herzegovine*),[1] the resources of architectural building stone and broken stone for other building works amount to almost 37 million cubic meters, while potential resources hold over 7 million cubic meters. At the moment, there is no similar data on the stone resources available in Republika Srpska.

Big resources and import of architectural-building stone

Although Bosnia and Herzegovina holds relatively large resources of stone in its quarries, they are very much unused and the exploits is based on several small local firms. For instance, resources of granite in the district of Jablanica, in the south of Bosnia and Herzegovina, are estimated to be worth around one billion euro. The Jablanica stone is world renown but due to unsuccessful managements in previous decades after the 1990's war, the stone has almost disappeared form the market. Architectural-building stone is present in Bosnia and Herzegovina's resources in all three forms: magmatic, metamorphic and sediment stone. Except in Jablanica, which was one of the most important quarries in former Yugoslavia, there are limestone quarries on the territories of Posušje, Široki Brijeg, Bihać and Sarajevo, then partially exploited gabbro quarries in central Bosnia and Herzegovina and unexploited magmatic rocks in the vicinity of Srebrenica.

Around 85 % of stone in the Bosnia and Herzegovina's market is imported. Granite is mostly imported from Turkey, Croatia, Macedonia and Italy, while marble from India, South Africa and Italy, according to the data from the Indirect Taxation Authority of Bosnia and Herzegovina (*Uprava za indirektno oporezivanje Bosne i Herzegovine*).[2] In the first 8 months of 2021 Bosnia and Herzegovina had imported architectural-building stone worth € 4,85 million, out of which € 4 million worth of granite and € 850,000 worth marble. The main import port is the Adriatic city of Ploče in Croatia. Due to the disinterest of local investors and lack of state

[1] https://fzzg.gov.ba/
[2] http://www.new.uino.gov.ba/en

subsidies to the quarry industry, the stone resource wealth is not locally exploited but given and managed by foreign investors. Another problem is non-modern means of stone exploit and the fact that the quarry business takes years in order to have return of investments and makes substantial profit.

The lack of general strategic plans and future predictions for stone exploitation industry in Bosnia and Herzegovina

The last strategic document in Federation of Bosnia and Herzegovina that mentions quarry exploit dates from 2018. It is the Strategy for the development of the building material industry 2016 – 2025,[1] holding data from 2015. According to the data, there were 165 companies in the Federation of Bosnia and Herzegovina that venture in stone, sand and clay business in 2015, out of which most are micro-companies. There is no available recent strategy on stone exploit, nor data on resources and potential finds of architectural-building stone in Republika Srpska. Also, in both entities, it is not known how many exploitation concessions had been granted, so one can not say with certainty how many and of which sort quarries there are in Bosnia and Herzegovina.

When it comes to possible future of the architectural-building stone industry in Bosnia and Herzegovina, Frano Oreč from the association "Sound of the Stone" (*Zvuk kamena*) in Posušje says that the industry is constant decline and that 30 years ago it was very strong. In former Yugoslavia there had been official programs for developing the stone exploit industry, while today there is no coordination whatsoever, claims Oreč. He thinks that, considering the stone resources are there, it makes no sense not to exploit and produce, but there has to be coordination on all levels, from the producers to the government. Also, there are less people who would like to study to be stone carvers as the last generation of stone

[1] https://fmeri.gov.ba/media/1476/strategija-igm.pdf

carvers graduated from Jablanica in 2015. The today active stone carvers now work foremostly in Croatia.

Case of the "Granit" company and Chinese investors example in "Kremnica"

As with so many companies in Bosnia and Herzegovina after the 1990's war, a misfortunate is also the case of former stone giant "Granit" from Jablanica. "Granit" has been exploiting and processing gabbro stone for nearly a century, and after an unsuccessful after-war privatization process, the company has been in the state of bankruptcy for the last ten years. It is currently employing around 200 people and exports almost 90 % of its products to the nearby markets in Serbia, Croatia, Slovenia and Montenegro. The company also faces the country's paradox of having no problem of its product placement abroad while on the domestic market if faces competition from imported stone goods. Abid Šarić, current manager of "Granit" says this is because the project that require the architectural-building stone products in Bosnia and Herzegovina are led by reasoning of lower prices and cheaper materials, rather than quality stone goods. For instance, "Granit" exports its quality stone to Slovenia, while less quality stone is being imported to Bosnia and Herzegovina from Slovenia. This cheaper stone also requires much more frequent renovations than the one from the Jablanica company.

Company "Kremnica" [1] from Berkovići in the south of Bosnia and Herzegovina has been exploiting architectural-building stone since 2008. In 2014 Chinese investors had taken over most of the companies shares and since then almost all of the stone production of "Kremnica" is exported to the Chinese market. According to the company's director, Mirko Puljić, the company exports around 600 containers of stone blocks are shipped to China, while small amount are being processed in the quarry for the local

[1] https://kremit.ba/en/about-us/

market. Puljić feels that currently the largest potential is in the stone processing business as in modern processing procedures there are virtually no leftovers. He says that the company couldn’t have survived without the Chinese investment and export, and doesn’t understand why local investors don’t see the potential in the industry. With more research and strategy, the industry holds great potential for Bosnia and Herzegovina, concludes Puljić.

Conclusion

It is an obvious conclusion that Bosnia and Herzegovina’s economy has much to gain by exploiting its own architectural-building stone resources, which are quite substantial, also considering that the import of the stone material to the country is very high, around 85 %. As for the main reasons why this has not happened so far it is important to list the lack of strategic planning for the industry, lack of coordination on all levels, from the producing companies to the government, as well as decisions of building investors who decide to buy cheaper, imported stone materials and products for their projects. The positive cases like that of Chinese invested “Kremnica” company are exceptions and there is no current direction showing that the quarry and the architecture-building stone exploit industry in Bosnia and Herzegovina will take a positive turn, as even former giants with renown quality stone like “Granit” are in constant decline.

Bulgarian National Recovery and Resilience Plan

Evgeniy Kandilarov

Summary

On July 20, 2021, the caretaker government of Bulgaria published the fourth version of the National Recovery and Resilience Plans. The Plan is structured in four pillars (Innovative Bulgaria, Green Bulgaria, Connected Bulgaria and Fair Bulgaria) outlining recovery measures, as well as funding estimates. The full scale of all measures set in the plan is worth 12.6 billion leva (EUR 6.4 billion). The latest revision Plan, containing 57 investment projects and 43 sectoral reforms is undergoing public consultation before being approved by the incoming Bulgarian government and the European Commission. The plan consists mostly of projects, the majority of which are needed and were planned long ago. Many of them will be co-financed by national private funds.

In May 2020, the European Commission (EC) proposed a large-scale package of measures to pave the way out of the COVID19 crisis and lay the foundations for a modern and more sustainable Europe - **the Next Generation EU**. Next Generation EU is a new temporary recovery instrument for the period 2021-2027, amounting to 750 billion euros, which will increase the EU budget with new funding raised in the financial markets. The centerpiece of Next Generation EU is the so called **Recovery and Resilience Facility**. This temporary recovery instrument allows the Commission to raise funds to help repair the immediate economic and social damage brought about by the coronavirus pandemic.

According to the European Commission the Recovery and Resilience Facility makes €723.8 billion (in 2020 prices) in loans (€385.8 billion) and grants (€338 billion) available to support reforms and investments undertaken by EU Member States. The aim is 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.[1] The Facility entered into force on 19 February 2021. It will finance reforms and investments in Member States until 31 December 2026. To benefit from the support of the Facility, Member States have to submit their recovery and resilience plans to the European Commission. Each plan sets out the reforms and investments to be implemented by end of 2026. In their Plans member states had to meet several benchmarks and priorities, including spending 37% of funds available on green projects and 20% on digital ones. They also needed to present projects that can be realistically launched by the end of 2023 and completed by the end of 2026.

The Recovery and Resilience Facility (RRF) has reserved up to EUR 10.8 billion for Bulgaria, an amount equivalent to 17 per cent of the country's GDP. The amount allocated to Bulgaria is EUR 6.3 billion for the period 2021-2027 as a non-repayable grants and a EUR 4.5 billion loans opportunity.

On July 20, 2021, the caretaker government of Bulgaria published the fourth version of the **National Recovery and Resilience Plan**. Up to that moment only Bulgaria and the Netherlands have not submitted yet their recovery plans to the European Commission. The reason for this is the fact that since April this year Bulgaria has fallen into a severe political crisis, as a result of which, despite the two early Parliamentary elections, the country couldn't form a regular government. That is why the plan for recovery and Resilience will be submitted in the coming weeks by the country's caretaker government.

Bulgaria started drafting a plan and consulting with the social partners as early as August 2020. The first version of the plan was uploaded on a

[1] https://ec.europa.eu/info/business-economy-euro/recovery-coronavirus/recovery-and-resilience-facility_en

specific website on 30 October 2020, which drove broad public consultation and a lot of informal discussions with the EC services. After that first draft three other versions were released afterwards, with the latest on July 20, 2021.

The National Recovery and Resilience Plan, Version 1.3, is available for public discussion before its forthcoming finalization at: https://www.nextgeneration.bg/. The plan is structured in four pillars: **Innovative Bulgaria** (27,4 per cent of the total amount); **Green Bulgaria** (36.8 per cent); **Connected Bulgaria** (17.8 per cent); and **Fair Bulgaria** (18 per cent). The measures proposed in the plan cover a variety of areas, such as intelligent industry, sustainable agriculture, healthcare and digital connectivity. The Plan includes 57 investments and 43 reforms. The concentration of reform efforts is highest in the **"Business Environment"** and **"Low Carbon Economy"** measures within the four pillars.

The first pillar, "Innovative Bulgaria", aims to increase the competitiveness of the economy and transform it into an economy based on knowledge and smart growth through measures in the field of education, digital skills, science, innovation, technology and the interrelations between them. This pillar provides for 27.4 per cent of the resources under the Plan. More than 920 million euro is budgeted for education and science in the Plan. The principal priorities in the sector are: creation of a STEM (Science - Technology - Engineering – Mathematics) environment by 2026 at all schools, modernization and construction of new educational establishments, including kindergartens in municipalities with a shortage of kindergarten vacancies, as well as personal development centers for school children and young people. Financing is also envisaged for scientific and innovative activity at the Bulgarian Academy of Sciences and research universities.

The "Green Bulgaria" pillar focuses on sustainable management of natural resources, allowing a meeting of the current needs of the economy and society, while maintaining environmental sustainability, so that these needs can continue to be met in the long run. This pillar provides for 36.8

per cent of the resources under the Plan. The new draft plan includes a BGN 63 million project for restoring forest and freshwater ecosystems with climate mitigation and adaptation co-benefits, as well as a number of energy transition reforms, aimed to support coal exit and broaden access to renewable energy for households, communities and businesses.

The "Connected Bulgaria" pillar focuses on increasing the competitiveness and sustainable development of the country's regions, such as improving transport and digital connectivity, as well as promoting local development, based on the specific local potential. This pillar provides for 17.8 per cent of the resources under the Plan.

The "Fair Bulgaria" pillar focuses on disadvantaged people. It aims to achieve more inclusive and sustainable growth and shared prosperity for all, as well as put an emphasis on building effective and responsible public institutions sensitive to business needs and the needs of the citizens. This pillar provides for 18 per cent of the resources under the Plan.

Under the **"Education and Skills" measure** of the Plan, most funds (4.5 per cent) will be provided for modernization of educational institutions in order to achieve a more attractive and quality environment for learning and innovation.

Under the **"Health" measure**, 3 per cent of the resources will go into the modernization of the health system in Bulgaria by providing modern and innovative medical equipment for hospitals.

Under the "**Social Inclusion" measure**, most money (5.1 per cent) is provided for ongoing support for deinstitutionalization of care for the elderly and people with disabilities.

Under the **"Business Environment" measure**, most funds (1.3 per cent) will be provided for the construction of a National Complex Centre and a network for monitoring, control and management.

Under the **"Local Development" measure**, most funds (2.4 per cent) will be allocated for a programme for construction/completion/reconstruction of water supply and sewerage systems, including wastewater treatment plants for agglomerations between 2,000 and 10,000 population equivalent.

Under the **"Transport Connectivity" measure**, most funds (2.3 per cent) are planned for the digitalization in railway transport through modernization of safety systems and energy efficiency in railway lines of the main and wide-ranging Trans-European Transport Network (TEN-T). Reconstruction and rehabilitation of the key station complexes, located on the main TEN-T network, is also envisaged. It is also planned to create a single electronic platform in which all users of road infrastructure (including citizens and legal entities) to report signals of infrastructure problems that may affect traffic safety.

Under the "**Digital Connectivity" measure**, 4.2 per cent of funds will be provided for large-scale deployment of digital infrastructure. The updated national plan aims to improve access to high-speed internet in less populated regions and its active use by the population and business, as well as in the development of high-speed mobile internet in the country. For this purpose, serious investments are planned for the introduction of 5G mobile networks in the country. It is envisaged that the main road network will be covered by secure 5G connectivity to ensure high-speed coverage at speeds up to 1 Gbps for the main roads included in the TEN-T Network - Trakia, Hemus, Struma highways, as well as the connection with Romania and Turkey.

The NRRP envisages further reforms in the Bulgarian construction sector; in public administration; in the field of social services and others.

In conclusion, it is quite visible that according to the last version of the Bulgarian National Recovery and Resilience plan, It is expected that the largest share of European funds will be invested in two main directions:

- "green" transition and in innovation. Under these items, investments in renovation of buildings are envisaged - BGN 1.84 billion, economic transformation - BGN 1.2 billion, construction of a highly efficient gas power plant - BGN 498 million and new RES - BGN 877 million.

- digital transition. The total planned resource for it is BGN 932.2 million (BGN 527.3 million at the expense of the Recovery Instrument, BGN 104.9 million national co-financing and BGN 300 million investments from private operators). The implementation period is set from 2021 to 2026.

The Recovery and Resilience Facility (RRF) represents a historic opportunity for Bulgaria to carry out major transformations with the objective of shaping a fairer, greener and more resilient future.

The Croatian National Recovery and Resilience Plan Worth EUR 6.3 Billion Was Approved by the EU Council

Morgane Rumeau

Summary

This paper focuses on the Croatian National Recovery and Resilience Plan and its recent approval by the EU Commission and Council. This plan envisages investments and reforms based on six areas: on green transition, on digital transformation, on smart, sustainable and inclusive growth, on social and territorial cohesion, on health and economic, social and institutional resilience, and on an array of policies for the next generation (labour markets policies, education, research and innovation policies). These investments and measures are intended to have a long-lasting positive impact on both Croatia's economic recovery and her social cohesion.

Introduction

The National Recovery and Resilience Plan is an EU financial instrument, designed as a channel of support for each member state's economic recovery following the Covid-19 crisis. It is part of Next Generation EU – a multiannual financial framework worth €750 billion running from 2021 up to 2027. The Recovery and Resilience Facility (RRF) itself will make €672,5 billion available to member states in grants and loans to support the reforms and investments undertaken during the crisis. This initiative is an unprecedented and coordinated response from the Union to the challenges faced by all member states: it also presents a step towards a digital and green transition, whilst being a chance for member states to strengthen their economic resilience. The process to participate in this initiative is simple - member states set out in their own recovery and resilience plan the reforms and investments that they aim to implement by 2026, the plan is then sent to the European Commission which must give an assessment within two months after reception. After a positive assessment from the Commission, it is up to the European Council to review the Commission's proposal within four weeks and either approve or deny it.

