

NextGenerationEU: Taking Stock

Kristijan Kotarski • Philip Wetzel • Ted Urho • Dániel Mikecz
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NextGenerationEU and the Rule of Law

MEP Moritz Korner

With its social and economic consequences, the COVID-19 crisis has posed an enormous challenge for all Member States of the European Union (EU). Accordingly, at the end of 2020, the EU launched NextGenerationEU, an extensive development tool to support rapid recovery.

The most important instrument of the NextGenerationEU is the Recovery and Resilience Facility (RRF). Under its umbrella, more than EUR 720 billion will be made available to Member States for investments in the form of loans and grants. These funds are intended not only to help Member States to recover from the crisis, but also to make them more resilient in the future. The funds will support EU citizens and businesses, and contribute to Europe's sustainable and digital transformation.

The recovery fund is a historic step for the EU. For the first time, the Commission can take on debt on a large scale and distribute the money among individual Member States. However, the RRF will face a serious acceptance problem if its funds vanish into corrupt structures. A 2021 survey published by the European Parliament shows that the European public is clearly in favour of transparency and effective control of EU funds that are disbursed under the NextGenerationEU programme. A majority of four out of five citizens believe that 'the EU should only provide funds to member states if their government implements the rule of law and democratic principles'.

This is a much-discussed issue – especially with Poland and Hungary, both of which would benefit massively from the grants included in the RRF. Poland is entitled to grants amounting to almost EUR 24 billion, and Hungary to a little more than EUR 7 billion. However, since 2021, the European Commission has withheld the influx of money for these states owing to the ongoing dispute over the status of the rule of law in the two countries.

This move was possible because the NextGenerationEU contains an article relating to the protection of the 'financial interests of the Union, which was independently introduced at the same time as the budgetary rule of law mechanism. The article ensures that the EU funds are used appropriately within the recovery plan. In order to guarantee this is,

indeed, the case, Member States have to submit detailed investment and reform plans if they want to receive money from funding pools. If the Commission suspects what are termed 'serious irregularities' such as fraud, corruption, or conflicts of interest in the use of funds, it can block disbursement.

In the case of Hungary and Poland, the Commission considers that necessary conditions for withholding payments have been met. In the Hungarian investment plan, it perceives significant deficiencies in the control of expenditure. Corruption cases surrounding Hungarian President Viktor Orbán have repeatedly become public in the past few years, and for the European authorities, it is important to prevent funds from ending up in the pockets of Orbán's confidants.

Payments to Poland have also been withheld, this decision being based on the dispute over a controversial disciplinary chamber for judges, which has been ongoing since 2016. In order to receive the recovery funds, the Polish government decided to introduce changes to its criticised laws. Despite considerable doubts that Poland would adhere in future to appropriate standards in relation to the rule of law, the Commission conceded at the end of May, and eventually approved the Polish plan for disbursements, making payments conditional on achieving milestones concerning the reform of the judicial system.

Since the recovery funds have been withheld, Hungary and Poland have taken other legislative processes hostage by vetoing them, with the clear aim of exerting pressure on other Member States and the European Commission to free the money. It has, therefore, become evident that the Article 7 procedure (already initiated against Hungary and Poland) needs to be further advanced by the Council in order to put an end to this blackmail.

The European institutions must now keep their eye on the ball, ensuring that the Polish reforms are actually implemented and do not just exist on paper. With regard to Hungary, the pressure must be kept up to make it clear that the EU remains a strong community of shared values that will not give any rebates on the rule of law.



CHAPTER 1

Next Generation EU in Croatia: The Curse of Low Absorption Capacity

Kristijan Kotarski

Abstract

Croatia represents the youngest European Union (EU) Member State to be hit hard by the COVID-19 pandemic-induced recession in 2020, but it has bounced back swiftly. Notwithstanding this short-run robust performance, Croatia faces a long-run risk to its economic performance arising from a weak absorption capacity of available EU funds. This issue has been put on full display over the course of the still ongoing Multiannual Financial Framework (MFF 2014-2020). Therefore, in spite of abundant Next Generation EU (NGEU) funding – the first tranche of which was made available in the fourth quarter of 2021 – as well as the country's relatively favourable economic and political context, there is an apparent possibility that the NGEU funds will not be spent effectively. In light of this, the structure of this chapter is the following: the first section deals extensively with Croatia's political and economic context, spanning events of the last two years; the second section elucidates basic features of the Croatian National Recovery and Resilience Plan (NRRP), which is a formal requirement for tapping into NGEU funds; the third section, and the most important, details the main obstacles to an effective implementation of the NRRP, explaining the problem of low absorption capacity; the fourth section concludes, and ponders key challenges to NGEU implementation, based on our analysis of the Croatian experience.

KEYWORDS: Croatia, absorption capacity, National Recovery and Resilience Plan, NextGenerationEU, EU funds, Multiannual Financial Framework, public administration, private businesses

1. The general economic and political context in Croatia since the outbreak of the COVID-19 pandemic

Over the course of 2020, 2021, and early 2022, Croatia has remained economically and politically stable, and the economy recorded the second-highest growth rate among its EU peers in 2021.¹ Given the country's relatively young history, riddled with macroeconomic shocks and painstaking recoveries, it seems remarkable that Croatia's real gross domestic product (GDP) in 2021 was 1.5% higher than the level recorded during the last quarter of 2019.² In comparison, the average real GDP level across the whole European Union (EU) was still –0.9% below the level recorded before the pandemic struck in 2020.³ Over the same period, Croatia's public debt rose by 11.3 percentage points, which is also below the EU-27 average of 12.9%.⁴ This swift and robust recovery stems from a combination of several factors.

First, early on in the crisis, Croatia had swiftly introduced extensive furlough schemes that protected employment. Second, the country could count on the imported policy credibility that was furnished by the pending adoption of the euro in 2023, additionally reinforced by the Croatian National Bank–European Central Bank swap line established in April 2020.⁵ Third, throughout the pandemic, the Croatian authorities relied on comparatively mild epidemiological restrictions, which were conducive to ensuring robust tourism performance. Fourth, but not least, Croatia represents the biggest initial winner of NextGenerationEU (NGEU) funds in net terms: namely, the largest per capita transfer goes to the country, with just under EUR 1,300 per capita.⁶ Having in mind Croatia's impressive recovery and the NGEU's stated logic, which does not take into account spending financed through the fund before the worst of the crisis is over, observers may jump to the conclusion that

1 Eurostat (2022a), 'GDP main aggregates and employment estimates for the fourth quarter of 2021', *Euroindicators*, 8 March, <https://ec.europa.eu/eurostat/documents/2995521/14358089/2-08032022-AP-EN.pdf>.