Context

In Croatia, the drafting of the National Recovery and Resilience Plan was a long-lasting process of debate. It was argued that the process wasn't transparent enough to the eyes of the general public, nor included enough small and medium entrepreneurs in the dialogue surrounding the plan. When an agreement was finally reached, the plan was sent to the Commission. On the 8th of July 2021, the European Commission gave a positive assessment of Croatia's Recovery and Resilience plan: a major step towards the attribution of €6.3 billion in EU (free) grants and €3.6 billion in loans to be made available over the next 6 years. Croatia's plan was analysed on a set of criteria and guidelines that all member states must follow, and on the 26th of July, Croatia's plan was approved by the EU finance ministers, along with plans from Cyprus, Lithuania and Slovenia. With the approval of the European Council, member states may receive the promised funds once they fulfill a series of targets and criteria that gradually implement the agreed investments and reform plans. However, as a "pre-financing", these countries will receive 13% of the fund allocated to them. Thus, the Council's approval of the plan allows for the disbursement of €818 million to Croatia (13% of the total allocated grant for Croatia). Further disbursements will be completed as the targets set out in the plan are met and validated by the Council. Countries have until 31 September 2026 to achieve the reforms and investments laid out in their national plan.

The six pillars of Croatia's recovery and resilience plan

Croatia's recovery and resilience plan aligns with the six pillars of the Recovery and Resilience Facility: (I) Green transition, (II) Digital transformation, (III) Smart, sustainable and inclusive growth, (IV) Social and territorial cohesion, (V) Health and economic, social and institutional resilience, and (VI) Policies for the next generation.[1]

Adding to this, the "Reconstruction of buildings" initiative is a horizontal investment initiative presented in the plan set out to renovate buildings after the multiple strong earthquakes that struck Croatia in March 2020 and December 2020.

Green transitions

Croatia's plan devotes 40,3% of the funds to climate-related measures and investments, surpassing the climate target of 37%. Among the investments and reforms supporting a green transition, measures focusing on energy efficiency and post-earthquake reconstruction total €789 million and make up the largest contribution. An additional €658 million are committed to investments into energy and specific energy efficiency (investments in advanced biofuels, renewable hydrogen, innovative carbon capture and storage projects). Measures committing to sustainable mobility amount to €728 million and entail the upgrade of railway lines and the introduction of zero emission vehicles. Additionally, investments in green technologies and businesses, with projects aimed at boosting the green economy and creating sustainable tourism will amount to €542 million.

Digital transitions

Croatia will devote 20,4% of the total plan's expenditures to measures and reforms in favour of supporting digital objectives, thus achieving the target of 20% set by the EU. Despite continuous progress in the past few years, Croatia still lags behind other member states in most digital areas and ranks 20th in the European Commission's 2020 Digital Economy and Society

[1] European Commission, July 2021. Analysis of the recovery and resilience plan of Croatia, Proposal for a Council implementing decision on the approval of the assessment of the recovery and resilience plan for Croatia. Retrieved from: https://ec.europa.eu/info/sites/default/files/com-2021-401_swd_en.pdf

Index (DESI)[1]. Measures and reforms in the plans for the digitalisation of the public administration and of the justice system amount to €287 million and its aim is to improve internal efficiency and public services dedicated to the citizens. Investments to increase the national gigabit connectivity coverage (with a main focus reducing the urban-rural division) are worth €126 million; finally, the digital transformation of higher education through investments in e-learning is calculated to cost €84 million.

Smart, sustainable and inclusive growth

Regarding this pillar, the reforms stated in the plan are strongly focused on improving the business environment in the country, supporting SMEs and large enterprises, innovation and R&D. Several measures intend to give a more sustainable approach to tourism in Croatia, by focusing attention on the less developed regions and tourism products. Further measures to support growth aim to strengthen the policy making and public procurement chain in Croatia (to support better use and higher absorption of EU funds).

Social and territorial cohesion

Croatia will devote a portion of the fund on measures to enhance social cohesion - mainly through labour market policies and appropriate skills development initiatives, which aim to fill the skills gaps and mismatches in the country that must be addressed. The plan is also expected to support the territorial cohesion of the country through various investments aspiring to upgrade network infrastructures and the connectivity between national regions. The plan also proposed investments in water and waste management, rehabilitation of public sewerage networks and improvement of flood protection mechanisms.

[1] European Commission, July 2021. Analysis of the recovery and resilience plan of Croatia, Proposal for a Council implementing decision on the approval of the assessment of the recovery and resilience plan for Croatia. Retrieved from: https://ec.europa.eu/info/sites/default/files/com-2021-401_swd_en.pdf

Health, and economic, social and institutional resilience

In this pillar, Croatia will allocate funds with the goal to create "an efficient, digital and competent public administration", achieve "further" decentralisation of the country, and simplify the local government system which is extremely complex and expensive[1]. The fight against corruption and a more effective judicial system are addressed as well. Moreover, funds will be allocated to the improvement of the healthcare system (reforms, infrastructure and medical equipment) and to expand the territorial coverage of primary healthcare and medicine availability.

Policies for the next generation, children and the youth, such as education and skills

Investments and reforms supporting education, research and innovation initiatives are addressed in Croatia's plan. They notably aim at increasing participation in early childhood education and childcare, and seek to increase mandatory education time at primary levels. Other measures are expected to improve education outcomes and the relevance of skills acquired through higher education in the labour market. All of these measures are expected to foster employability.

Conclusion

Croatia's Recovery and Resilience Plan was rated an A by the Commission, meaning it is expected to have a high impact on strengthening the economic growth, the institutional resilience and the social and territorial cohesion of the country.[2] Simulations by the Commission show that the plan has the

[1]Toni Gabrić, 2021. Croatia: the plan for the future. *European Data Journalism Network*. https://www.europeandatajournalism.eu/eng/News/Data-news/Croatia-the-plan-for-the-future

[2] European Commission, July 2021. Analysis of the recovery and resilience plan of Croatia, Proposal for a Council implementing decision on the approval of the assessment of the recovery and resilience plan for Croatia. Retrieved from: https://ec.europa.eu/info/sites/default/files/com-2021-401_swd_en.pdf

potential to increase the GDP of Croatia by 2,9% by 2026[1]. Reforms are proposed to improve learning outcomes and labour productivity, to reduce the administrative and financial burden on businesses, to improve research and innovation, and digitalisation of public administration as a whole. In the end, all these investments are made in favour of fostering the necessary green transition (clean energies, sustainable tourism…) of Croatia and the EU as well.

[1] European Commission, July 2021. Proposal for a Council implementing decision on the approval of the assessment of the recovery and resilience plan for Croatia. Retrieved from: https://ec.europa.eu/info/sites/default/files/com-2021-401_en.pdf

Post-Pandemic Recovery: Agenda, Goals & Risks

Ladislav Zemánek

Summary

The EU bodies have approved the Czech National Recovery Plan (NRP) submitted by the Government and elaborated under the auspices of the Ministry of Industry and Trade. The Czech plan goes farther in terms of the green and digital goals and obligations than the requirements defined by the European Commission. The NRP coincides with other national programmes addressing the question of green transition and digital development. If implemented, they could reshape the landscape of the Czech economy and society. That is the reason why it is criticised predominantly by conservative actors who warn against social engineering and ideological imperatives pursued by Brussels.

Introduction

The National Recovery Plan as the Czech Republic´s response to the European Commission´s post-pandemic recovery initiative is the main strategy to be implemented in the fight against negative consequences brought about by the crisis.[1] This strategy touches a wide array of fields: (1) digital transformation, (2) infrastructure and green transition, (3) education and labour market, (4) institutions, regulation and support of entrepreneurship in response to the pandemic, (5) research, development and innovation, and (6) health and resilience of the population. The first

[1] I analyse different aspects of the National Recovery Plan in the June briefing. See Zemánek, L. *The National Recovery Plan Finished: Genesis & Priorities* (2021, June 28), china-cee.eu. Retrieved September 16, 2021, from https://china-cee.eu/2021/06/28/czech-republic-economy-briefing-the-national-recovery-plan-finished-genesis-priorities/.

reimbursement and start of the realisation of defined projects are scheduled to commence before the end of 2021.

National and Union´s perspectives

The National Recovery Plan was passed by the Czech Government in May. In July, the NRP was approved by the European Commission and in September confirmed by the Council of the European Union. There are thus no obstacles left in terms of drawdowns and implementation of the set goals. The Czech Deputy Prime Minister and also Minister of Industry, Trade and Transport, who is responsible for the NRP on the Czech side considers the Plan to be a strategic initiative of the utmost importance as it is to bring modernisation, innovation and progress in a wide array of fields. The Minister puts emphasis especially on the digital transformation of manufacturing and non-manufacturing companies to increase their comprehensive resilience, modernisation of transport infrastructure entailing reduction of energy consumption. A more ecologic, greener environment should be reached through such projects as constructions of new photovoltaic sources, revitalisation of buildings or building of climate-resilient forests. It is worth noting that whereas the European legislation required at least 37 per cent of the total resources to be used for green projects, the Czech NRP envisages 41.6 per cent of these. Similarly, the EU´s authorities defined the bottom threshold for digital projects amounting to 20 per cent. The Czech side, for its part, prepared digital projects having a share of 22.1 per cent in the financial assets allocation.[1] In this regard, the Czech Government met the Union´s requirements, submitting an even more ambitious vision. This fact was appreciated by the European Commission.

[1] *The European Commission Has Approved the Czech National Recovery Plan* (2021, July 19), mpo.cz. Retrieved September 13, 2021, from https://www.mpo.cz/en/guidepost/for-the-media/press-releases/the-european-commission-has-approved-the-czech-national-recovery-plan--262836/.

Let´s sum up the general contours of the Commission´s evaluation and perspective on the Czech strategy. From President Ursula von der Leyen´s point of view, the NRP will improve energy efficiency, level of digitalisation of the public administration, and strengthen the resilience of the national health care system. Executive Vice-President for an Economy and Deputy Head of Commission that Works for People Valdis Dombrovskis believes that the NRP will contribute to the green and digital transformation of the Czech economy. The Commissioner appreciates especially the intended investment in renewable energy, sustainable transport, improvement of the energy efficiency of the existing infrastructure as well as buildings, digitalisation of education or public services, expansion of the e-government, improvement of the business environment and justice system or anti-corruption measures. Commissioner for Economy Paolo Gentiloni points to the assumption that the NRP as a part of the NextGenerationEU is capable to help to build a more sustainable and competitive national economic system. The Commission approved the NRP since it „represents a comprehensive and adequately balanced response to Czechia´s economic and social situation."[1] From 800 billion EUR of the NextGenerationEU, the Czech Republic is entitled to draw down up to 7 billion EUR (i.e. 0.875 per cent) as grants under the Recovery and Resilience Facility (RRF). Given the fact that the Council of the European Union has already approved the Czech national plan, the EU´s authorities are expected to allow to disburse 910 million EUR (13 per cent of the total amount allocated to our country) within the pre-financing. Further disbursements will be made depending on the fulfilment of the targets and indicators defined by the Council Implementing Decision. The final deadline for the implementation of the projects and reimbursements is in 2026.

[1] *NextGenerationEU: European Commission endorses Czechia's €7 billion recovery and resilience plan* (2021, July 19), ec.europa.eu. Retrieved September 13, 2021, from https://ec.europa.eu/commission/presscorner/detail/en/ip_21_3745.

Under pressure

Nevertheless, this period is quite short. In many cases, the Czech Republic has had problems with reimbursements for a long time, moreover, it has happened within seven-year financial frameworks. It is, therefore, crucial to design the project plans properly taking the drawdowns and their conditions into consideration. The abovementioned pre-financing worth 910 million EUR should be made without complications until the end of this year. A major part of the amount will be provided to the modernisation of railways, weatherisation of buildings, development of green mobility or purchase of software for state bodies. [1] However, the European Commission has addressed the alleged conflict of interest regarding the Prime Minister Andrej Babiš. This issue has been increasingly debated in Brussels. In June, the European Parliament condemned the Czech PM building on an audit elaborated by the Commission. The official investigation came to the conclusion that Andrej Babiš continued controlling Agrofert, a supranational holding company founded by the incumbent PM.[2] In response to these findings, the Commission has called upon the Czech side to adopt due measures to eliminate the risk of conflict of interest. In the opposite case, financial means from the EU funds for the Czech Republic could be frozen. And it applies also to the grants under the Recovery and Resilience Facility. The Union´s leaders have warned that unless the Government adopts measures in the field, the grants provided within the pre-financing will have to be returned.[3] Our country has thus

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[1] Volf, T. *První miliardy z plánu obnovy poputují do dopravy* (2021, September 11), novinky.cz. Retrieved September 15, 2021, from https://www.novinky.cz/stalo-se/clanek/z-novin-prvni-miliardy-z-planu-obnovy-poputuji-do-dopravy-40371777.

[2] European Parliament resolution of 10 June 2021 on the conflict of interest of the Prime Minister of the Czech Republic (2021/2671(RSP)) (2021, June 10), europarl.europa.eu. Retrieved September 14, 2021, from https://www.europarl.europa.eu/doceo/document/TA-9-2021-0282_EN.html.

[3] *Český Národní plán obnovy dostal z Bruselu zelenou. Už v září to může přinést první část ze 180 miliard korun* (2021, September 06), lidovky.cz. Retrieved September 15, 2021, from https://www.lidovky.cz/svet/cesky-narodni-plan-obnovy-dostal-z-bruselu-zelenou-uz-v-zari-to-muze-prinest-prvni-cast-ze-180-milia.A210906_135652_ln_zahranici_tmr.

found itself under pressure from Brussels such as Hungary or Poland. It is not excluded that the EU´s authorities will approach the practice of making the access to the European funds conditional on conforming to the interests and ideology of the EU elites, thus marginalising the needs, interests and peculiarities of individual member states. This tendency is obvious when observing interference in Hungary´s and Poland´s internal affairs.

The other important aspect of the financial support within the Recovery and Resilience Facility is that these means are not a donation. Czech economists point to the fact that our country will be repaying it in the years to come, entailing the rise of the state debt.[1] So far, the Czech Republic has received more assets than it has transferred to Brussels but this situation is about to change soon. From such a perspective, the grants might seem to be rather a burden. It is well known that the projects and the overall recovery related to the NRP and NextGenerationEU are overwhelmingly based on the concept of the green transition. If the Czech side does not manage to implement and realise the projects, it can contribute to a deterioration of its position in terms of adaptability on the climate change. There are other national initiatives besides the NRP, for instance, the National Action Plan on Climate Change Adaptation or Strategy of Adaptation to the Climate Change in the Czech Republic until 2030. However, the single body and management of this portfolio are still lacking. In addition, these strategies and projects are not coordinated and intertwined with the NRP and post-pandemic recovery plans. The efficiency and transparency are therefore questionable. If the national authorities and political leadership are not capable to manage these complex processes firmly, and if the Czech side fails to convince the EU that gas and nuclear energy are green and ecologic, then our country will hardly cope with the external expectations and requirements regarding the green transition at a sufficient level. In a recent analysis published by the University of Cambridge and the Bennett Institute for Public Policy, economists argue that the position of the Czech Republic

[1] *Ekonom Kovanda: Peníze na plán obnovy nespadly jen tak z nebes. Půjde o zadlužení na dlouhá léta dopředu* (2021, September 07), dvojka.rozhlas.cz. Retrieved September 15, 2021, from https://dvojka.rozhlas.cz/ekonom-kovanda-penize-na-plan-obnovy-nespadly-jen-tak-z-nebes-pujde-o-zadluzeni-8570560.

in terms of sovereign creditworthiness is likely to deteriorate before 2030 due to climate change and the adaption.[1] It would lead to higher expenses needed for repayment of loans. The successful fulfilment of the NRP will undoubtedly contribute to avoiding these negative consequences. On the other hand, the post-pandemic recovery cannot be reached only through the NRP and the Recovery and Resilience Facility. It requires more comprehensive and massive actions.