2 I. Brkljača (2022), 'Koje zemlje EU su ekonomski najbolje prošle kroz dvije godine pandemije?', *Arhivanalitička-Ekonomska Lab*, 31 March, <https://arhivanalitika.hr/blog/koje-zemlje-eu-su-ekonomski-najbolje-prosle-kroz-dvije-godine-pandemije/>.

3 I. Brkljača (2022), 'Koje zemlje EU su ekonomski najbolje prošle kroz dvije godine pandemije?'

4 I. Brkljača (2022), 'Koje zemlje EU su ekonomski najbolje prošle kroz dvije godine pandemije?'

5 K. Kotarski (2021a), 'The Impact of COVID-19 on Croatia's Euro Adoption Strategy', *IRMO Brief*, 26 March, <https://irmo.hr/wp-content/uploads/2021/03/IRMO-Brief-3-2021.pdf>.

6 C. Fuest (2021), 'The NGEU Economic Recovery Fund fo Institute', *CESifo*, 01/2021: The EU's Big Pandemic Deal: Will It Be a Success?', <https://www.cesifo.org/en/publikationen/2021/article-journal/ngeu-economic-recovery-fund>.

the NGEU was somewhat irrelevant as a tool of counter-cyclical fiscal policy. However, such a statement would do a great disservice to the broader importance of the NGEU, which also contributed to fiscal stabilisation – mostly through its effect on expectations and lower risk premia. Hence, besides supporting long-term structural transformation, the NGEU has also done its job indirectly as a fiscal backstop.⁷

Politically, Prime Minister Andrej Plenković's government remains firmly in place, and has been spared from the effects of major societal unrest. After the parliamentary elections held in July 2020, the ruling Croatian Democratic Union (HDZ) can count on a tiny but strong majority made up of several junior coalition partners. At the same time, these minor coalition partners are not keen on rocking the boat and risking snap elections in light of their poor standing in the opinion polls. In the next two years, there are no local, presidential, national-parliamentary, or euro-parliamentary elections in sight.

Although this stability is conducive to wide-ranging reforms, it might also represent a double-edged sword over the longer horizon as it embeds policy inertia, reinforced by fragmented and feeble opposition. Among a majority of the population there is pronounced dissatisfaction with the direction in which the country is heading.⁸ Corruption and clientelism stand behind deteriorating trust and declining electoral participation. However, there are currently no political players who are able to channel this dissatisfaction and remedy the situation.⁹ According to the Standard Eurobarometer 96 conducted in the winter of 2021–2022, Croatia represents a Member State whose population has a generally positive attitude towards the EU,¹⁰ and the same may be

7 C. Fuest (2021), 'The NGEU Economic Recovery Fund for Institute'

8 K. Kotarski, W. Bartlett and Z. Petak (2022), 'Croatia Report 2021 Sustainable Governance Indicators', *Bertelsmann Stiftung* (forthcoming).

9 If snap elections for the Croatian Parliament were to happen tomorrow, HDZ would definitely emerge as a clear relative winner, but with rather narrow coalition potential. However, the parties in the opposition have equally poor chances in forming the ruling majority. No political party in the ruling coalition (HDZ + six junior partners + plus representatives of national minorities who regularly align with the majority) have any interest in provoking snap elections. Namely, some of them would not be able to pass the electoral hurdle of 5%. At the same time, the opposition parties are enfeebled within and lack popular appeal for undecided voters. Interestingly, if 'undecided voters' were a political party, that would be the second-strongest political party in Croatia. This share has almost doubled since July 2021 and has climbed to 17.6%, a good illustration of dissatisfaction with how political representation functions in the country (K. Kotarski, W. Bartlett and Z. Petak (2022).

10 European Commission (2022a), 'Standard Eurobarometer 96 - Winter 2021-2022', file:///C:/Users/Kristijan/Downloads/Standard_Eurobarometer_96_Winter_2021-2022_First_Results_EN.pdf

said of its political elite, owing to an absence of strong Eurosceptic parties. Croatians are even more optimistic with regard to the future of the EU and the NGEU.¹¹ 55% of the Croatian population assesses the potential effectiveness of the NGEU positively (11% consider it very effective and 44% effective), which is slightly higher than the EU average.¹²

This positive attitude should not be a surprise since Croatia is the biggest beneficiary of NGEU funding in per capita terms. On top of this, the country received more than EUR 13 billion through the EU's Multiannual Financial Framework (MFF) 2021–2027 in current prices.¹³ All in all, Croatia will be able to tap into more than EUR 24 billion of grants in current prices from both the EU budget and the NGEU until 2030. If necessary, it will be able to take out concessional loans to the tune of EUR 3.5 billion, also in current prices (see Table 1).

In terms of both digital and green transition as the main goals promoted by the NGEU, Croatia enjoys a relatively favourable starting point. If one looks at Croatia's ranking in the Digital Economy and Society Index (DESI), it takes 19th place among its EU peers, which stands in contrast to the fact that Croatia is the third least developed Member State, as measured by real GDP per capita.¹⁴ Moreover, the share of renewable energy amounted to 31% of total energy consumption, placing Croatia well above the EU-27 average of 21.1%, in an exceptional 7th place.¹⁵ On both counts, Croatia definitively punches above its economic weight (see Figure 1 and Figure 2).

11 European Commission (2022a), 'Standard Eurobarometer 96 - Winter 2021-2022'

12 European Commission (2022a), 'Standard Eurobarometer 96 - Winter 2021-2022'

13 K. Kotarski (2021b), 'The Effect of Long-term EU Budget 2021-2027 and Recovery Package on Croatia's Post Pandemic Economic Recovery', *EMERiCs – Korea Institute for International Economic Policy*, <https://www.emerics.org:446/issueDetail.es?brdctsNo=319953&mid=a10200000000&systemcode=07>

14 European Commission (2022b), 'The Digital Economy and Society Index (DESI)', <https://digital-strategy.ec.europa.eu/en/policies/desi>.

15 K. Kotarski and G. Radman (eds.) (2021), *Hrvatska u raljama klijentelizma: Politika, postupci i posljedice trgovanja institucionalnom moći* (Zagreb: Centar za demokraciju i pravo Miko Tripalo).

Table 1. EU funding available to Croatia (2022–2030)¹⁶

Available funding in millions of EUR per component (NGEU + MFF)	In current prices (million EUR)	In 2018 prices (million EUR)
Just Transition Fund (topped-up MFF)	187	169
European Agricultural Fund for Rural Development per Member State (NextGenerationEU)	201.7	187.4
European Agricultural Fund for Rural Development per Member State (MFF only)	2,146.9	1,911.4
European Agricultural Guarantee Fund – pre-allocations per Member State	2,610.5	2,315.1
Recovery and Resilience Facility (RFF)	6,300	5,800
Cohesion Policy allocations per Member State	9,069	8,042
REACT-EU for 2021 per Member State (topped-up MFF)	574	541
TOTAL grants	21,089.1	18,965.9
Loans from NGEU (if Croatia decides to draw upon these funds)	3,500	3,500
TOTAL available funding	24,589.1	22,465.9

¹⁶ K. Kotarski (2021b), 'The Effect of Long-term EU Budget 2021-2027 and Recovery Package on Croatia's Post Pandemic Economic Recovery'

Figure 1. Digital Economy and Society Index (DESI) 2021¹⁷

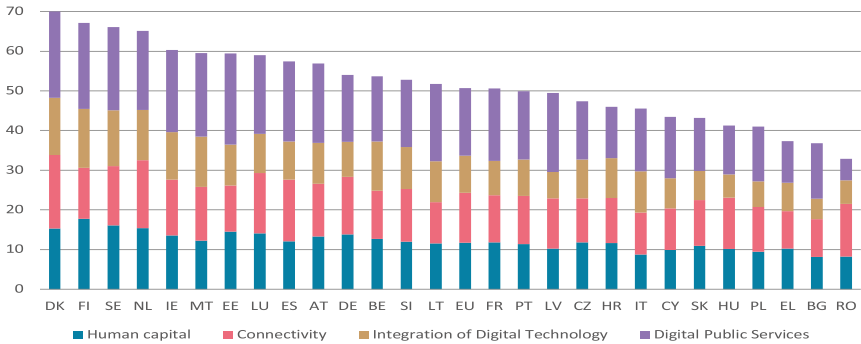
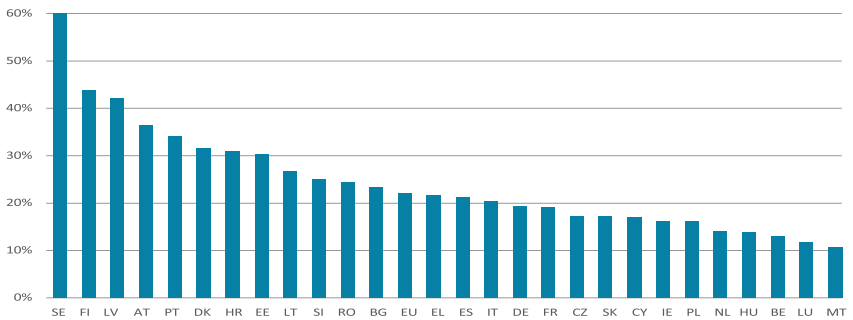


Figure 2. Share of renewables in gross energy consumption in 2020¹⁸



¹⁷ Eurostat (2022b), 'Renewable Energy Statistics', *Statistics Explained*, https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Renewable_energy_statistics

¹⁸ Eurostat (2022), 'Renewable Energy Statistics'.

Despite all these positive features, Croatia's commitment to structural reforms was unsatisfactory before the onset of the pandemic, given the sheer number of structural problems: these include aging population, weak governance, unsustainable social welfare systems, corruption, etc. This was evidenced by the low proportion of Country-Specific Recommendations (CSRs) that were implemented by successive Croatian governments.¹⁹ Against this backdrop, the NGEU contains policy reform conditionality in line with the CSRs, and offers a new opportunity to tackle the issues raised above.

In spite of not being perfect, Croatia's overall economic and political context seems quite favourable to the implementation of far-reaching structural reforms that are essential to lifting the potential growth rate, given the scale of available external financing and the favourable initial starting point. Political problems exist, but they could be theoretically papered over with abundant funds and close monitoring on behalf of the European Commission. However, this chapter points out Croatia's 'curse of low absorption capacity' that arises from weak and fragmented public administration, lack of accountability, unsatisfactory inclusion of stakeholders, and low transparency.

All of this means that there is a non-negligible risk that available funds will be spent with a prevailing focus on nominal spending targets and formal criteria, rather than focusing on the facilitation of genuine structural change in the Croatian economy and the country's governance. Even worse, certain funds might be clawed-back owing to financial corrections that tackle irregularities and cases of fraudulent spending. Unfortunately, the combined effect of these challenges threatens to significantly diminish the NGEU's drive to facilitate green and digital transition.

19 K. Kotarski (2020), 'Croatia's COVID-19 Crisis Management: From Well-Played Half-Time Towards Gradual Meltdown in the Second-Half', Hanns Seidel Stiftung, 8 December, <http://www.hanns-seidel-stiftung.com.hr/news/croatias-covid-19-crisis-management-from-well-played-half-time-towards-gradual-meltdown-in-the-second-half>

2. Basic features of the Croatian National Recovery and Resilience Plan

In mid-July 2021, the European Commission greenlighted Croatia's National Recovery and Resilience Plan (NRRP). The plan was subsequently also approved by the Council of the European Union and there were no major setbacks in this process. Croatia was among the first 16 Member States that managed to obtain official approval. The NRRP consists of 146 proposed investments and 76 reforms.²⁰ Approximately 66% of the available funding supports recovery, while 34% targets building resilience.²¹ Focusing on the plan's sectoral composition, one can notice that 54% of the funding covers the economy, 10% public administration, judiciary, and management of state assets, 15% education and research and development (R&D), 4% labour market and social protection, 5% health, and 12% the facilitation of building reconstruction and energy efficiency.²²

The NRRP's management structure rests on several bodies that are necessary to ensure coordination, but the key political responsibility rests with the Governing Board: this comprises the Prime Minister, 13 ministers, and two state secretaries. Cumulatively, the NRRP intends to support green and digital transition with 60.3% of its allocated funds, which is above the required minimum of 57%.²³ See Figure 3 for a detailed comparison with other Member States.