Conclusion

The post-pandemic recovery is dependent on a wide array of factors. One of the principal factors is the fulfilment of the agenda defined by the National Recovery Plan. It can contribute to modernisation, digitalisation, transition to a more sustainable, green model of development, decarbonisation, economic growth, increase in living standards or social inclusion, all of these being present megatrends. The projects might also boost economic, social and institutional resilience, labour productivity and building a knowledge-based, smart economy with value-added products as its cornerstone. Last but not least, a successful prerequisite is making the public administration and state apparatus more effective in order to address the objective needs and challenges and enable adequate risk management.

[1] Klusak, P. et al. *Rising Temperatures, Falling Ratings: The Effect of Climate Change on Sovereign Creditworthiness* (2021, March 18), bennettinstitute.cam.ac.uk. Retrieved September 14, 2021, from https://www.bennettinstitute.cam.ac.uk/media/uploads/files/Rising_Climate_Falling_Ratings_Working_Paper.pdf.

The Pandemic and A Response to It: Resilience and Recovery in Estonia

E-MAP Foundation MTÜ

During the last two years, within which Estonia has been having to battle the ubiquitous virus, the country's two consecutive Governments have done what they could in containing the crisis. Considering the size of Estonia, its busy geographic location, and resources in hand, the Baltic/Nordic nation have managed to keep the situation under control, in relative terms and keeping in mind all complexities of political economy. As of 1 October 2021, out of the population of 1.3 million, a total of 156,986 people have got diagnosed with the disease, while 1,357 people have died and 758,122 people have been vaccinated with at least one dose[1]. To compare the digits for the same period with a similar case, in Slovenia (the country of 2.1 million), there have been 293,364 confirmed cases with 4,876 people who have lost their lives because of the COVID-19[2].

Surprisingly for the EU's Member States, the European Commission adopted some kind of a 'sleeping' as well as desperately reflective mode in the initial period of the pandemic, 'waking up', in operational sense, only closer to the beginning of 2021. From across the ocean, *The New York Times* noted that the EU's "failure to secure adequate vaccine supplies, followed by an export ban, has dented the reputation of the bloc's leaders"[3]. *Politico* was even harsher with its commentary that the "world's largest economy is paralyzed […] [, and] [t]he planet's most open societies are

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[1] 'Coronavirus in Estonia: All you need to know' in *ERR*. Available from [https://news.err.ee/1061575/coronavirus-in-estonia-all-you-need-to-know].

[2] 'Slovenia Situation' in *WHO*. Available from [https://covid19.who.int/region/euro/country/si].

[3] Steven Erlanger, 'Vaccine 'Fiasco' Damages Europe's Credibility' in *The New York Times*, 2 April 2021. Available from [https://www.nytimes.com/2021/04/02/world/europe/europe-coronavirus-vaccine.html].

frozen in fear"[1]. At the same time, as reported by *The Economist*, "[i]n the brutal and blunt league table of fatalities, the EU as a whole has done less badly than Britain or [the United States of] America, with 138 recorded deaths per 100,000, compared with 187 and 166 respectively"[2].

Indeed, the EU's humongous bureaucratic machine did not help the entity to act fast(er) in responding to the global disaster, but, objectively, the EU's nearly unmatched scientific and technological potential and, once on the project, its positive inertia in providing for effective results got the Member States back on track in communication with Brussels for achieving common good. This allowed Estonia, being in the first wave of countries, to launch the EU-wide digital COVID certificates on 10 June 2021, supplementing those with its own "recovery certificate and negative test certificate [that can be issued] on the national patient portal"[3].

From the beginning of 2021, 'recovery' entered the EU's political discourse and it was for a reason. Having entered into force on 19 February 2021 to be operationally 'alive' until 31 December 2026, the EU's Recovery and Resilience Facility generated EUR 723.8 billion in loans and grants to be in hand for supporting reforms and investments-focused initiatives that are undertaken by the entity's Member States[4]. Arguably,

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[1] David M. Herszenhorn and Sarah Wheaton, 'How Europe failed the coronavirus test' in *Politico*, 7 April 2021. Available from [https://www.politico.eu/article/coronavirus-europe-failed-the-test/].

[2] 'How Europe has mishandled the pandemic' in *The Economist*, 31 March 2021. Available from [https://www.economist.com/leaders/2021/03/31/how-europe-has-mishandled-the-pandemic].

[3] 'Estonia joins the first wave of countries launching EU digital COVID certificates' in *Ministry of Social Affairs*, 10 June 2021. Available from [https://www.sm.ee/en/news/estonia-joins-first-wave-countries-launching-eu-digital-covid-certificates].

[4] 'The Recovery and Resilience Facility'. Available from [https://ec.europa.eu/info/business-economy-euro/recovery-coronavirus/recovery-and-resilience-facility_en].

the underlining idea of the Facility is to use the pandemic times as an opportunity (rather than treat it relentlessly as a ‘doom-n-gloom’ era) to re-structure the EU’s mighty economy, mitigating “the economic and social impact of the […] pandemic and make[ing] European economies and societies more sustainable, resilient and better prepared for the challenges and opportunities of the green and digital transitions”[1].

After a short period of public consultations, launched by the Ministry of Finance on the draft of the distribution of the prospective funds[2], in June 2021, Estonia responded to the call for proposals with its own plan, and the European Commission started assessing it against a set of eleven criteria to later get the outcome of the assessment translated into a legally binding act[3]. In its press-release then, the European Commission informed the public that Estonia put a request for a total of EUR 982.5 million, structuring its plan “around [the following] six pillars: the digital transition of businesses, the green transition in enterprises, digital Estonia, sustainable energy and energy efficiency, sustainable transport, and healthcare and social protection”[4].

By the end of September, *The Baltic Times* reported that Estonia’s talks with the European Commission on the matter were concluded, and the

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[1] ‘The Recovery and Resilience Facility’.

[2] ‘Local government body calls for one billion euros' investment nationwide’ in *ERR*, 5 June 2021. Available from [https://news.err.ee/1608237114/local-government-body-calls-for-one-billion-euros-investment-nationwide].

[3] ‘Recovery and Resilience Facility: Estonia submits official recovery and resilience plan’ in *EU Reporter*, 21 June 2021. Available from [https://www.eureporter.co/world/estonia/2021/06/21/recovery-and-resilience-facility-estonia-submits-official-recovery-and-resilience-plan/].

[4] ‘Recovery and Resilience Facility: Estonia submits official recovery and resilience plan’ in *The European Commission*, 18 June 2021. Available from [https://ec.europa.eu/commission/presscorner/detail/en/ip_21_3042].

recovery plan was indicated to be of some one billion euros"[1]. As indicated in the report, the country's certain key investments within the recovery plan were focused on "the green and digital turnaround, for which over EUR 600 million are planned to be allocated", while "over EUR 24 million are […] to be used for ensuring the last mile of internet, EUR 73 million for a digital turnaround among businesses and EUR 206 million for introducing innovative and environmentally friendly technologies"[2]. Expressing her thoughts on the whole framework of the Facility in the context of Estonia, the country Minister of Finance Keit Pentus-Rosimannus (*Reform*) made the following statement:

Since the size of the recovery facility depends on how well the economy of one country or another is doing, it ends up being such a two-sided coin that, on the one hand, we are pleased that we have been growing fast, even though that means that the aid directly intended to help us out of the crisis is also in fact smaller. […] The ultimate, final size of the recovery facility will be clear next summer, which will be a bit tough for each member state, as there is a lot of investment and a lot of programs that we would definitely want to start already this year.[3]

Factually, the funds will 'arrive' to the country by the end of 2021, however, there is still a detectable operational vagueness in certain areas of the process. For example, a new hospital to be built in Tallinn is one of the core

[1] 'Estonia concludes recovery facility talks with European Commission' in *The Baltic Times*, 27 September 2021. Available from [https://www.baltictimes.com/estonia_concludes_recovery_facility_talks_with_european_commission/].
[2] 'Estonia concludes recovery facility talks with European Commission'.
[3] Keit Pentus-Rosimannus as cited in 'Economic growth means EU refinancing may fall short of one billion euros' in *ERR*, 28 September 2021. Available from [https://news.err.ee/1608352557/economic-growth-means-eu-refinancing-may-fall-short-of-one-billion-euros].

elements of the Estonian plan. This project is currently estimated to take about EUR 520 million to be fully completed, and the Estonian capital city's local government is hoping that the state with help it with EUR 280 million. At the same time, the state has its own hope – to get the same EUR 280 million from the funds allocated for Estonia through the recovery Facility[1], otherwise it will become a massive burden for the current and next year's budgets. There is another crucial point in the context of building and operationalising the aforementioned half-a-billion medical establishment – since the EU's recovery Facility has its specified time-frame, the project needs to be completed by the second half of 2026 latest, if Estonia does not want to return the allocated EU funds for it back to the European Commission[2]. The final major issue on the new hospital in Tallinn, as specified by the city's Mayor Mihhail Kõlvart (*Center*), "[b]y the time [the project] reaches the point of announcing a construction procurement, prices will have already grown 30 percent by some estimates"[3].

On 5 October 2021, the European Commission's President Ursula von der Leyen visited Estonia to announce that the EU's main executive body approved the allocation of EUR 969.3 million from the entity's recovery and resilience plan to the country[4]. The high-profile visitor from Brussels visibly enjoyed the moment, since Estonia became the EU's 22nd Member State to have got the recovery plan approved, making Hungary and Poland

[1] 'Economic growth means EU refinancing may fall short of one billion euros'.
[2] 'Tallinn Hospital project most contentious in Estonia's recovery plan' in *ERR*, 6 October 2021. Available from [https://news.err.ee/1608360549/tallinn-hospital-project-most-contentious-in-estonia-s-recovery-plan].
[3] Mihhail Kõlvart as cited in 'Tallinn mayor: EU funding for construction of Tallinn Hospital certain', *ERR*, 7 October 2021. Available from [https://news.err.ee/1608361650/tallinn-mayor-eu-funding-for-construction-of-tallinn-hospital-certain].
[4] 'Watch again: Kallas, EU president discuss Estonian recovery plan' in *ERR*, 5 October 2021. Available from [https://news.err.ee/1608359553/watch-again-kallas-eu-president-discuss-estonian-recovery-plan].

to be still waiting for the ‘green light’ because of some serious issues concerning rule of law in these two countries[1]. In her speech on the occasion, Von der Leyen noted:

I want to commend you for investing 42 percent of Estonia’s recovery plan in green targets. […] The investment in Rail Baltic is outstanding. […] It is the starting point of a railroad connecting the Baltics to the rest of the European Union. That is why it perfectly reflects the spirit of NextGenerationEU. That spirit being, the closer the union, the greater our shared prosperity.[2]

In the framework of the visit, the European Commission’s President had a chance to take a short ride in an Estonia-produced self-driving bus, which, apparently, became her first experience of doing so. In a way, it could be treated as a positive metaphorical sign for the EU – the humongous politico-economic union managed to effectively transform a decent half of the European continent, but, intriguingly for the future, it has not lost a quality to be genuinely surprised by its own unquestionable achievements. There is a hope that the Estonian Recovery Plan as well as many other plans will assist the EU to maintain its pace, becoming much more resilient and strong in rebuffing any challenges, but remaining humane, considerate, and compassionate.

[1] Berit Nuka, ‘Von der Leyen in Tallinn with good news’ in *Postimees*, 6 October 2021. Available from [https://news.postimees.ee/7354862/von-der-leyen-in-tallinn-with-good-news].
[2] Ursula von der Leyen as cited in Nuka.

Greece's National Recovery and Resilience Plan with the Support of EU Recover and Resilience Facility

Evelyn Karakatsani

Summary

Due to the economic crisis, which lasted from 2010-2019 and the COVID-19 pandemic the Greek economy is struggling to recover. Hence, Greece's National Recovery and Resilience Plan, under EU's Recovery and Resilience Facility, is a historic opportunity for the country not only to recover from the crisis but to create a strong and resilient economy. The amounts that will be allocated to the country by the Recovery and Resilience Facility are significant and with the proper utilization can put the country in a new path of dynamic growth.

Introduction

The COVID-19 pandemic changed the economic and social landscape in the European Union. This created an urgent call for coordinated response at the EU level, in order to deal with the enormous economic and social consequences of the pandemic. From both the economic crisis and the COVID-19 pandemic it was evident that the EU needed a plan to develop more sustainable and resilient national economies that could potentially absorb effectively market shocks. It was also evident that policies promoting social structure and equality both at a national level, as well as at an EU level was mandatory, since spill-over effect between societies and Member States posed challenges to the cohesion of the Union itself. Therefore, the EU created instruments to cope with these new challenges. The main instrument is the NextGenerationEU, which is considered not just as a recovery plan but a chance to transform the economies. At the heart of the NextGenerationEU is the Recovery and Resilience Facility (RRF).

Under the framework of the RRF Greece has drafted and submitted its National Recovery and Resilience Plan (NRRP), namely "Greece 2.0". The

NRRP of Greece is seen as a historic opportunity to create a strong economy and a more equal and cohesive society. The plan itself is very ambitious and potentially it will transform many aspects of Greek economy and society by creating among others a more green and digitalized public and private sector.

Greece's National Recovery and Resilience Pan

The current crisis, due to the COVID-19 pandemic, changed the social and economic profile of the EU Member States. A coordinated response from the EU was mandatory, in order to help the Member States to recover and simultaneously build strong and resilient economies that could handle future crises. The main EU instruments for delivering the above priorities is the NextGenerationEU and its centerpiece the Recovery and Resilience Facility (RRF), which will allocate €723.8 bn € (385.8 bn € in loans and 338 bn € in grants) to support reforms and investments at the Member States. Each Member State, in order to benefit from the Facility, has to submit their National Recovery and Resilience Plan to the European Commission and implement it by the end of 2026. The Greek National Recovery and Resilience Plan (NRRP), namely "Greece 2.0", was submitted to the European Commission on 28 April 2021 (1).

"Greece 2.0." is seen not only as a plan for economic transition but as a remarkable opportunity for fundamental social and economic change, which will affect all sectors of economic and social activity in the country. It aims to create a more green economic model with a less bureaucratic and a more efficient digitalized State. It aspires to reduce the "grey sector" and introduce a more growth friendly tax system. Social inclusion and justice are also main parameters of the NRRP. The NRRP of Greece consists of the following four pillars: "Green", "Digital", "Employment, skills, and social cohesion" and "Private investment and economic & institutional transformation" (2).

For the Green transition, according to the European Commission, each RRP has to include a minimum of 37% for climate investment and reforms.

Greece is fully in line with the Commission's objective of the Facility by achieving a 38%. Among others the reforms and investments of this pillar include: the electrical interconnection of Greek islands; the renovation of residential buildings, businesses, public sector buildings and infrastructure for energy efficiency; the development of charging infrastructure for electric vehicles; the reform of urban planning; the implementation of strategic urban regeneration projects; investments on irrigation and flood mitigation projects; a new National Reforestation Plan; initiatives for the protection of biodiversity by establishing among others a National System for the Permanent Monitoring of species and the introduction of Regional Civil Protection Centers (2). For the pillar of Green Transition Greece will be granted a total of 6,172 mil € from the RRF budget. The Mobilised Investment Resources in this sector will be 11,582 mil € (3). Among the four pillars, green transition is the one receiving the biggest total amount from the RRF.

For the second pillar of the NRRP, the digital transition, the main proposed reforms are the following: the pre-installation of fibre optic infrastructure in households and businesses; the development of 5G network corridors in all the motorways of the country; the digital transformation of small and medium enterprises; upgrading the digital infrastructure of public services like the Greek Public Administration, the digital pension system (EFKA) etc. (2). To this sector the European Commission has as a prerequisite that each NRRP will include a minimum of 20% to foster digital transition. Greece has reached an 22% share at this sector. The country will be granted 2,200 mil € from the RRF budget and 2,360 mil € will be allocated from Mobilised Investment Resources to this sector (3).

The third pillar "Employment, skills, and social cohesion" includes among others the following reforms: reforms of the labour market by enhancing the creation of new jobs, reforms supporting the creation of safety nets against unemployment, reforms to the pension system, state of the art up-skilling programs, including digital skills, investments and reforms to enhance the autonomy, quality and relevance to the labour market of Greek Universities, reforms and investments to increase the capacity and efficiency of the Health system, reforms to strengthen societal fairness, including enhancing the economic and social integration of economic vulnerable groups and promoting inclusive policies in these sectors (2). In total 5,184 mil € will be allocated to Greece from the RRF budget and 5,268 mil € are founds from Mobilised Investment Resources (3).

The fourth pillar of the NRRP, that is "Private investment and economic & institutional transformation", among others includes reforms such as: investments and reforms to fight tax evasion, modernisation the public financial management framework, to enhance its efficiency, transparency and decrease corruption, digitalisation of the justice system, reforms and policies to promote tourism, culture, smart manufacturing and reform agriculture, reforms in order to create new climate-resilient and high quality infrastructures and transport systems to improve connectivity (2). The RRF will allocate to the fourth pillar 4,839 mil €. In addition, 8,738 mil €. will be allocated by Mobilised Investment Resources (3).

Greece's NRRP is in full alignment with the RRF regulation and to the Country Specific Recommendations to Greece withing the context of the European Semester. It targets all six pillars of the RRF, that is green transition; digital transformation; economic cohesion, productivity and competitiveness; social and territorial cohesion; health, economic, social and institutional resilience and policies for the next generation (4). The NRRP is a very comprehensive and ambitious plan. Greece aims to use the loans from the RRF to finance business investments in a way that will increase competitiveness, productivity and exports. Greece 2.0 is business and growth oriented, since the number one factor constraining growth in the country is the low rate of productive business investment, legacy of the economic crisis of 2010-2019. The NRRP aims to improve competitiveness and promote private investment exports, modernise and digitise the private and public sector and increase job creations in the labour market. Hence, the NRRP aims to build a strong economy, which will increase Greece's capacity to absorb the current and future shocks.

On 17 June 2021 the European Commission adopted a positive assessment of Greece's NRRP and opened the road for disbursing 17.8 bn € in grants and €12.7 bn in loans to the country over the period 2021-2026 (5). Furthermore, the NRRP was presented at the Economic and Financial Affairs Council (Ecofin), on 13 July 2021. Ecofin proceeded to the approval of the first disbursement for Greece, in the form of an advance of 13%, approximately 4 bn € - 2.3 bn grants and 1.7 bn loans. If the first package of the third quarter of 2021 is met, 3.5 bn € more will be disbursed by the end of the year. The European Commission has to assess the progress of reaching the targets in a two-month period. Then it is planned to allocate 1.7 bn € every 6 months in the form of grants and every year 1.8 bn € for borrowing. The amount will be distributed by the Commission depending on the absorption of the previous payments (6).

On 9th of August 2021 the European Commission proceeded to the disbursement of 4 bn € to Greece as pre-financing. It is worth noting that Greece was one of the first member states to receive the pre-financing payment by the RRF, in order to kick-start the implementation of reforms and investments outlined in Greece's NRRP. According to the Commission at the sector of Green transition, 645 mil € will finance the interconnection with the Cyclades Islands. At the sector of digital transition 375 mil € will be invested for the adoption of digital technologies. 740 mil € will be given in order to strengthen active labour and 627 mil € to digitalise public administration (7).

According to a study contacted by the Bank of Greece the NRRP will lead at the increase of the GDP by 7% by 2026. It will further contribute to the creation of approximately 180.000 new jobs. It is estimated that the NRRP will also lead to the growth by 20% of the private sector and it will have a long-term positive impact to the GDP and the employment rates of the country (3).

On the 85th Thessaloniki International Fair (TIF) held on Sep 11, 2021 – Sep 19, 2021 Mr. Nikos Mantzoufas, Governor of Greek Recovery and Resilience Agency, highlighted that the first package of the 3,5 bn € given by the RRF to Greece will be allocated in order to create sustainable entrepreneurship. In the same event, the Deputy Minister of Finance Mr. Theodoros Skylakakis also stressed that the funds from the RRF is a historic opportunity to boost entrepreneurship investments in the county. Mr. Giannis Kaltsas, Head of Division for Lending Operation in Greece of the European Investment Bank, mentioned that in the difficult period of the economic crisis in Greece the European Investment Bank took the risk to stay and support the country. According to Mr. Kaltsas the times have justify this decision, since Greece has gained strong investment interest, especially in the Nothern part of the country with almost zero interest rate offered (8). It is worth noting that the Prime Minister of Greece Kyriakos Mitsotakis, at the 85th TIF announced numerous reforms and investments for supporting growth, decreasing taxes and boost social coherence. The PM among others announced that the taxes for private enterprises will be reduced from 24% to 22%. For small and medium enterprises that merge the taxes will drop to 15.5% for the next three years and discounts will be introduced to the green capital investments. The PM further stated that the revision of the growth target of the Greek Economy for 2021, is from 3.6% to 5.9%, since it was recently announced that the country's GDP jumped 16.2% in the second quarter of 2021 (9).

Conclusion

The NRRP of Greece contains a comprehensive set of reforms and investments that will potentially increase the growth of the country. It aims to ensure economic growth compatible with environmental sustainability and ensure productivity by promoting digital transition. Thus, Greece will have the tools to create a strong and resilient economy. The main challenge for the government is to proceed to the needed reforms in a shorth period of time. Further monitoring is necessary in order to estimate the progress.

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The Hungarian Recovery and Resilience Facility

Csaba Moldicz

Summary

The global pandemic has made it clear that the neoclassical path of non-intervention is not viable in the case of Covid-19 and that states must intervene massively in the economy and set up stimulus packages to boost the economy. This is politically uncontroversial, but the lingering question of how long the intervention will last is often asked, given the threat of suddenly rising inflation and sovereign debt around the world. There is another, more sophisticated layer to this dilemma in the European Union. What is the reasonable and justifiable level of collective effort to alleviate the economic pain caused by the Covid-19 pandemic and at what point can countries' economic sovereignty be questioned?

Introduction

The European Union agreed on a €750 billion recovery plan (in 2018 prices) in July 2020. The so-called Next Generation EU fund operates from 2021 to 2023 and is linked to the EU's regular budget for 2021-2027, known as Multiannual Financial Framework. The total value of the two budgets is €2.018 trillion (in 2018 prices). As of this writing, twenty-five member states have sent their national recovery plans to the European Commission and thirteen plans have been approved by the European Commission. According to media reports, the Netherlands and Bulgaria will publish their plans in the coming weeks. The Hungarian national recovery plan, known as Recovery and Resilience Facility was rejected by the European Commission in July 2021. According to the European Commission proposal, negotiations are to last until the end of September 2021 in order to find a mutual agreement on the contentious issues between the Hungarian government and the European Commission.

This briefing analyses the discussion, the main arguments of the two sides and the main elements of the Hungarian Recovery and Resilience Facility in case it would be accepted by the EU in this form.

The political debate

At Hungarian Recovery and Resilience Facility, the amount at stake is 7.2 billion euros. In early July 2021, it became clear that the European Commission would not simply rubber stamp the Hungarian plan. The main argument of the European Commission was that the Recovery and Resilience Facility plan of Budapest does not pay the necessary attention to the fight against corruption. One of the requests to Hungary was "reinforce the anti-corruption framework, including by improving prosecutorial efforts and access to public information, and strengthen judicial independence."[1]

At the same time, it is also clear that the disagreement between Brussels and Budapest did not start with this debate, but also stems from other issues such as the rule of law, democracy and other values debates. Recently, the debate on the Child Education Act sparked a heated debate in the EU and the consequence of the debate was an infringement procedure against Hungary (and Poland) for LGBTIQ[2] rights violations launched by the European Commission. Although the two proceedings are separate, it is hard to miss the link between them.

This is probably also the reason why the move of the European Commission is often interpreted as an act of revenge or a means of blackmailing the Hungarian government, with the actual subject of discussion being of lesser importance. We should immediately add that the European Commission also has a dilemma on its side. On the one hand, it would be difficult to give the green light to this plan in the midst of several

[1] Cited by Paola Tamma in Brussels withholds approval of Hungary's recovery plan. Politico, retrieved from: https://www.politico.eu/article/brussels-turns-down-hungarys-recovery-plan/

[2] LGBTIQ: Lesbian, Gay, Transgender, Intersexed, Queer.

political controversies; on the other hand, such an attitude towards the Hungarian government a few months before the elections would only strengthen anti-EU forces in Hungary.

As a temporary compromise, the European Commission postponed the decision for two months, and final decisions were to be made at the end of September 2021. In the meantime, the Hungarian Government issued a decree funding of the Recovery and Resilience Facility. The decree (published on 23 July 2021) stipulates that Hungary will accept EU funds only on the condition that no other conditions are attached (no double standards). And several times, it was confirmed by the Hungarian government that the government will proceed with the plan without the European Commission's approval using only Hungarian funds.

In July, the Hungarian negotiator Mr. Ágostházy told the media: "Our plan meets all the required conditions, and therefore it is up to the EU institutions to decide whether they want to comply with their own sets of rules or to go beyond them to interpret their own room for maneuver and include issues that have nothing to do with the debate, … " The link between the LGBTIQ debate and the approval of the recovery plan was denied by Economic Commissioner, Mr. Gentilone.[1]

The structure of the Recovery and Resilience Facility

The plan was adopted and submitted by the Hungarian government in May 2021. The plan contains 55 reforms and investments, and these projects have been divided into nine objectives. The cost of implementing the plan is approximately HUF 2.511 billion. Looking at the relative size of the investments, they will amount to 0.79 percent of 2019 GDP this year, 1.48 percent next year, 1.13 percent in 2023, 0.97-0.97 percent in 2024 and 2025, and 0.42 percent in 2026. Measured as a share of GDP, the amounts are very close to the impact of the Marshall Plan on the post-World War II

[1] Cited by Eszter Zalan in Rule-of-law issues still hold up Hungary-Poland recovery plans. Euobserver, retrieved from: https://euobserver.com/democracy/152803

economy. As the projects require the use of equity, the estimated investment amount in the period (2021- 2026) may reach 4.357 billion forints.

According to the original intentions of the European Commission, the Hungarian the Recovery and Resilience Facility focuses on the following areas:

demographics, public education (improving digital skills and environmental awareness),

well-educated and skilled workforce (expanding R&D and innovation development, lifelong learning),

developing and emerging communities (upgrading neighborhoods, building affordable rental housing),

water management,

sustainable and environmentally friendly transport (removing transport bottlenecks and expanding public transport in urban areas and metropolitan areas),

energy solutions (increasing the resilience of the electricity grid to include more renewable energy sources),

circular economy (developing recycling, especially chemical recycling),

healthcare (introduction of digital solutions),

horizontal measures aimed mainly at modernizing the infrastructure of the Hungarian legal system.

According to an EU directive, at least 37 percent of the amounts allocated in the plan must be spent on measures related to global warming (climate tagging). According to the Hungarian plan, 41 percent will be spent for this purpose (see Table 1!). When it comes to measures related to the digitalization of the economy, 23.08 percent of the total amount will be spent on accelerating digitalization in Hungary. It makes sense to shape the program, especially when we talk about digitalization, as Hungary lags behind its European peers. (According to the 2020 DESI report published by European Commission, Hungary ranks 21st among EU members).

Table 1. The structure of the Hungarian Recovery and Resilience Facility					
Objectives	Amount (billion HUF)	Climate tagging (billion HUF)	Share of climate tagging (%)	Digital tagging (billion HUF)	Share of digital tagging (%)
Demography, public education	230.69	12.80	0.00%	190.69	82.66%
Highly educated and skilled labor force	281.00	24.20	8.61%	96.30	34.27%
Developing and emerging communities	77.47	11.55	14.91%	0.00	0.00%
Water management	44.35	17.66	40.00%	0.21	0.40%
Sustainable and green traffic	631.00	613.00	82.69%	30.00	4.43%
Energy solutions	262.49	262.49	100.00%	41.494	15.81%
Circular economy	103.00	67.00	65.05%	0.00	0.00%
Health care	857.04	25.28	3.20%	198.14	25.08%

Horizontal measures	24.21	0.00	0.00%	22.88	91.55%
Total	2511.27	1033.98	41.16%	579.70	23.08%
Source: Recovery and Resilience Facility, retrieved from: https://www.palyazat.gov.hu/helyreallitasi-es-ellenallokepessegi-eszkoz-rrf					

Although the outcome of the dispute between European Commission and the Hungarian government is unpredictable, we can predict that the Hungarian leadership is prepared to take a final rejection from Brussels while negotiating the terms for the adoption of Hungarian Recovery and Resilience Facility. As mentioned earlier, in the event of a rejection, the Hungarian government has repeatedly reiterated its willingness to implement the recovery plan without EU funds. According to our assessment, the chances of rejection of the Hungarian plan have increased in recent weeks, as representatives of European Commission have started to justify rejection in the case of Hungary by referring to 2019 Country Specific Recommendation, which is also a reminder of the importance of managing public funds. (Country-specific recommendations are part of the so-called European Semester, which aims to coordinate economic, fiscal, labor and social policies among EU member states).

Summary

From this briefing we could see that the adjustment of Hungarian Recovery and Resilience Facility is not self-evident, as the rejection or adoption depends much more on political motives than on reasonable economic calculations. We were also able to understand that the structure of Recovery and Resilience Facility meets the requirements of European Commission, so the Recovery and Resilience Facility itself cannot be the real reason for rejection.

Latvia’s €1.82 Billion Recovery and Resilience Plan

Institute of Economics at the Latvian Academy of Sciences

Summary

In total, Latvia will receive 1.8 billion euros to improve the quality of life for the people of Latvia, make the economy more sustainable and improve its competitiveness, taking into account the transformation into a climate-neutral and digital economy. The investments of the Recovery Fund give Latvia an acceleration in the implementation of reforms, promoting productivity, economic and digital transformation, achieving climate goals, reducing inequality, improving health care and strengthening the rule of law. One of the most significant risks of implementing the RRP is related to the “overheating” of the construction sector, taking into account the large planned amounts of investment in the economy in the next 7-8 years.

Introduction

The European Union (EU) Recovery and Resilience Facility is a new budget program managed centrally by the European Commission (EC) in addition to the multiannual budget of the European Union for the 2021-2027 programming period. It aims to support reforms and investments related to the transition to a green and digital economy, as well as to reduce the social and economic impact of the crisis. The money for recovery plans comes from the EC borrowing on international markets and issuing debt securities on behalf of all Member States. Over the next five years, the EC plans to borrow around € 800 billion in total, half of which will be in the form of grants to Member States. The Latvian plan forms part of an first-time coordinated European Union response to the crisis caused by COVID-19, to address collective European challenges by embracing the green and digital transitions, to reinforce economic and social strength and the organisation of the Single Market. The plan of the Latvian Recovery Fund has been prepared in accordance with the objectives of the National Development Plan, taking into account the recommendations of the European Commission and the recommendations of the European Union Council for the stable and successful growth of Latvia.

I Financial Distribution of the Recovery and Resilience Plan in detail

Latvia's recovery plan covers a wide range of mutually reinforcing reforms and investments that will help effectively address many of the economic and social challenges identified by the Council of Europe in its recommendations to Latvia in the 2019 and 2020 European Semesters. The plan addresses challenges in areas such as health, education and skills, social inclusion, research and innovation, affordable housing, public administration, the business environment, the fight against the shadow economy and money laundering.

The measures included in the plan of the Recovery Fund will promote the "green" and digital transition of the economy by implementing structural reforms and addressing the issues of social and human capital development.