The Croatian NRRP aims to facilitate green transition by financing energy efficiency projects and post-earthquake reconstruction of buildings to the tune of EUR 789 million.²⁴ Furthermore, it designates EUR 728 million for sustainable mobility, comprising autonomous electric taxis, charging stations for zero-emission vehicles, and ocean-going

20 European Commission (2022c), 'Milestones and targets', https://ec.europa.eu/economy_finance/recovery-and-resilience-scoreboard/milestones_and_targets.html?lang=en.

21 European Commission (2022c), 'Milestones and targets'

22 Vlada Republike Hrvatske (2021), 'Plan oporavka i otpornosti', <https://planoporavka.gov.hr>.

23 Author's calculation based on: Z. Darvas et al. (2022), 'European Union countries' recovery and resilience plans', *Bruegel Datasets*, <https://www.bruegel.org/publications/datasets/european-union-countries-recovery-and-resilience-plans/>.

24 European Commission (2022d), 'Croatia's recovery and resilience plan', https://ec.europa.eu/info/business-economy-euro/recovery-coronavirus/recovery-and-resilience-facility/croatias-recovery-and-resilience-plan_en.

vessels.²⁵ Low-carbon energy transition envisages modernisation of energy infrastructure, investments for the production of advanced biofuels and renewable hydrogen, as well as carbon capture and storage facilities, all of which should benefit from EUR 658 million in available funding. Finally, EUR 542 million is earmarked for businesses that are capable of fostering green transition and energy efficiency.²⁶

Digital transition should be aided by EUR 283 million that is to be invested in the introduction of digital technologies related to public administration. This should, first and foremost, improve expediency in handling court cases and enable the creation of a 'one-stop shop' for all public administration's online services. An additional EUR 130 million will be invested in increasing national broadband coverage with gigabit connectivity in rural areas facilitating the expansion of the 5G network. The plan will also spend EUR 84 million on the digitalisation of higher education through investment in e-learning and digital teaching tools.²⁷

In general, the government expects that in 2025, NGEU implementation will cumulatively add 4.2% of GDP growth, compared with the baseline scenario.²⁸ This rests on the NGEU's direct and indirect effects, taking into account spill-over effects. The plan aims to 'foster economic growth and create jobs. This boost to the economy will bring up to 21.000 citizens into jobs. Croatia will benefit significantly from the Recovery and Resilience Plans of other Member States, primarily through increased exports. These spill-over effects account for 0.5 percentage points of gross domestic product in 2026'.²⁹ To take an example, Italy constitutes Croatia's second largest export market – and also happens to be the biggest beneficiary of the NGEU.

On 28 September 2021, the European Commission disbursed EUR 818 million in pre-financing to Croatia, comprising 13% of grants.³⁰ On 15

25 European Commission (2022d), 'Croatia's recovery and resilience plan'

26 European Commission (2022d), 'Croatia's recovery and resilience plan'

27 European Commission (2022d), 'Croatia's recovery and resilience plan'

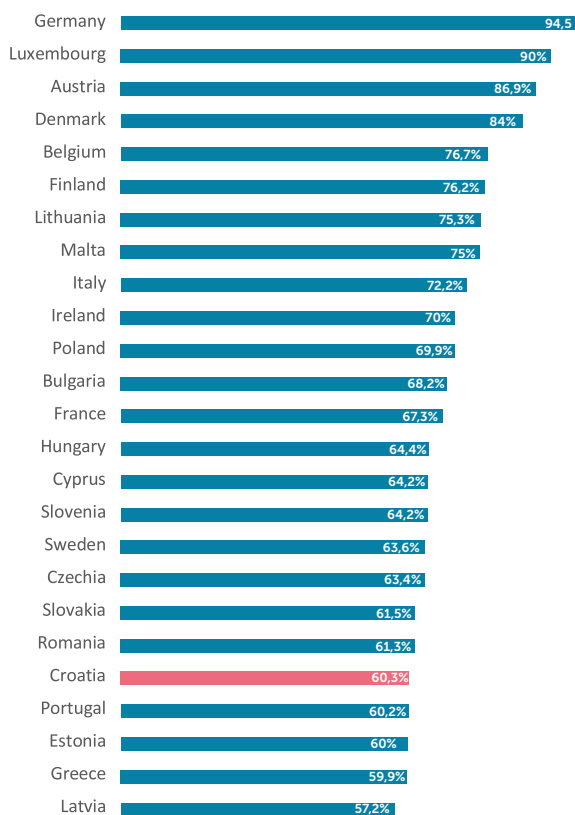
28 Vlada Republike Hrvatske (2021), 'Plan oporavka i otpornosti', <https://planoporavka.gov.hr>.

29 European Commission (2022d), 'Croatia's recovery and resilience plan'

30 European Commission (2022e), 'NextGenerationEU: European Commission disburses € 818 million in pre-financing to Croatia', https://ec.europa.eu/commission/presscorner/detail/en/ip_21_4913.

March 2022, the Croatian government submitted a request for the pay-out of the first tranche, totalling EUR 700 million, which was supported by the Commission on 10 May 2022. In the Commission's opinion, Croatia had fulfilled 33 milestones and one target selected in the Council Implementing Decision.³¹ The final decision needs to be passed by the Economic and Financial Committee (EFC), which seems practically certain as of this writing.

Figure 3. Digital and green transition in the European Union³²



³¹ European Commission (2022f), 'Croatia: Commission's positive preliminary assessment', https://ec.europa.eu/commission/presscorner/detail/en/IP_22_2810.

³² Z. Darvas et al. (2022), 'European Union countries' recovery and resilience plans'

3. Key obstacles to NGEU implementation in Croatia: the curse of low absorption capacity

There are several reasons why the NGEU grants will not work their magic on their own and lift Croatia's potential growth rate as a consequence of structural transformation. Structural transformation means inventing and applying new green and digital technologies, adopting more efficient organisational structures – in both the private and public sectors, winning new markets for products and services, and so on. Hence, after giving a short overview of key features of the Croatian NRRP, we arrive at its key drawbacks and obstacles.