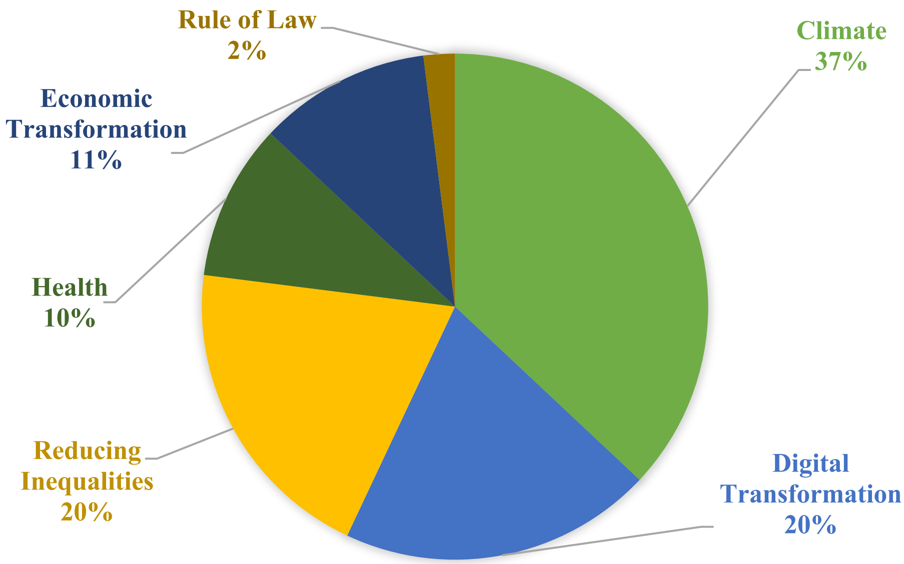

Figure 1. Financial distribution of the Latvian state recovery plan

Source: Ministry of Finance of the Republic of Latvia

Almost one third of the budget, or EUR 676.2 million, will be allocated to climate protection. It is planned to reduce greenhouse gas emissions and increase CO2 sequestration in the transport sector, as well as to increase the share of renewable energy. Improvements will be made to the energy efficiency of buildings, including apartment buildings. In business, increasing energy efficiency will be promoted. Improvements will be made to the disaster management system by adapting it to climate change.

EUR 365.2 million, or one fifth of the funds, will be allocated to digital transformation - the digitization of public services and businesses and the promotion of innovation. The development of digital skills and improvements in telecommunications will be supported through the development of a 5G network in the Via Baltica corridor.

EUR 370 million, or 20% of the EUR 1.82 billion, will be allocated to reducing inequalities in all areas. The funding will be used to improve the country's regional and local road network, and to develop industrial parks and areas in the regions. Will develop the construction of standard-type housing with low rents. Improving the country's prosperity will promote social inclusion, reduce poverty and reduce income inequality. In order to increase the quality of education, the infrastructure of educational institutions will be improved.

EUR 181.5 million will be allocated to the health system, prioritizing the improvement and development of the medical education system, improving the efficiency of health care services, preparedness of medical institutions for epidemiological and other crises, as well as methodological management of the oncology sector. Within the framework of the hospital leveling reform, investments are planned in the development of outpatient and inpatient services, in the strengthening of the infrastructure of at least 10 large hospitals and 40 secondary outpatient service providers and in the accessibility of the environment.

A little more, EUR 196 million or 11 percent of the funding will be allocated to transforming and stimulating the economy. Innovation and private investment will be attracted to promote research. The state plans to create a support tool for the development of innovation clusters in order to create a more multifunctional and smarter economy. Changes will be made in the field of higher education, ensuring a change in the governance model of higher education institutions.

2 percent or EUR 37 million is allocated to strengthening the rule of law - reducing the shadow economy, increasing openness and competition, including in the field of public procurement, as well as strengthening analytics and developing data management in the areas of tax administration and customs. Investments are planned to strengthen the capacity to investigate economic crimes, to train law enforcement officers, from police officers to Supreme Court judges.

This plan was submitted by Latvia on 31 April 2021, and was approved by the European Commission on 22 June and by the Economic and Financial Affairs Council (ECOFIN) on 13 July. Project submission and implementation started in the 3rd quarter of 2021. EUR 1.82 billion of the Recovery and Sustainability Facility will flow into Latvia over the next 5 years and funding will be available until 31 August 2026.

II The Present Phase of the Recovery and Resilience Plan

Latvia on Friday, September 10, received pre-financing in the amount of 13% or 237 million euros from the total amount of financing available to the country from the Recovery Fund. The pre-financing payment will help start the implementation of the key investment and reform measures set out in Latvia's recovery and sustainability plan. The total amount of financing or EUR 1,82 billion consists entirely of grants, therefore the sum will not have to be reimbursed. The European Commission's first payment of 237 million is an important step in Latvia's recovery from the COVID-19 crisis. Latvia is among the first European Union member states to prepare national reform plans, thus Latvia is also among the first to receive a payment from the European Recovery Fund.

In order to implement the 24 reforms and 61 investment measures included in the plan, the next steps must be taken rapidly - development of regulations of the Cabinet of Ministers, consultation with non-governmental organizations, social and cooperation partners, approval by the government, announcement of tenders and implementation of projects. It is planned to first implement projects of the highest readiness. Currently, projects for the creation of affordable rental housing in the regions of Latvia and innovation competence centers for the development of new, exportable products are in the highest readiness, therefore those will be advanced primarily. Further funding will be available after the implementation of specific projects and reform objectives.

III Risks and Opportunities of the Recovery and Resilience Plan

Looking closely at the investment plan for these funds, it can be seen that more than half of the money will go to infrastructure development, ie the construction sector. By comparison, for example, it is planned to invest only a tenth in human capital development, and even less in research, development and innovation. The plan devotes too little to research and human capital, as these are areas that have a more lasting impact on economic development than the construction of new facilities.

Most of the less than two billion euros we will receive to strengthen the economy are planned to be invested in infrastructure - construction of new mobility points at Riga railway stations, renovation and insulation of buildings, construction of several hundred rental apartments, as well as modernized hospitals and hundreds of kilometers of roads. Given that a large proportion of funding is allocated to the construction sector, it is important to analyze how the available investments will affect construction capacity and whether this sector will not "overheat".

Experts predict that in the coming years the construction industry will face strong pressure on wages in the fight for labor. Together with the rise in construction material prices, which has already risen sharply this spring, it could make construction services significantly more expensive. This poses a far-reaching risk to the overall national economy, adversely affecting Latvia's competitiveness. It can also directly refer to the implementation of construction projects envisaged in the Recovery Plan.

Conclusions

In order to implement all the intentions of the Latvian Recovery and Resilience Plan (RRP), it is necessary to invest public funds wisely in maintaining economic capacity in the short term and in economic transformation measures in the medium and long term. The RRP has a positive effect on productivity and might reduce the investment gap. Productivity gains will be largely determined by the investment structure of the RRP. In particular, investments in research and innovation, and development of new technologies play an important role in increasing productivity, which accounts for only 5% of total RRP investments. One of the most significant risks in the implementation of the RRP is related to the "overheating" of the construction sector, taking into account the large planned amounts of investment in the economy in the next 7-8 years. It is therefore important to determine how this will affect the cost of labor and construction materials, and it might be useful to allow foreign companies to be more involved in construction on a temporary basis in order to ensure competition. Seeing that the problem of labor shortage will intensify in the labor market in the future, it is necessary to strengthen the adult education system in order to ensure the transition of labor from unproductive to growing sectors. The efficiency of the adult education system will also play an important role in reducing the negative effects of COVID-19 and increasing the overall level of economic productivity. In view of the above and in the context of the RRP, the possibility of increasing the share of investment in human capital development, which currently accounts for a relatively small proportion of the RRP, at 10%, should be considered.

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Lithuania's Recovery and Resilience Plan to Smooth the Economic Transition

Linas Eriksonas

Unexpectedly chill opening days of the autumn have brought renewed worries about the soaring prices for heating and electricity for household consumers and industrial customers. At the end of September, Vilnius Šilumos tinklai, Lithuania's largest heating and hot water provider in the capital region, announced that the heating prices might increase by 60 per cent. A similar situation has occurred across Europe. Since April, gas prices have quadrupled on the wholesale markets, and electricity bills went up by more than a third.

During this period, the EU Member States have prepared and get approved by the European Commission their National Recovery and Resilience Plans under the Recovery and Resilience Facility (RRF). The instrument will until the end of 2026 disburse to the Member States the sum of 723.8 billion euros (in current prices) in loans and 338 billion euro in grants to recover the economies from the slump occasioned by the pandemic. These plans aim to decrease the dependence of European economies and societies on fossil fuels, making them resilient and better prepared for the challenges and opportunities of the green and digital transitions.

Below is a brief outline of Lithuania's national Recovery and Resiliency plan, explaining its relevancy for the energy sovereignty and the economic growth during the forthcoming digital and green transition in Europe. It indicates the challenges ahead, especially during the transitory years (until 2030), touches upon potential impacts and the uncertainty over the rising energy costs.

Lithuania's economy is highly susceptible to energy costs, and it reflects in the slow growth of productivity in the country's economy, as repeatedly noted in numerous reports by the EC, OECD, World Bank experts. The manufacturing sector (the most significant contributor to the national GDP, comprising almost a quarter of GDP) is still dominated by non-routine employment with a low ICT task intensity and low level of automation. The industry is energy-intensive. In September 2019, data from the first Labour Productivity Scoreboard, published in September 2019, which analysed changes in the structure of value-added and hours worked over 2017-2018, showed that labour productivity levels remained largely unchanged. Worryingly, the most considerable slowdown in labour productivity was recorded in information and communication economic activities, by as much as 11.3 per cent. The slowdown was most pronounced in medium- and high-tech activities, with the exception of the life sciences industry. This is also linked to both the lower level of direct investment than in previous periods and the continued decline in the complexity of Lithuanian exports.

The root causes of the problem, as identified in the EC's Country Report for Lithuania from 2020, have to do mainly with the existing barriers to innovation and entrepreneurship that are holding back the technological modernisation of the economy. The EC report points out that the intensity of research and experimental development is relatively low and that spending in this area remains inefficient and overly dependent on European funds. At the same time, it highlights that Lithuania is dominated by micro-enterprises, which tend to be less innovative and less productive than other types of enterprises. A lack of talent and a low level of public expenditure on R&D is holding back public research and innovation activities, and the progressive increase in business investment in research and innovation remains slow. Although R&D-related tax incentives in Lithuania are generous, private sector investment in R&D is meagre. In 2017, business sector R&D expenditure was 0.3 per cent of GDP, compared to an EU average of 1.4 per cent.

One of the main reasons holding back labour productivity growth and the development of higher value-added segments of the economy in Lithuania is rising production costs due to the dominance of the energy-intensive industry, as mentioned above. While household energy consumption in the country's overall energy balance fell by 10 per cent between 2000 and 2017, over the same period, consumption in the manufacturing sector remained at the same level, while in the transport sector, it grew by 12 per cent. Over the last ten years, energy and electricity consumption per employee in the country's enterprises has remained almost constant.

The impact of energy costs on labour productivity is indirectly reflected in the fact that labour productivity growth in electricity, gas and heating supply activities was one of the highest in 2017-2018 (after financial and insurance activities), at 15.7 per cent. Meanwhile, for example, in the energy-intensive production of chemicals and energy-intensive production of chemicals, labour productivity declined by 16.5 per cent over the same period, and in mining and quarrying by 21.6 per cent. The increased public health risks temper the outlook for further labour productivity growth due to the continuous COVID-19 pandemic and the expected increase in the costs of input raw materials and labour costs in the most import-dependent value chains.

The adaptation of the economy to increase resilience to the climate change also adds a premium. An estimated projection of climate change impacts on energy costs from 2020 has shown that the cost of maintaining electricity transmission infrastructure could increase by 25 per cent due to climate change. Shifting these costs to producers could pose a significant challenge to energy-intensive sectors of the economy, especially export-oriented ones. For the Lithuanian economy, this could become a critical factor holding back economic growth.

Additional challenge comes with the concurrent transition from the fossil dependent economy to the digital and green economy. A Brussels-based think tank Bruegel has warned in its recent report that increasing green public investment while consolidating deficits will be a major challenge, especially during the period when the uncertainty in the energy source markets keep the energy prices going up and pushing the governments to increase public expenditures in supporting the most vulnerable members of society. The analysts from Bruegel have noted that the uncertain growth impact of green public spending the risks to growth from climate change create difficult trade-offs in fiscally weaker countries.

To prepare for the bumpy road ahead, the EC has approved the Next Generation EU programme, which includes the funding to be made available to the Member States through the Recovery and Resilience Facility. According to the forecasts done by Bruegel, without the funds made to Lithuania under the Facility, the fiscal adjustment scenario would be negative by 9,3 to 11,7 per cent. It is estimated that with the funds made available through grants and loans, the fiscal deficit would decrease by 1,6 per cent and that the sound investments made would create the foundations for the restructuring of the economy that is less dependent on third-party energy sources and less energy-intensive altogether.

Lithuania’s RRF plan is tuned to the amount of 2,2 billion euros. It is structured around seven components: a resilient health sector, green and digital transitions, high-quality education, innovation and higher education, efficient public sector, and social inclusion. 38 per cent of the foreseen investment (1 per cent about the minimum requirement for spending on climate objectives) are planned to support the green economy transition measures. Those include reforms and investments to develop renewable energy power plants and create public and private energy storage facilities. These measures are complemented by reforms and investments to phase out the most polluting road transport vehicles, increase the share of renewable energy sources in the transport sector, and accelerate building renovations by supporting modular elements for renovations from organic materials.

32 per cent of the total allocations would fund the measures in supporting of the digital transition. These measures include considerable investments in connectivity, focusing on the widespread deployment of high-speed networks and the development of 2,000 km of high-speed connectivity infrastructure in rural and remote areas. The plan also envisages significant investments in e-governance and developing AI solutions.

Lithuania's RRF plan addresses all three major flagship priorities. 29,21 per cent of spending earmarked for clean technologies and renewables, 24,27 per cent for the energy efficiency of buildings, 39,33 per cent – for sustainable transport, including e-vehicle charging infrastructure. Lithuania plans to invest 242 million euros in developing offshore wind and solar power generation, create public and private energy storage facilities, and invest 341 million euros in phasing out the most polluting road transport vehicles and increasing the share of renewable energy sources in the transport sector. When it comes to individual industries that will benefit from these investments until 2026, public transport amounts to more than a third of all the planned green investments in Lithuania (37,43 per cent). Also, wind and solar energy and alternative fuels contain a significant part of the envisioned green investments (26,15 per cent).

The President of the EC, Ursula von der Leyen, has highly praised Lithuania's national RRF plan due to its strong coupling of green investments with the digitalization of the key industrial sectors, including transport and mobility sectors. "The measures contained in the plan have enormous potential to transform Lithuania's economy and help it build a green and digital future. Lithuanian citizens will benefit from investments in health care, education, digital skills, and better social protection. I am proud that NextGenerationEU will help build a better future for Lithuanian citizens", - declared the President.

However, the optimism shown by the politicians might be somewhat premature given by the uncertainties about the further surge in gas and electricity prices in Europe, driven by rising demand and tight supply, which is by and large controlled by Russia aiming to extract more value and exercise strategic leverage in utility markets. The EU's dependence on imported natural gas has grown over the past ten years, and imports now make up over 74 per cent of consumption. Lithuania's dependence is even higher – it imports about 80 per cent of its gas supplies from Gazprom. Thus, one of the options to diminish the dependence on the Russian energy sources over-time is by lowering the demand. It could be achieved by long-term investments in low-carbon and resilient infrastructure and climate-friendly transport as foreseen in Lithuania's RRF plan. The fast and efficient implementation of the national RRF plan thus becomes even more crucial and timely than initially expected as it could help to smooth the bumpy road of the economic transition laying ahead.

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Economic Recovery and the Role of EU Support

Milika Mirkovic

Summary

The European Commission has adopted The Recovery and Resilience Facility, but Montenegro, as a non-EU country, will not directly benefit from the Plan. Nevertheless, indirect effects on the Montenegrin economy can be expected. On the other side, EU assistance to economic recovery could be seen through the Economic and Investment Plan for the Western Balkans. In 2021, the economy began to recover. After high negative economic growth rates for four consecutive quarters, real growth of 19% was achieved in the second quarter. Growth has been accompanied by favourable trends in public finances, but the situation on the labour market, high prices and FDI are among the challenges facing the economy.

The Recovery and Resilience Facility: Any effects on Montenegro?

The Recovery and Resilience Facility has been adopted in order to support EU member states in overcoming the problems caused by the COVID-19 virus pandemic. The value of this support is EUR 723.8 billion, of which EUR 385.8 billion or 53.3% refers to loans and EUR 338 billion on grants[1]. So, support is directed "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 "[2]. The Recovery and Resilience Facility covers the next five-year period (until December 2026) and which will support the financing of reforms and investment projects of

[1] The amounts presented are in current prices

[2] European Commission (2021) The Recovery and Resilience Facility, https://ec.europa.eu/info/business-economy-euro/recovery-coronavirus/recovery-and-resilience-facility_en#the-recovery-and-resilience-facility

EU member states. However, Montenegro as a non-EU country does not have the opportunity to apply for these funds.

Certainly, the indirect effects of the Recovery and Resilience Facility on the Montenegrin economy can be expected. Given the Montenegrin commitment to EU integration and as a euroized economy, financial assistance to member states may affect inflation in the EU, and consequently the level of prices in Montenegro. The increase in the money supply through financial incentives to member states, especially countries in the Eurozone, among other factors contributes to the growth of prices that are consequently transferred to Montenegro, as a highly imported dependent economy that uses the Euro as a currency. In addition, economic recovery in the member states can only have positive effects on the Montenegrin economy with regard to foreign trade and other economic cooperation. Improving the overall situation in the EU, which Montenegro is striving for, has an impact on other parts of Europe.

However, when it comes to the economic recovery of the Western Balkan countries, the EU adopted the Economic and Investment Plan for the Western Balkans last year. In fact, this Plan is a support mechanism to the Western Balkan countries, including Montenegro, in order to mitigate the negative effects of the corona virus pandemic. It is expected that the implementation of the Plan will contribute to the improvement of the situation in the region's economies and contribute to the convergence of the Western Balkan countries with the EU countries. The value of this Plan, which covers the period from 2021 to 2027, is up to EUR 9 billion and will be mobilized through IPA III funds. It includes support in the areas of competitiveness and inclusive growth and green and digital transition.

Within the Plan, ten investment flagships in the field of transport, energy, environment, digital areas, private sector and youth issues have been defined, and Montenegro has been recognized in almost all flagships. Namely, investments refer to projects in the field of transport infrastructure, construction of energy capacities, environment and other projects. Some of these projects are the construction of railway infrastructure that will connect capital cities of Montenegro and Albania, as well as the improvement of energy infrastructure related to expanding the capacity of existing hydropower plants and building a new hydropower plant. Realization of these projects will have multiplied effects on economic growth which can be reflected in improving the competitiveness of the Montenegrin economy, increasing employment and productivity, improving living standards of citizens, attracting foreign investment and contribute to higher utilization of available resources and capacities[1]. One of the characteristics of the allocation of funds under IPA III is that it will not be defined in advance, but will depend on the relevance of the project and the readiness for its implementation.

Economic recovery in 2021 and main trends

After a sharp drop-in economic activity in 2020 caused by the corona virus pandemic in the second quarter of 2021, the Montenegrin economy began to recover. Namely, in the second quarter of 2021, a positive real GDP growth rate of 19% was recorded (MONSTAT, 2021), after a successive decline during the previous four quarters. The high growth rate is a result of the intensification of economic activity, but also a very low comparative base from the previous year. If we analyse the first half of the current year, GDP grew by 6.2% in real terms. Given the high growth in the tourism sector during the third quarter, with positive trends in other sectors such as transport, trade, construction, high GDP growth is expected in the second half of the year, too.

[1] Mirkovic M. (2020) An Economic and Investment Plan for the Western Balkans – what is the significance for Montenegro?, External Relations Briefing, China CEE Institute, https://china-cee.eu/2020/11/16/montenegro-external-relations-briefing-an-economic-and-investment-plan-for-the-western-balkans-what-is-the-significance-for-montenegro/

The economic recovery is primarily due to positive trends in the tourism sector, where the number of tourists and the number of overnight stays in collective accommodation increased by 165.7% and 238.9%, respectively, in the first eight months of 2021 compared to the same period last year. Positive trends were also achieved in the passenger air transport sector (69%) and railway transport (19.6%) in the observed comparative period. Related to these trends, positive results have been achieved in the trade sector as well. Also, industrial production increased by 8.4%, thanks to growth in the electricity, gas, steam and air conditioning supply sector. On the other hand, during the first two quarters of this year, the value of finalized construction works decreased by 1.8%.

The economic recovery is accompanied by positive fiscal trends. During the first half of the year, the budget deficit amounted to EUR 118.9 million, which is 42.1% less than planned and 56.1% less than in 2020. The growth of budget revenues on the one hand and the reduction of budget expenditures on the other contributed to favourable trends in public finances. Budget expenditures are 4.5% lower than planned, while revenues accounted for 99.6% of the planned amount[1].

GDP growth and economic recovery from the strong impact of the "covid crisis" are not accompanied by a recovery in the labour market. Based on MONSTAT data, the number of registered employees in the first eight months of this year was lower by 16.6% compared to the same period in 2020, and in August 2021 it was lower by 9.5% compared to the end of 2020. On the other hand, unemployment recorded a slight decline during the summer months when economic activity has been intensified. In August, it amounted to close to 54 thousand, which is 13.7% more than at the end of 2020, while in the first eight months of the current year, unemployment increased by 36.5% compared to January-August 2020. Such trends in the labour market, along with rising prices, pose a challenge to the economy and living standards of the population. Although nominal wage growth was

[1] Source of dana Ministry of Finance and Social Welfare of Montenegro, https://www.gov.me/clanak/dobra-naplata-prihoda-manji-rashodi

recorded during this year (1.3% in the first eight months of 2021 compared to the same period in 2020), due to rising prices (1.7% in the comparable period) real wages are at approximately the same level as in the previous year

In addition, the inflow of FDI in the first half amounted to EUR 452.1 million, which is 7.7% more compared to the same period in 2020. However, total outflow increased in the same comparative period by 38.1%, and it amounted to EUR 185.1 million. Despite the growth of FDI inflows, due to significant growth of total outflow, net FDI recorded a decline of 6.6% during observer period. In the structure of inflows, intercompany debt has the largest share (44%), while the highest growth was recorded in investments in real estate, which was 2.3 times higher in comparative period[1].

As the Recovery and Resilience Facility applies only to EU member countries, the EU's role in Montenegro's economic recovery can be seen through support through Economic and Investment Plan for the Western Balkan. Projects in the field of construction, energy, environment, competitiveness and others can be financed through this Plan, which will contribute to economic recovery and economic growth. The Montenegrin economy achieved GDP growth in the second quarter, and trends in individual sectors such as tourism, transport, trade indicate positive growth in the third quarter as well. However, in addition to these first favourable trends, recovery from the severe consequences of the crisis caused by the pandemic will take longer, taking into account the delayed effects and the numerous challenges facing the economy.

[1] Source of data Central Bank of Montenegro

Support for the Macedonian Economy in the Context of the EU Recovery and Resilience Facility

Gjorgjioska M. Adela

Summary

The EU Recovery and Resilience Facility makes €723.8 billion in loans and grants available to support EU Member States in mitigating the economic and social impact of the coronavirus pandemic on their economies. Since N. Macedonia is still a candidate for EU membership, it is not eligible for this Facility. Therefore, the country cannot access significant EU funding available through mechanisms such as NGEU (New Generation EU), SURE (The European instrument for temporary Support to mitigate unemployment Risks in an Emergency), MFF (Multiannual Financial Framework); ESM (European Stability Mechanism Pandemic Crisis Support). Nonetheless, it does benefit from access to emergency funding from other official external sources such as the EU, the IMF and the World Bank. In support of its mid-term recovery, the country will also benefit from its inclusion in the EU Economic and Investment Plan (EIP).

As a candidate for EU membership, N. Macedonia doesn't qualify for support through the EU Recovery and Resilience Facility. However, there are several other financial mechanisms through which the EU is channeling support for the post-Covid recovery of candidate countries from the Western Balkans. In May 2020, the EU announced a package of over EUR 3.3 billion to the benefit of the broader region of the Western Balkans in tackling COVID-19 and the post-pandemic recovery.[1] This included

[1] Zagreb Declaration, 6 May 2020, available at https://www.consilium.europa.eu/media/43776/zagreb-declaration-en-06052020.pdf accessed on 15.09.2021

immediate support for the health sector, support for the social and economic recovery, EUR 750 million package of Macro-Financial Assistance and a EUR 1.7 billion package of assistance from the European Investment Bank.[1] What is more, the package included other measures such as the option to join the Joint Procurement Agreement, the possibility to access the EU Solidarity Fund (which is estimated to provide around EUR 140mn to the region) and EUR 275mn in loans from the Council of Europe Development Bank (CEB). All these components combined equate to a total of EUR 3.7bn available in COVID-19 support for the Western Balkans.[2] Out of this sum, a total of 314 million euros in EU funds have been made available to N. Macedonia. This is 2.8% of the country's GDP.[3] Additionally, it also has access to funds from the IMF through its Rapid Financing Instrument (RFI), which makes it possible for an amount equal to 100% of the country's quota per year to be disbursed for COVID-19 emergency assistance. A total of 168 million euros (or 1,5% of GDP) is available to N. Macedonia through this instrument. Thirdly, the country also has access to 143 million euros (or 1,3% of GDP) in funding from the World Bank.[4] Thus, a combined total of 5,5% of GDP has been available for N. Macedonia for emergency needs from the EU, IMF and the World Bank.

Funding in support of mid-term recovery

In October 2020 the European Commission adopted the Economic and Investment Plan for the Western Balkans, describing it as a strategy which

[1] Ibid

[2] Marrano, M. (2021), Not alone: Financial support of the Western Balkans, Published in June 2021, available at https://www.suerf.org/policynotes/27375/not-alone-financial-support-of-the-western-balkans#f8 accessed on 15.09.2021

[3] Ibid

[4] Ibid

aims to spur the long-term economic recovery of the region, support its green and digital transition, foster regional integration and convergence with the European Union.[1] The Commission has pledged to mobilise €9 billion of grant funding under the future Instrument of Pre-Accession Assistance to fund this plan, from the expected EU budget for the 2021-2027 period. Moreover, it has been announced that the EU's ambition is to potentially raise investments of up to €20 billion in the next decade by the mobilisation of a new Western Balkans Guarantee facility.[2] Although a country break down is not yet available, it is estimated that funding could range from 7% to 18% of 2019 GDP. However, these funds come with conditionality. The implementation of the plan goes together with the implementation of reforms that will be jointly agreed under the Economic Reform Programmes and recommended in the annual Enlargement Package. In addition, progress on the rule of law will be taken into account when distributing the available funds.[3] Based on this framework in July 2021 the European Commission announced that it has prepared the 28 billion euro ($33.24 billion) Economic and Investment plan for the Western Balkans. According to the official statement, the plan will include grants, guarantees and loans for sustainable transport, clean energy, digital and green future, skills and small and medium-sized enterprises (SMEs).[4]

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[1] EC Press Release, "Western Balkans: An Economic and Investment Plan to support the economic recovery and convergence", available at

https://ec.europa.eu/commission/presscorner/detail/en/IP_20_1811, published on 06.10.2020, accessed on 15.09.2021

[2] The WB EDIF Guarantee Facility is managed by the EIF and provides guarantees and counter-guarantees to financial intermediaries in the Western Balkans, supporting SMEs with growth potential, available at http://www.wbedif.eu/for-entrepreneurs/guarantee-facility/

[3] Marrano, M. (2021), Not alone: Financial support of the Western Balkans, Published in June 2021, available at https://www.suerf.org/policynotes/27375/not-alone-financial-support-of-the-western-balkans#f8 accessed on 15.09.2021

[4] EU Commission proposes 28 bln euro investment plan for W. Balkans, available at

The plan identifies ten investment flagship initiatives in key areas for economic development. Three out of 10 flagship projects focus on improving transport infrastructure. The remaining seven flagship initiatives are focused on energy connectivity, green and digital transformation, private sector competitiveness and support to health, education and social protection, including job opportunities for young people.[1] Four flagship initiatives include Macedonia as a direct beneficiary. Flagship 1 "Connecting East to West" is focused on transport and refers to the east to west transport infrastructure to be completed or advanced by 2024. N. Macedonia is mentioned here with regards to the Rail Corridor VIII between Skopje and the Bulgarian border. Under flagship 3 on "Renewable energy", it is stated that "wind park and solar power plant investments in N. Macedonia will be substantially advanced and serve as an example for future proof investments making use of the renewable energy potential of the region."[2] Under Flagship 5- transition from coal, three projects are mentioned: "The N. Macedonia – Kosovo Gas Interconnection, the N. Macedonia – Greece interconnector and the N. Macedonia – Serbia Gas Interconnection." In the environment sector, the Commission foresees flagship initiative 7 focused on "Waste and Waste Management". Here, several projects are planned including: Construction of wastewater treatment plants in Skopje and Pristina, which will have a "high

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https://seenews.com/news/eu-commission-proposes-28-bln-euro-investment-plan-for-w-balkans-746301 accessed on 15.09.2021

[1] EC Press Release, "Western Balkans: An Economic and Investment Plan to support the economic recovery and convergence", available at

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[2] Economic Investment Plan for the Western Balkans, available at

https://www.wbif.eu/storage/app/media/Library/12.Meetings/2.%20Project%20Financiers%20Group/30thPFG/WBIF_30th_PFG_EIP.pdf accessed on 15.09.2021 transboundary impact and improve the living conditions of the population", as well as the establishment of regional waste management systems in N. Macedonia (as well as Albania, Montenegro, Serbia), going hand-in-hand with the closure of non-compliant landfills. Several of the flagship initiatives do not include country-specific projects but are aimed at benefiting the region as whole. These include: Flagship 6 "Renovation Wave" aimed renovating public and private buildings to meet minimal energy performance; Flagship 8 "Digital Infrastructure" focused on the development and roll-out of national broadband infrastructure and the setting up data centres; Flagship 9 "Investing in the competitiveness of the private sector" aims to increase the financial support for the private sector and the assistance for sustainable transformation of agri-food systems and rural development; Flagship 10 "Youth Guarantee" is a scheme looking to ensure that all young people receive a good quality offer of employment, continued education, apprenticeship or traineeship within a period of four months of becoming unemployed or leaving formal education.[1]

The Government of N. Macedonia has already announced several actions within the framework of the Economic and Investment Plan. "Being guided by the EU Economic and Investment Plan, we have revised the single list of projects by prioritizing the major infrastructure projects as the most important for the country's growth" - Minister of Finance, Fatmir Besimi stated following a meeting with the EU Commissioner for Neighbourhood Policy and Enlargement Negotiations, Olivér Várhelyi. Moreover, Besimi added that "under the Economic and Investment Plan, the country would apply for technical assistance and grants for infrastructure projects."[2] Finally, he informed that efforts are being made for submitting application

[1] Ibid

[2] Ministry of Finance Press Release, published on 25.02.2021, available at https://finance.gov.mk/2021/02/25/besimi-varhelyi-economic-and-investment-plan-of-the-western-balkans-to-transform-the-region-and-provide-for-accelerated-economic-growth/?lang=en accessed on 15.09.2021

for investment grant aimed at co-financing the railway section Kriva Palanka – Deve Bair, thus providing funds for financing the eastern part of Railway Corridor VIII, and application for the respective investment grant will also be submitted, being aimed at co-financing the Waste Water Treatment Station in Skopje.[1]

As the EU Recovery and Resilience Facility is reserved for member states, N. Macedonia has not been able to utilize its funds. Nonetheless, a combined total of 5,5% of the country's GDP has been available for emergency needs from the EU, IMF and the World Bank. These figures are similar to funds available to EU members. However, the country has had fewer funds available for medium-term recovery compared to most EU-CEE countries. The most important mechanism for this type of recovery will be the Economic and Investment Plan. It is estimated that N. Macedonia will benefit between 7% to 18% of GDP through this facility. However, it remains to be seen what types of projects will be funded through this plan and the extent by which they will be successful at spurring the long-term economic recovery of the country.