The Croatian NRRP runs to 1,266 pages – which is four times the length of the Italian NRRP, and by far the lengthiest national plan sent to the European Commission. Interestingly, it repeats the same mistakes as the recently passed National Development Strategy 2030. Both documents lack ambitious targets, precise identification of responsible agents, clear key performance indicators (KPI), and time trials. There is also a major disconnect between key strategic documents, pointing to weak strategic planning (e.g., the NRRP mentions National Development Strategy 2030 only once in the entire document while there is no mention at all of the Smart Specialisation Strategy as a catalyst for R&D spending).³³

Unfortunately, this setup dilutes political accountability and inhibits transparent debate.

Apart from these issues, there are two other key obstacles to effective implementation of the NGEU: these may be divided into those pertaining to politics and those that relate to public administration. The latter merits close attention, since it is more complex than the former.

First, the political obstacle refers to the Croatian government's volatility. In spite of being able to rely on stable parliamentary majorities since Prime Minister Andrej Plenković's first term, beginning in 2016,

³³ K. Kotarski (2021c), 'Nacionalni plan oporavka i otpornosti: prijelomna točka za konkurentnost hrvatskog gospodarstva', *Udruga Lipa*, 16 April, <https://www.barometar.hr/ocjene-mjera/nacionalni-plan-oporavka-i-otpornosti-prijelomna-tocka-za-konkurentnost-hrvatskog-gospodarstva/>

the executive branch is too often in a position where new ministers have to be appointed. Since 2016, Prime Minister Plenković has rotated 35 ministers in his two governments, 15 of whom had to resign in the middle of a term owing to influence peddling, conflicts of interest, or corruption charges.³⁴ In addition, many ministers lack professional abilities, and are primarily chosen owing to their political loyalty or because of faction politics, which reinforces negative selection. In this climate of political uncertainty at ministerial level, knowledgeable, confident, and innovative public servants and board members of SOEs (state-owned enterprises) often lack the necessary political backing to press ahead with new initiatives or to ensure policy continuity, if and when it is appropriate.

Second, the weakness of Croatian public administration possibly constitutes an even greater obstacle. It has the double problem of being bloated, yet at the same time with a deficit of specialists who are capable of awarding, supervising, and implementing projects financed from EU funds. This explains why, for the most part, NGEU funds aimed at businesses are planned to be disbursed by the so-called fastest finger principle, which is a far cry from the idea that EU funds should support the most promising projects. Therefore, instead of awarding funds to the highest-graded projects, funding often goes into the hands of applicants who only manage to fulfil the basic criteria and had a faster internet connection than their competitors, or are able to profit from asymmetric information.

All of this institutionalises the principle of 'first come, first served', which is at odds with the NGEU's stated logic, the purpose of which is to create a stronger, greener, healthier, more equal and digital Europe.³⁵

3.1. Further issues.

Additionally, there are many logical inconsistencies in determining the criteria for allocating funds.

³⁴ Nacional.hr (2022), 'Plenkovićeve dvije Vlade napustilo čak 15 ministara! Sjećate li se ovih smjena?', 20 February, <https://www.nacional.hr/plenkoviceve-dvije-vlade-napustilo-cak-15-ministara-sjecate-li-se-ovih-smjena/>

³⁵ European Union (2022), 'NextGenerationEU', https://europa.eu/next-generation-eu/index_en.

Namely, public calls aimed at granting funds to support businesses in digitalisation and automation are paired with requirements to foster multiple new jobs. This means that various projects that are currently in their implementation stages are non-eligible for financial support from the NGEU, which effectively punishes agile entrepreneurs.

Frequently, both the evaluation criteria and the descriptions of particular project-related activities are ambiguous and incoherent. How many points each project application will be granted is too often a matter of arbitrary assessment by evaluators, given the lack of precise differentiation between the partial and total fulfilment of stated goals.³⁶ This is a direct consequence of the lack of consultation with key stakeholders about their needs and the problems they are facing in their day-to-day operations. The problem is compounded by poor communication between the ministries in charge of implementation and the agencies responsible for payments and evaluation, often leading to conflicting interpretations of the underlying facts.

Unfortunately, Croatian public administration has been mostly closed to policy inputs from various stakeholders, such as businesses and non-governmental organisations in the preparatory stages of designing the NRRP. This neuralgic point of poor participation and lack of consultation with stakeholders has continued during implementation. There is generally a dearth of open and transparent communication that would ensure better planning and the preparation of project activities on behalf of end users.

Judged by the experience of the MFF 2014–2020 implementation, inappropriate planning and programming may well repeat the misallocation of funds towards sectors and users that will have difficulties in their absorption, while, at the same time, those who have proven those capabilities face the hurdle of scarcely allocated funds. The main reason for this imbalance is to be found in the lack of analytical capabilities within those public bodies that are responsible for disbursing and managing EU funds, as well as their lack of contact with reality on the ground.

³⁶ S. Skender (2018), 'Metoda 'najbržeg prsta' nije jedina prepreka u natječajima EU fondova', *Pametani rast*, <http://www.pametnirast.hr/metoda-najbrzeg-prsta-nije-jedina-prepreka-u-natjecajima-eu-fondova/>.

For example, the small and medium-sized enterprises (SMEs) sector in Croatia has absorbed funds from the still ongoing MFF 2014–2020, with 98% of the earmarked funds already being spent.³⁷ However, this positive experience has not been echoed in the NRRP's design, since it intends to disproportionately allocate funds to users in the public sector or in domains that have not been well-known for their absorption capacity in the recent past (see: Table 2).

Table 2. European Structural and Investment Funds (ESIF) 2014–2020 financial implementation data (percentage of successfully spent funds) and Croatia's relative ranking in comparison to its EU peers³⁸

	ESIF 2014–2020 financial implementation*	Croatia's ranking
Competitiveness of SMEs	98%	4/27
Low-Carbon Economy	88%	20/29
Social Inclusion	76%	9/29
Sustainable & Quality Employment	72%	17/29
Environment Protection & Resource Efficiency	70%	4/21
Total ESIF 2014 - 2020	63%	20/29
Network Infrastructure in Transport and Energy	52%	18/20
Educational & Vocational Training	52%	25/27
Research & Innovation	48%	25/27
Climate Change Adaptation & Risk Prevention	40%	12/16
Efficient Public Administration	33%	15/17
Information & Communication Technology	13%	19/21

*percentage of spent funds

³⁷ European Commission (2022g), 'European Structural and Investment Funds', <https://cohesiondata.ec.europa.eu/countries/hr>.

³⁸ European Commission (2022g), 'European Structural and Investment Funds'

To the dismay of the Croatian Employers' Association (HUP), which acts as a formal representative of the business community, the document allocates only 10% of EUR 6.3 billion in grants directly to businesses. HUP has also criticised the lack of inclusion of stakeholders from the private sector in the preparation of the NRRP.³⁹ Given their estimate that the creation of a single durable job necessitates an investment in the range of EUR 100,000–120,000, the existing allocation would only create 5,250–6,300 jobs on behalf of the private sector directly.⁴⁰ Hence, the bulk of EU funds from the NGEU will be channelled into public utilities, state-owned enterprises, and other public entities.⁴¹ Even though private companies may participate in various public procurements related to projects spearheaded by the public sector, the multiplier effect of these investments will be lower than for investments on behalf of the private sector. There is also a latent risk that some of the funds will not be spent appropriately owing to inertia or a lack of knowledge on the part of public sector agents.

Private enterprises and public administration bodies also have a lopsided relationship. If an enterprise commits any irregularity during the stage of project implementation, the penalty in terms of administered financial corrections (5%, 10%, 25%, or 100% of allocated funds) can be rather harsh. On the other hand, there are numerous instances whereby pre-financing requests on behalf of SMEs or utilities are handled well above the mandatory time frame of ten days, requests for reimbursement are frequently assessed by public administration bodies in excess of the mandatory time frame of 30 days, and where the act of reimbursement often overshoots this prescribed time frame. The inertia of public administration leaves private enterprises and other applicants playing a cat and mouse game with rapidly changing trends and market prices, especially in an era of high inflation. As of March 2022, Croatia posted an inflation rate of 7.3%, only slightly below the EU average inflation rate of 7.8 %.⁴² While this rate was significantly lower than

39 K. Kotarski (2021c), 'Nacionalni plan oporavka i otpornosti: prijelomna točka za konkurentnost hrvatskog gospodarstva'

40 K. Kotarski (2021c), 'Nacionalni plan oporavka i otpornosti: prijelomna točka za konkurentnost hrvatskog gospodarstva'

41 K. Kotarski (2021c), 'Nacionalni plan oporavka i otpornosti: prijelomna točka za konkurentnost hrvatskog gospodarstva'

42 Eurostat (2022c), 'Annual inflation up to 7.4% in the euro area', *Euroindicators*, 21 April, <https://ec.europa.eu/eurostat/documents/2995521/14497739/2-21042022-AP-EN.pdf/24299719-6c7c-606b-cd57-c1d69218e20c>.

in other post-socialist member states, the problem with still rapidly rising prices in Croatia is a lack of clarity on how the gap between initially planned costs and more expensive inputs will be bridged.

However, there is no similar penalty for culprits among the ranks of public administration when their commission or omission causes any damage, especially when this could have been prevented by high-quality *ex ante* controls. Precisely this lack of partnership constitutes an inevitable factor in lowering the feasibility of sound investment projects. Sometimes, it even eliminates the motivation to rely on EU funding rather than on cheaper loans, given the required time and personnel costs for working on the preparation and execution of EU projects.

3.2. Green transition.

With regard to green transition boosted by the inflow of NGEU funds, there is no shortage of eligible projects with enormous potential in Croatia, which have enormous potential.⁴³

However, the public administration's foot-dragging in granting building permits and resolving administrative procedures significantly hampers the rapid deployment of funds. For example, projects involving wind or solar farms face hurdles owing to the lack of an overarching spatial plan at state level, that exists in a hierarchy with existing plans at the level of counties, cities, and municipalities. This prevents a clear signal being sent to investors about the availability of land that is necessary to kick-start a project cycle. To make matters worse, land registers are messy and opaque, while expropriation procedures can generate problems of their own and significantly slow down project implementation. Everything combines to aggravate the problem of legal certainty.

Furthermore, the environmental assessment procedure, as a prerequisite for starting the project, should be finished within 60 days after its submission by the investor, but the average duration of this process

⁴³ Hrvatska gospodarska komora and Apsolon d.o.o. (2021), *Analiza spremnosti hrvatskih poduzeća na zelenu tranziciju za klimatsku neutralnost 2021* (Zagreb: HGK & Apsolon d.o.o.).

has already climbed up to 245 days.⁴⁴ In comparison with the prevailing experience of other EU member states that aim at fast-tracking and centralising the process of environmental assessment, the Croatian experience does not conform.

The last but not the least important problem is to be found in the Public Procurement Act: this lacks functionality and is susceptible to abuses on behalf of various entities through appeal proceedings.⁴⁵ For instance, a project worth HRK (Croatian kuna) 100 million can be delayed numerous times by an interested party that wants to buy more time to prepare project documentation or simply undermine its competitors. This can be done by paying the meagre sum of HRK 105,000 (or 0.00105 % of the project's estimated value) to initiate the appeal proceedings or by sending last-minute project-related inquiries to the entity in charge of the project, causing massive delays and cost overruns.

Unless these institutional constraints are alleviated soon, the planned addition of 1.4 GW of new renewables to the grid, before the targeted deadline of the end of 2024, remains too ambitious and unrealistic. As the examples given here show, there can be no smooth green and digital transition unless low absorption capacity is addressed – especially in new Member States with weak structures, such as Croatia.

In spite of the fact that public administration presents the greatest obstacle to absorption capacity of EU funds in Croatia, it would also be fair to admit that the private sector needs to shift up a gear as well. It needs to accelerate its efforts to harness the chances offered by digital and green transformation, if the results of a recent survey are anything to go by.⁴⁶ This joint research conducted on behalf of the Croatian Chamber of Commerce and the consultancy firm Apsolon d.o.o. assessed the readiness of Croatian businesses to embrace opportunities arising from green transition.