[1] Ibid

Polish Reconstruction Plan As A Chance for Green Energy Transformation

Konrad Rajca

Summary

Poland's National Reconstruction Plan (NRP) containing proposals for the disbursement of funds from the EU's Reconstruction Fund, from which Poland will have about 58 billion Euros at its disposal. Most of these funds will be spent on investments related to the development of green energy, energy transition and projects supporting the development of ecological infrastructure. Poland, however, is still waiting, as one of the last countries of the European Union, for the approval of its spending plan, despite the fact that the deadline for this has passed. Politicians from Brussels point out directly that the cause of the delay of the European Commission is, inter alia, the questioning of the primacy of EU law in Poland by the Polish authorities, as well as a Commission's critical assessment of changes in the Polish judiciary.

Introduction

Poland's National Recovery Plan is a nearly 500-page document outlining the spending of some €58 billion allocated to Poland under the EU's Reconstruction Fund to be carried out until August 2026. It consists of 23.9 billion Euros in grants and 34.2 billion Euros in loans.

Who should benefit from NRP?

According to the NRP, it groups resources from the Reconstruction Fund into objectives from five areas: Resilience and Competitiveness of the Economy, Digital Transformation, Green Energy and Reduction of Energy

Intensity, Green Smart Mobility and Efficiency, Accessibility and Quality of the Health System. **The amount of funding for each area:** Green energy and reduction of energy intensity - **39.8%** of the planned spending under the NRP, Green, intelligent mobility - **20.9%**, Economic resilience and competitiveness - **13.1%**, Efficiency, accessibility and quality of healthcare system - **12.6%** and Digital transformation - **13.6%.**

As stated in the NRP, the funds will be used, among others, by "ordinary Poles" through the introduction of support programs for the replacement of heat sources and increasing the energy efficiency of buildings, as well as providing universal access to the Internet. Another group of beneficiaries are to be entrepreneurs and enterprises, who will receive funds for diversification of their activity profile and restoration of investments, including in sectors most affected by the pandemic (e.g. tourism, culture, catering and trade), as well as for new investments for development of innovation potential, electromobility, implementation of green technologies and products and development of applications and services in the field of digitalization.

Money is also to flow to local governments, e.g. for investments in the expansion of infrastructure and means of transport, ensuring a clean environment and new investment opportunities. Green transformation of cities (including small and medium-sized ones) and their functional areas, digital school infrastructure or zero-emission bus fleets are also to be financed. The financial injection will also support public institutions providing basic social services. The money will also go to entities outside the public administration system (e.g. associations, NGOs).

Green energy and new housing

Poland - moving away from coal - intends to take care of clean air and allocate additional funds for green energy and reducing energy intensity of the economy. One of the measures included in the NRP is to be the replacement of heat sources in residential buildings. The EU funds will be used for the following investments: replacement of inefficient sources of heating and hot water preparation, thermo-modernization of residential buildings, installation of renewable energy sources (including photovoltaic panels and solar collectors). One of the other objectives of the NRP is to improve conditions for the development of hydrogen technologies and other decarbonized gases. This component also includes housing issues. "In 2022-2026, financing will be secured for the creation of approximately 71,700 housing units. The total investment will be 4.7 billion euros. The total value of funding will be 2.2 billion Euros, half of which from the state budget and the other half from the NRP funds" - it was written.

The "Green, intelligent mobility" area includes investments in zero- and low-emission collective transport. "Support will be provided for activities in the area of purchasing modern approx. 110 rail (streetcar) rolling stock. Support will be given primarily to areas where clean transport zones have been or are planned to be introduced" - we read. Moreover, the funds will be allocated to regional passenger rolling stock. This is to contribute to the increase of transport attractiveness by increasing the accessibility and comfort of travel. As it was explained, the regional carriers are to be supported with EUR 500 million under the loan mechanism. The government also wants to change the regulations for clean transport zones. They are to be obligatory in cities with population of more than 100 thousand, where harmful substances are exceeded.

Investments in broadband internet, e-government and health care

Under component "Digital Transformation” investments are foreseen to ensure access to ultra-fast Internet in areas of current white spots. It was pointed out that still over 35 percent of Polish households do not have access to broadband infrastructure enabling Internet access services of at least 100 Mbps. Investments in ultra-high speed and capacity broadband networks, improving their performance and accessibility to distribution points in multi-family buildings, homes and places of public and business services were therefore announced. "These will contribute to universal coverage of advanced wireless communications, including 5G networks, management and monitoring systems," it stressed. In addition, funds are to flow into IT solutions that improve the functioning of the administration and various sectors of the economy. The need to increase cyber security of information systems and strengthen data processing infrastructure was also pointed out.

The plan envisages improving the efficiency of the health care system, its accessibility and health care services. This component includes investments related to the modernization and retrofitting of teaching facilities in connection with the increase in enrollment limits for medical studies. The objective is to increase the number of medical personnel, e.g. nurses and physicians. It is planned to establish a Research and Analysis Center in Warsaw financed from public sources.

The reform of the retirement system, reduction of bureaucracy, permanent remote work

The reforms included in the NAP include, among others, making the forms of employment more flexible. This includes, for example, the introduction of regulations concerning permanent remote work into the Labour Code. The National Reconstruction Plan also includes measures that do not require additional investment. The government also promises to "ensure the adequacy of future retirement benefits and the sustainability of the pension system by taking measures to increase the effective retirement age and by reforming the preferential retirement schemes." Another item on the list is the implementation of planning and development reform. The government also announces "further reductions in regulatory and administrative burdens."

Local governments critical

The experts draw particular attention to the so-called Monitoring Committee that is to "monitor the implementation of reforms and investments included in the NRP" and the need for independent representatives of self-governments, entrepreneurs and NGOs to be represented in it, which is to guarantee the transparency of spending.

The main reason for criticism of the National Reconstruction Plan by many local government circles is the fact that a large part of the support is to be drawn from the loan part of the EU Reconstruction Fund, so these will not be non-refundable subsidies, unlike the funds which will be at the disposal of the government. Representatives of local authorities are also very anxious about whether money from the Reconstruction Fund will be distributed fairly. This is why local government officials unanimously demand that the NRP should include solutions which would eliminate the possibility of the government manually controlling the distribution of EU support.

The European Commission is delaying the approval of the Polish National Reconstruction Plan

Poland, however, is still waiting, as one of the last countries of the European Union, for the approval of its spending plan, despite the fact that the deadline for this has passed. Politicians from Brussels point out directly that the cause of the delay of the European Commission is, inter alia, the questioning by the Polish authorities of the primacy of EU law in Poland, as well as the critical assessment of the Commission of changes in the Polish judiciary. The Commission's doubts concern the reform of the Polish judicial system, which, in its opinion, infringes the independence of judges in Poland.

Valdis Dombrovskis, vice-president of the European Commission, quoted by the Polish daily "Rzeczpospolita", spoke on this matter. - We are in close contact with the Polish authorities and they know very well what else needs to be done to complete our assessment. And we are actually asking about the primacy of EU law and the potential consequences of the judgments of the Constitutional Tribunal for the Polish KPO - said Dombrovskis.

Moreover, in September, the European Commission asked the Court of Justice of the European Union (CJEU) to impose fines on Poland in order to ensure the implementation of the Court's July decision to cease the operation of the Disciplinary Chamber of the Polish Supreme Court. According to the Commission, Poland does not respect the judgment of the Tribunal. European Commission spokesman Eric Mamer said, at a press conference, that one of the elements of the assessment of the Polish national reconstruction plan is "the independence of the judiciary".

However, according to the Polish deputy minister of funds and regional policy, Waldemar Buda, the Polish National Reconstruction Plan must be approved. In his opinion, it is not possible not to transfer KPO funds to any member state and Poland will receive funds from the National Reconstruction Plan this year.

Summary

Poland's National Recovery Plan is a tremendous opportunity to make significant investments in the Polish economy, especially in energy transformation and infrastructure. It is also a chance to support companies affected by the coronavirus pandemic. The scale of benefits for the Polish economy will depend on: the dialogue with European Commission, the final version of the National Reconstruction Plan after acceptance by the Commission, the laws creating the "Polish Order" which will implement the assumptions of the NRP, and on the effectiveness and efficiency of the use of funds from the EU Reconstruction Fund.

National Recovery and Resilience Plan in Romania

Oana Popovici

Summary

The list of investment projects on Romania's National Recovery and Resilience Plan (NRRP) is built on six major pillars, targeting development in the energy, transport, public administration fields, improvements in health, tourism and culture sectors and having a large component of digital transformation. A series of important reforms are also envisaged, the most significant ones being that of pensions and fiscal policy. The Plan was not yet approved by the European Commission (EC), but despite the political crisis in Romania, it is envisaged to be endorsed by the end of September. The economic stimulus packages within the EU Recovery Fund would bring an additional boost to Romania's GDP of 2.9% by 2026, according to the Erste Group forecast.

Romania has submitted, on May 31st, the plan of investments and spending designed to help Member States recover from the pandemic through the EU Next Generation Fund. Romania requests EUR 14.3 billion in grants and EUR 15 billion in loans, therefore a total of EUR 29.3 billion, meaning all the loans from the resilience mechanism. The general objective of Romania's NRRP is the development through essential programs and projects that support resilience, improve the level of preparedness for crisis situations, and the adaptability and growth potential, through major reforms and key investments with funds from the Recovery Mechanism and Resilience. Romania's NRRP is structured on 15 components covering 6 pillars: Green transition, Digital transformation, Smart, sustainable and inclusive growth, Social and territorial cohesion, Health, as well as economic, social and institutional resilience, and Policies for the new generation.

The first pillar, Green transition, includes reforms and investments in green technologies and capacities, such as biodiversity, energy efficiency, building renovation and the circular economy, while contributing to the Union's climate goals, promoting sustainable growth, creating jobs and maintaining energy security. There are six components here, each of them with its own series of reforms: water management system, reforestation and protection of biodiversity, waste management, sustainable transport, funds for the renovation of public, residential and heritage buildings, energy.

The second pillar is focused on digital transformation and aims at interventions that contribute to the development of specific digital skills for civil servants in particular and of the workforce in general. One of the major reforms is the development and implementation of a unitary framework for defining the architecture of a government cloud system, the main services delivered by it, its infrastructure and governance components, including the design, implementation and operation of this type of system. The aim is to allow the interconnection of digital systems from public administration through a standardized approach and to deliver high quality digital services to citizens, companies and other public authorities.

The reforms and investments under the third pillar, Smart, sustainable and inclusive growth, are aimed at strengthening growth potential and enabling a sustainable recovery. They are also intended to promote entrepreneurship, the social economy, the development of sustainable infrastructure and transport, and to mitigate the effect of the crisis caused by COVID-19 on the economy. Romania's main challenges in a broad macroeconomic context are related to the tax administration system, especially its ability to manage the relationship with taxpayers; the pension system, which is closely linked to the issue of low budgetary resources and scarce labour; the relationship with the business environment and the need to increase the efficiency of the support that can come from public resources and European funds. Therefore, the two components under this pillar target, on one hand, fiscal reforms and pension reform and, on the other hand, providing support for the private sector, research, development and innovation.

The fourth pillar contributes to the fight against poverty and unemployment. Romania confronts major problems in terms of local development, since following the pandemic, local administrative units saw a significant decrease in their revenues. This situation leads to a major reduction in investment in areas such as education, health and local infrastructure. The reforms under this pillar target the construction of social housing, improvement in local transportation, development of green transportation. In addition, special measures were designed for enhancing tourism and the digital transition of the cultural and creative sectors.

The fifth pillar is focused on improving the health system, in what concerns raising the standards of care in hospital units, a better management of public health funds and the reform of health management and human resources in this domain. Moreover, another set of measures is dedicated to fighting against poverty, by creating a new legal framework to provide appropriate solutions to support families with children living in poverty, while providing more chances for employment or reforming the protection system for adults with disabilities. In this context, a significant reform of the system of recruitment and promotion of civil servants is also envisaged. In addition, the reform of state-owned companies will also be enforced, having a strategic importance.

The last pillar deals with the education system in Romania, which faces many difficulties related to quality, equity and infrastructure. Under the name „Policies for the new generation", the reforms focused on education aim to: develop of a system of early education services for children from birth to 6 years that ensures high rates of access and participation, reform the compulsory education system by increasing the autonomy of educational units to prevent and reduce school dropout, establish a complete professional route and adopt the legislative framework for the digitalization of education.

The final draft of the Plan is based on several major reforms, the most important ones being those of the *pensions system*, which aims to provide an adequate level of revenues for those on low incomes and ensure the sustainability of the pension system in the medium and long term; *the fiscal policy reform*, targeting measures to increase budget revenues from taxes, optimize spending and sustainability of the fiscal framework; the revision of the legislative framework to improve corporate governance, effective monitoring and performance-focused control in *state-owned companies*; the *remuneration in public administration*, in order to avoid possible sudden increases in salary expenditures; the *public administration reform* that will build a new system for access to public office and an improved promotion system, including for management positions. In *Justice*, changing several laws for strengthening the anti-corruption framework is envisaged. In addition, *renewable energy* is enhanced by promoting the phasing out of coal from the energy mix, while supporting the production of hydrogen and batteries. The creation and operationalization of a *National Development Bank* is also on the list of the major projects.

However, although several countries in the EU have seen their plan approved, it was not the case yet for Romania. The EU gives priority to the post-pandemic green economic recovery, requiring countries to allocate at least 37% of spending to fight climate change. Although Romania's program includes environmental issues, such as plans to improve transportation sustainability and building renovations, some have criticized them as they do not go far enough in terms of investing in renewable energy sources. Therefore, Romania has requested an extension of the evaluation period. Other officials also invoked additional information required by the EC experts to explain this postponement, other accused the fact that some projects missed the needed feasibility studies. In addition, there were negotiation on several topics that were considered essential for Romania, such as transport and gas infrastructure or turism and culture, on the background of high reticence from the EC in supporting investments in these areas.

The final administrative steps are to be completed by 16 September, but no further interventions or postponements can be made on the current form of the document from European officials. The only delay may be caused by possible changes required by Romania's representatives, more precisely, if the Romanian politicians will consider that they have something to add or modify. The actual political crisis in Romania, which lead to the dismissal of the Minister of European Funds and of other ministers, raised concerns that such changes will be involved or that the schedule for the completion of NRRP legal documents will not be respected. However, it is not the case. Sources from the Ministry of European Funds indicate that the NRRP approval will be finalized by the end of this month, most likely before the visit of the President of the European Commission, Ursula von der Leyen, to Bucharest. The visit is scheduled for the 24th of September and was used in all EU countries on the occasion of the adoption of the NRRP. After the Plan is adopted by the European Council in October, a first tranche of EUR 1.82 billion is expected.

The funds allocated for Romania are seen as a real opportunity for development. Representatives from the Ministry of European Funds sees it as an additional programming period to the one for 2021-2027, with large sums allocated to digitalization and digital transformation. The economic stimulus packages within the EU Recovery Fund would bring an additional boost to Romania's GDP of 2.9% by 2026, the most consistent in Central and Eastern Europe, according to the Erste Group forecast.

The Serbian National Recovery and Resilience Plan supported by the EU

Ivona Ladjevac

Summary

As other countries in the world, apart their inner weakness, Serbian economy is confronted with the challenge brought by pandemic of the COVID-19. Given to the seriousness of the disease, the most of the available funds was reallocated in order to secure functioning of the medical system and to obtain necessary medical supply in order to preserve lives. Coping with this challenge would face even wealthier countries with the lack of finances in case that there were no other resources. In this this particular case, that resource is the European Union.

Introductory notes or the basement of the EU support to the Republic of Serbia

After the change of government in Belgrade on October 5, 2000, membership in the European Union became the leading goal of the new political elites. Then, Serbia, as a member of the Federal Republic of Yugoslavia, became part of the Stabilization and Association Process (November 2000). During the Thessaloniki European Council in 2003, Serbia – along with 5 other Western Balkans countries – was identified as a potential candidate for EU membership.

The Serbia National Assembly in October 2004 adopted a Resolution on Accession to the European Union[1]. The biggest breakthrough on the

[1] Резолуција о приступању Европској унији, Народна скупштина Републике Србије, 13/10/2004, https://www.pravno-informacioni-sistem.rs/SlGlasnikPortal/eli/rep/sgrs/skupstina/rezolucija/2004/112/1, accessed on 30/09/2021.

country's path to the European Union was made in Luxembourg on April 29, 2008, at the meeting of the General Affairs and External Relations Council of the EU, by signing the Stabilization and Association Agreement and the Interim Trade Agreement.[1]

In line with the decision of the European Council in June 2013 to open accession negotiations with Serbia, the Council adopted in December 2013 the negotiating framework and agreed to hold the 1st Intergovernmental Conference with Serbia in January 2014. Held on 21 January 2014, the 1st Intergovernmental Conference took place, signaling the formal start of Serbia's accession negotiations.

With more than 3 billion EUR in non-refundable aid over the past two decades, the European Union became the biggest donor in Serbia and the country's number one partner in supporting development and ongoing reforms.

First programs of support were realized through Community Assistance for Reconstruction, Development and Stabilisation Programme (CARDS). In 2006, the CARDS Programme was replaced by the Instrument for Pre-accession (IPA) which ran until 2013. The IPA was followed by the IPA II which brought Serbia 1.5 billion EUR in grants in the period from 2014-2020 (some 200 million EUR per year). The IPA II Programme is focused on the key areas which should facilitate Serbia's preparation for its membership in the European Union.

[1] In February 2010, the Interim Agreement on Trade and trade related matters entered into force and in June the unfreezing of the Stabilisation and Association Agreement (SAA) was decided, putting Serbia solidly back on the path towards EU Membership. The SAA between the EU and Serbia entered into force in September 2013. Dragan Đukanović, Ivona Lađevac, „Prioriteti spoljnopolitičke strategije Republike Srbije", Međunarodni problemi, godina LXI, broj 3, 2009, str. 343-364.

Serbian economy and the EU's ongoing programme of support

With a relatively low economic contraction in 2020, Serbia is among the least affected by the COVID-19 pandemic in emerging Europe. According to the National Bank of Serbia, Serbia was among the countries that were less impacted by the pandemic due to the achieved macroeconomic and financial stability, growth momentum, fiscal space created in previous years, large and timely monetary and fiscal package, and structure of the economy.[1] Such circumstances allowed Serbia to prepare and conduct "Programme of Economic Measures to Mitigate the Negative Effects Caused by the COVID-19 Pandemic and Support the Serbian Economy in 2020 and 2021".[2]

Implemented measures were delivered in five groups – tax policy, direct assistance to the private sector, measures to preserve liquidity, other measures and additional package. Their effects were foreseen to foster positive trends in the area of the labor market, macroeconomic and fiscal stability, overall growth and investment activity.

Besides all these, Serbia still needs support in order to achieve long term stability which will boost its development and take it faster to the European Union membership. In that respect, Serbia continues to work close with the EU and each year signs the IPA financial agreement for projects whose implementation is planned in the coming period.

In order to help recovery of the Serbian economy, but also to help in dealing with the environmental issues, the EU is focusing on mid and long term recovery. As expected, this focus is connected with the acceleration of

[1] "Macroeconomic Developments in Serbia", National Bank of Serbia, https://nbs.rs/export/sites/NBS_site/documents-eng/finansijska-stabilnost/presentation_invest.pdf, accessed on 30/09/2021.
[2] Ibidem.

Serbian accession process. The latest programme of support, signed in 2021, is worth over 86 million euros.[1]

This package is divided into three lines.

The first is *the competitiveness and economy* and under this line 17 million EUR is envisaged to be used in order to support competitiveness of small and medium sized enterprises, particularly in the tourism sector. If one knows that small and medium sized enterprises are the backbone of each economy, there is no need to explain this further. There is no surprise when comes to the tourism, due to the pandemic this sector was among the most affected. It is expected that this support will allow for improved economic growth in targeted municipalities; improved social infrastructure and social cohesion and upgraded tourism/cultural facilities and stakeholder's skills as part of the Tourism Development Strategy of the Republic of Serbia implementation.

The second line is *the environment*. Under the environment, climate action and energy block, there are two components. The first is a large EUR 45.55 million programme for the environmental sector. An innovative facility is dedicated to the implementation of pilot measures for environmental policy and climate change in alignment with the Green Agenda Funds will further support capacity building for Novi Sad Municipality in solid waste management. It will also provide water monitoring units for the water districts of the Danube, Sava and Morava rivers, as well as improved air quality monitoring across the territory of Serbia. Waste water treatment facilities will be built for the cities of Loznica, Cacak and Sokobanja.

The results expected include unlocking the potential for more green investments under Green Agenda, the construction and operation of 3

[1] Recovery and Resilience Facility, European Commission, Brussels, https://ec.europa.eu/info/business-economy-euro/recovery-coronavirus/recovery-and-resilience-facility_en, accessed on 30/09/2021.

modern wastewater treatment plants to serve around 160,000 population equivalent. In the targeted cities, wastewater will be fully treated, as compared to current situation where the wastewater is discharged directly without any treatment into rivers.

A second part of that block is the support to the Regional Energy Efficiency Programme for a dedicated window for financing projects in Serbia, in the value of EUR 9 million. The programme will support projects leading to buildings retrofitted in line with the energy performance standards set out in the Energy Performance of Buildings Directive, leading in the future to CO_2 reductions.

This entire line will be delivered to Serbia in a form of grant which prove that the environmental issues are among the top priorities of the EU.

Good governance is the third line. It is worth 14 million EUR which will be dedicated to support the reforms on governance, acquis reforms and Serbia's participation to EU programmes.

The EU accession process of Serbia implies ambitious and comprehensive public administration reform (PAR). Bearing in mind that since 2014 PAR is defined in the main strategic documents of the European Commission as one of the three reform pillars in the EU enlargement policy, focus on this horisontal reform – which represents substantially a prerequisite for achieving success in all other sectoral policies – has significantly grown.

The project "Partnership for Public Administration Reform and Public Services in Serbia – PARtnerships" aims to contribute to the creation and implementation of policies in the area of public administration reform ensuring more participatory and citizen-centric design and improving accountability and responsiveness of the Serbian government for the quality of services it delivers. Working both at the level of policy development and community level, the project will focus on improving quality and transparency in designing and delivering the most requested types of public services in the area of health, education and internal affairs.

Public Administration Reform Strategy 2021-2030 and its accompanying Action Plan was made with the assistance of the European Union to experts from two projects in support of public administration reforms in Serbia funded by the EU - the project “EU4PAR” and the project “Visibility and Communication PAR”. The projects started in 2018 and will last until 2023. Aforementioned sum will be allocated to activities that will lead towards the fulfillment of the goal of achieving the good governance.

Conclusion

Notwithstanding Serbian relatively fair response towards the COVID-19 crisis, set of national recovery plan and enhancing country’s resilience would be almost impossible to achieve without international programs. Given to the fact that Serbia is dedicated to its foreign policy goal – to become the European Union member state – programs provided by the EU is among the most important. This year’s program is worth above 86 million EUR and covers three very important aspects: the environment, competitiveness and economy and good governance.

The Slovak Recovery and Resilience Plan

Martin Grešš

Summary

The Slovak Recovery and Resilience Plan focuses on five main areas: 1. green economy (EUR 2 301 million); 2. education (EUR 892 million); 3. science, research and innovation (EUR 739 million); 4. health (EUR 1 533 million); 5. efficient public administration (EUR 1 110 million). It is divided into 18 parts (so-called components) including reforms and investments totaling EUR 6.3 billion. It emphasizes sustainability, a healthy environment, inclusion in education, modern healthcare, improving the business environment and sound public finances. The plan's priorities are based on the recommendations from the European Commission, the Government's Program Statement and the National Reform Program. They emerged from several months of discussions at both expert and political levels and reflect both the political consensus and the European Commission's criteria that Slovakia must meet.

Introduction

The Recovery and Resilience Plan sets out a comprehensive package of reforms and investments to be implemented by 2026, supported by the Recovery and Resilience Facility of the European Union. The plan consists of investments and reforms that will address the challenges identified in the context of the European Semester, in particular in the European Commission's recommendations to Slovakia. The plan also includes measures to address the challenges Slovakia faces in the context of green and digital transformation. Its vision is based on three pillars: 1. a shift towards an innovative economy; 2. a modern, efficient and digital state; 3. people's quality of life (health care, public space, and the environment).

Recovery and Resilience Facility

This facility is a central pillar of the NextGenerationEU instrument, which the European Commission has proposed as an emergency temporary recovery instrument to help repair the immediate economic and social damage caused by the coronavirus pandemic, and to support economic recovery and build a better future for future generations of citizens of the European Union. Together with the EU's long-term budget for 2021-2027, the total amount of financial support that will be channeled to the EU member states through the EU budget is expected to reach more than EUR 1.8 trillion (EC, 2021). The Recovery and Resilience Facility will provide EUR 723.8 billion in loans and grants to support reforms and investments made by EU member states. The National Recovery and Resilience Plans are a set of concrete actions in the form of reforms and investments that each member state of the EU plans to implement by 2026.

Slovak Plan of Recovery

The development of the recovery plan had to be governed by strict conditions. In particular, the criteria were laid down in the Regulation of the European Parliament and of the Council establishing the Recovery and Resilience Facility 2021/241 of February 12th, 2021. On the one hand, the set conditions were quantitative – 37% of the allocation must be earmarked for green transformation and 20% for digital transformation. However, the criteria are also qualitative - the plan must address the specific recommendations of the European Commission, which have been submitted to Slovakia in recent years. These recommendations are reflected the priorities of the recovery plan. In addition, the whole plan must not undermine the EU's environmental objectives. The Ministry of Finance of the Slovak Republic was the coordinator in the process of preparing the

Recovery Plan (MF SR, 2021); the content of the components was prepared by the ministries concerned by the relevant parts of the plan.

The European Commission assessed the Slovak Recovery and Resilience Plan on the basis of strict criteria (Plán obnovy, 2021):

- compliance with Slovakia's Country Specific Recommendations for 2020 and 2019,
- contribution to the transition to a green economy (37% of the total allocation),
- transition to the digital economy (20% of the total allocation),
- contribution to increasing GDP growth potential,
- coherence of the plan,
- long-term lasting effect,
- plausible and defensible pricing,
- consistent project management,
- credible implementation system.

At its meeting on June 16th, 2021, the Slovak government approved the Law on the Recovery and Resilience Support Mechanism, a fund that will provide resources for the individual measures summarized in the Recovery and Resilience Plan (Government, 2021). The law regulates the financial relations in the implementation of the Recovery and Resilience Support Mechanism, including the provision and use of the Mechanism's funds, the rights and obligations of persons in connection with the implementation of the recovery plan and liability for breaches of the terms and conditions in the provision of the Mechanism's funds, the powers of public authorities in the implementation of the recovery plan and certain other relations in the implementation of the Recovery Plan. The Law also defines the tasks, competences and responsibilities of the National Implementation and Coordination Authority, which will be responsible to the European Commission for the implementation of the recovery plan. Following week, since the recovery plan was already sent to the European Commission for the evaluation, European Commission President Ursula von der Leyen handed over the official assessment of the Slovak Recovery and Resilience Plan to Prime Minister Eduard Heger. She appreciated that Slovakia was among the first to hand over the recovery plan, and also highlighted the excellent cooperation. She considered the plan to be ambitious and of high quality, meeting the criteria set by European Commission. After successfully assessed by the European Commission, on July 13^{th}, 2021, the Recovery and Resilience Plan of the Slovak Republic received the official green light from other EU member states at the Economic and Financial Affairs Council, thus completing the approval process. Slovakia will be among the first EU member states to receive funding to implement key reforms and investments that are essential for a sustainable and competitive future and for a rapid recovery from the crisis.

Priorities

The priorities of the recovery plan consider the key issues of the Slovak economy and the most important societal challenges. They have been selected on the basis of a comparison of Slovakia's performance against the EU average as well as common European priorities. A green economy will promote environmental sustainability, quality of life and contribute to the development of green innovation as one of the sources of economic growth. Efficient public administration and digitalization are important factors affecting the business environment and quality of life. Education, science, research and innovation and health are among the areas where Slovakia is lagging behind most and where the European Commission has repeatedly recommended stepping up reform efforts.

The European Commission has positively assessed Slovakia's recovery plan, noting that 64% of the total EUR 6.3 billion package Slovakia is expected to receive has been earmarked for the key components – green and digital transformation. 43% of the funds are earmarked for green transformation, with the European Commission citing this component as a top priority with following components included in the Slovak recovery plan (EC, 2021): 1. Climate adaptation: increasing the resilience of forests to the impacts of climate change, revitalizing watercourses and supporting biodiversity; 2. Energy efficiency in family houses: financing a large-scale renovation wave to improve energy and green performance of at least 30 thousand residential units; 3. Low-carbon transport: supporting the roll-out of charging stations for alternative fuels and the modernization of railways and new cycling infrastructure; 4. Decarbonization of industry: promoting energy efficiency and investing in innovative decarbonization technologies in industry. Digital transformation accounts for 21% of the funding, with the following priorities in particular being positively assessed by the European Commission (EC, 2021): 1. Better services for citizens and businesses: introducing user-friendly e-government solutions for citizens; 2. Digital infrastructure in schools: financing digital equipment, including for children from socially disadvantaged backgrounds, to enhance digital skills and create a new learning ecosystem; 3. Digitalizing businesses: building a supercomputer and a network of digital hubs to assist businesses with digitalizing their processes; providing training for digital skills. In addition to the previous two key components, the European Commission also focused on the priorities of strengthening the economic and social areas, highlighting in particular (EC, 2021): 1. Reform of the pension system: linking the retirement age to life expectancy to ensure its financial sustainability and adequate pensions for all generations; 2. Reorganizing the judicial system: strengthening the efficiency and independence of the justice system and investing in digital infrastructure; 3. Improving the business environment: lowering regulatory burden, accelerating public procurement and reforming the insolvency framework to reduce the time and cost for running a business; 4. New hospitals network: Improving quality of medical services and renovating existing hospitals and constructing new ones while ensuring fair geographical distribution and accessibility; 5. Investing in childcare: Promoting access to childcare services by investing in pre-school facilities; 6. Enhancing community-based social care capacities: investing in long-term care for those in need through focusing more on community-based solutions.

Conclusion

The priorities of the Slovak recovery plan are the long-neglected areas of health and education, as well as the environment, efficient public administration and digitalization. The aim of the recovery plan was to set clear priorities to make Slovakia a modern, competitive, green and healthy country. The Recovery Plan is a roadmap for achieving this goal. The European Commission evaluated the Slovak Recovery and Resilience Plan very positively. According to the assessment, the plan represents well-targeted policy measures important for smart, sustainable and inclusive growth. At the same time, it is a consistent package of reforms and investments that are mutually reinforcing thanks to a strong reform momentum.

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

Tina Čok

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.