44 K. Puškarić (2022), 'Mlaka energetska tranzicija: Tko će ako neće realni sektor povući i za dekarbonizaciju?', *Lider.hr*, 15 April, <https://lidermedia.hr/zeleno-i-digitalno/mlaka-energetska-trzicija-tko-ce-ako-neece-realni-sektor-povu-ci-i-za-dekarbonizaciju-142342>.

45 K. Kotarski (2022), 'European Green Deal: Opportunities and Challenges of Croatia's Green Transition', EMERiCs - Korea Institute for International Economic Policy, <https://www.emerics.org:446/issueFileDownload.es?brdctsNo=325267&brdctsFileNo=82419>.

46 Hrvatska gospodarska komora and Apsolon d.o.o. (2021), *Analiza spremnosti hrvatskih poduzeća na zelenu tranziciju za klimatsku neutralnost 2021*.

The recently published research shows that more than 60% of businesses still do not perceive green transition as an opportunity.⁴⁷ In spite of the fact that green transition has still not gained enough traction among Croatian businesses, more than 60% of them already have a project idea or are ready to implement projects in areas such as energy efficiency, use and production of renewables, and adoption of new green technologies.⁴⁸ On the other hand, only 15.7% of businesses have their own strategy aimed at green transition, while 60% have an intention to create one in the close future.⁴⁹

4. Conclusions: NGEU as a necessary but not sufficient condition to ensure recovery and resilience

Hard conditionality wired into the European Semester–NGEU nexus was never a very realistic goal. On the one hand, the European Commission does not have any serious incentive to veto national NRRPs unless there are grave transgressions – such as basic violation of the rule of law in Member States. This reluctance is to be explained by the Commission's plan to ensure a long-term increase in its own resources, which is impossible if there is a serious clash with Member States. This is worthy of mention as it provides a context for the difficult compromises that have to be made. However, we shall not address this here since it merits an additional in-depth analysis of its own.

On the other hand, the majority of Member States are on the receiving end of the deal. Therefore, placing significant obstacles in the way of pay-outs might dampen support for a similar deal in future crises. When a basic political conflict arises between the imperative of doing 'whatever it takes' to quickly heal economic scars caused by a global pandemic and ensuring that commonly raised RRF resources are spent in line with detailed European economic priorities, the former

⁴⁷ Hrvatska gospodarska komora and Apsolon d.o.o. (2021)

⁴⁸ Hrvatska gospodarska komora and Apsolon d.o.o. (2021)

⁴⁹ Hrvatska gospodarska komora and Apsolon d.o.o. (2021).

political consideration invariably wins.⁵⁰

The economic hardship caused by the Russian invasion of Ukraine means that attempts are being made to impose stricter conditionality, but this is attempting to square the circle. It is questionable whether major EU institutions are willing to sacrifice their precious political capital and limited resources in pushing structural reforms over the finishing line in weaker-performing countries.

It is reasonable to claim that Member States are not likely to adhere to detailed EU instructions on how to spend this money, not least of all because of the many CSRs they have already been ignoring for years – and the Croatian experience discussed here seems to vindicate this outlook.

The intended plan to earmark around half of the NGEU funds for digital and green transition investments is likely to be the extent of influence exerted over how Member States spend these resources. Nevertheless, this does not warrant the conclusion that the NGEU will ultimately fail or is irrelevant. Its historical legacy of bolstering integration at a time of an unprecedented macroeconomic shock is undeniable. However, at the moment, it seems its final reach and impact in the case of Croatia and Member States with similar structural problems will be the second-best solution.

The Croatian experience shows the need for institutional innovation and adaptation, to ensure that national public administrations can process many units of information in a given amount of time. This legitimacy and performance are based on enhanced efficacy, accountability, transparency, inclusiveness, and openness.⁵¹ Herein lies the solution to weak absorption capacity and related institutional constraints.

50 J. F. Kirkegaard (2020), 'What role for the European Semester in the recovery plan?', *Economic Governance Support Unit (EGOV) Directorate-General for Internal Policies*, October 2020, [https://www.europarl.europa.eu/RegData/etudes/IDAN/2020/651370/IPOL_IDA\(2020\)651370_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/IDAN/2020/651370/IPOL_IDA(2020)651370_EN.pdf).

51 V. Schmidt and M. Wood (2019), 'Conceptualizing throughput legitimacy: Procedural mechanisms of accountability, transparency, inclusiveness and openness in EU governance', *Public Administration*. 97: 727–740. <https://doi.org/10.1111/padm.12615>.

Certainly, the crucial political responsibility for reforms and investments lies within the national political arena of every single Member State. In this regard, the decision that allows every single Member State to set its own investment and reform priorities, in order to guarantee the direct ownership of problems, was a prudent consideration in terms of political economy. Externally imposed goals regarding policy output simply cause a backlash.

However, the European Commission and its political allies should gradually add domestic pressure in order to overcome institutional constraints, giving greater priority to indicators measuring policy throughput, besides regularly monitoring and assessing policy output. This would help to avoid the emergence of a bureaucratic process in EU countries that fosters bottom-up politics driven by special interests, which are keen on labelling spending plans as 'green', 'social', and 'digital', regardless of their benefits.⁵²

Finally, one could also insist on the introduction of performance reserves, which would target disbursements towards the most efficient operational programmes or single programming documents in future MFFs. It is to be hoped that Croatia's case of low absorption capacity will inspire future policy innovations that improve the management and disbursement of EU funds – for the sake of the EU's prosperity as well as its legitimacy.

⁵² G. Wolff (2020), 'Without good governance, the EU borrowing mechanism to boost the recovery could fail', *Bruegel*, 15 September, <https://www.bruegel.org/2020/09/without-good-governance-the-eu-borrowing-mechanism-to-boost-the-recovery-could-fail/>.

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CHAPTER 2

Next Generation EU: Taking Stock of Czechia's Recovery and Resilience Plan

Philip Wetzel

Abstract

Embracing the NextGenerationEU initiative, the Czech Republic implemented its Recovery and Resilience Plan, covering several key areas of investment and intending to improve sustainability and digitalisation within the country. This chapter provides an assessment of the Czech Republic's plan, which faces problems regarding the efficient allocation of funding, as well as meeting the goals within a narrow time frame. Overall, the Czech government has been praised for its efforts by the European Union, yet public opinion varies on the effectiveness of the plan and how it will affect employment. This analysis aims to shed light on key aims and problems within the plan, as well as to assess its progress one year after its implementation.

KEYWORDS: Czech Republic, transition, digitalisation, climate, funding, management, sustainability

1. Background overview on Czech Republic's Recovery and Resilience Plan

The Czech Republic's National Recovery and Resilience Plan (NRRP) aims to tackle several key challenges that the country is facing following the unprecedented effects of the COVID-19 pandemic. Submitted in October 2020 to the European Commission and accepted in July 2021, the NRRP, according to President of the European Commission Ursula von der Leyen, gave 'the green light' to begin rebuilding the Czech Republic and make it future-ready⁵³. NextGenerationEU (NGEU), the flagship initiative of the European Commission (EC) launched in 2020 in response to the disastrous effects of the COVID-19 pandemic, funds the NRRP and similar plans from other EU members through the Recovery and Resilience Facility (RRF), a fund worth roughly EUR 800 billion. Czech Republic's NRRP has been allotted EUR 7 billion by the RRF to address specific areas where there have been evident weaknesses since the pandemic. Namely, the NGEU plan covers six fields of investment:

⁵³ European Commission (2021a), 'Czechia's recovery and resilience plan'. https://ec.europa.eu/info/business-economy-euro/recovery-coronavirus/recovery-and-resilience-facility/czechias-recovery-and-resilience-plan_en#economic-and-social-resilience

1. Digital transformation;
2. Physical infrastructure and green transition;
3. Education and labour market;
4. Institutions and regulation, and business support in response to COVID-19;
5. Research, development, and innovation; and
6. Health and resilience of the population.

The Czech Republic's NRRP focuses primarily on digital transformation, physical infrastructures, and green transitions while also providing support for economic and social resilience.⁵⁴ According to the European Commission's website highlighting the main features of the NRRP, '42% of the plan will support climate objectives and 22% of the plan will foster the digital transition'.⁵⁵ These areas were identified as specifically weakened following the COVID-19 pandemic, and thus the Czech government hopes to bolster them with major investment projects.⁵⁶ The plan's economic and social resilience aspect was one of the main country-specific recommendations that was made to Czech Republic by the European Council.

Considering the relatively short time frame for the NGEU initiative, which spans from February 2021 to December 2026, it is fair to say that this is an ambitious project. Never has the European community seen a recovery programme with the scope or with the budget of the RRF. However, the plan will only be effective if funds are correctly allocated and projects are effectively carried out. When the Czech RRF was still in its initial drafting phase, concerns were raised by different policy groups, such as the International Sustainable Finance Centre (ISFC), claiming inconsistencies regarding the grants and loans that would be funding the NRRP.⁵⁷ There was also a concern that the target projects of the Czech NRRP were using metrics that were too broad to accurately measure progress over the course of the six-year initiative.⁵⁸ The Eu-

⁵⁴ European Commission (2021a), 'Czechia's recovery and resilience plan'.

⁵⁵ European Commission (2021a), 'Czechia's recovery and resilience plan'.

⁵⁶ European Commission (2021a), 'Czechia's recovery and resilience plan'.

⁵⁷ D. Němeček (2020), 'Czech National Recovery Plan: A Missed Chance for Change?', International Sustainable Finance Centre, December, <https://static1.squarespace.com/static/5f7709cd633d6220bbee2709/t/5fd21c56ebc-7ce75e8ba03cd/1607605578392/ISFC+CZ+National+Recovery+Plan+Report>

⁵⁸ D. Němeček (2020), 'Czech National Recovery Plan: A Missed Chance for Change?'.

European Commission, which gave its green light to the NRRP in summer 2021, did not overlook these glaring issues with Czech Republic's plan. Yet, almost a year into the plan's full implementation, it remains to be assessed whether the NRRP has been effective in delivering the reforms and investment projects that it set out at its genesis.

2. General assessment

The Czech Republic's three main areas of investment – green transition, digital transition, and reinforcing economic and social resilience – have all been praised by the European Commission for their ability to tackle areas that need the most attention.⁵⁹

2.1. Green transition.

According to the International Energy Agency, the Czech Republic's average temperature over the past two decades has been rising at a faster rate than the world average.⁶⁰ Reducing climate impacts is therefore a high priority for the country as it strives to be a leader against climate change among its European neighbours.

In terms of projects relevant to its green transition goals, the Czech government plans to invest in large-scale renovation projects that will make buildings throughout the country more energy-efficient.⁶¹ Of the EUR 7 billion allocated to the Czech Republic, this project alone constitutes EUR 1.6 billion: EUR 1.1 billion has been allocated to investment in greener mobility infrastructure, EUR 480 million to installation of renewable energy sources, and EUR 141 million to investment in recycling infrastructure.⁶²

These figures put into perspective the Czech government's dedication to a green transition.

59 European Commission (2021a), 'Czechia's recovery and resilience plan'.

60 United Nations Office for Disaster Risk Reduction. (2022), 'Czech Republic Climate Resilience Policy Indicator', 7 April, *PreventionWeb*. <https://www.preventionweb.net/news/czech-republic-climate-resilience-policy-indicator>

61 European Commission (2021a), 'Czechia's recovery and resilience plan'.

62 European Commission (2021a), 'Czechia's recovery and resilience plan'.

2.2. Digital transition

The government of the Czech Republic has also asserted its interest in being future-ready, and therefore supporting the country's digital transition.⁶³ The figure of EUR 585 million has been allocated to revitalising digital education through new equipment and training programmes, EUR 450 million to protecting e-governance and public administration through investing in cybersecurity, and EUR 650 million towards new technological infrastructure to support high-capacity networks.⁶⁴

Making up 22% of the NRRP budget, this is a serious commitment on the part of the government towards what it believes is a ripe opportunity to get ahead of other EU Member States in terms of digitalisation. The Digital Economy and Society Index (DESI), a European Commission measurement, ranked the Czech Republic as 18th out of 27 member countries in 2021 based on several different criteria, one rank below its placement in 2020.⁶⁵

While such data may seem discouraging in the context of its place amongst EU Member States, major efforts have been launched by the country to boost its position, including the Digital Czechia strategy.⁶⁶ The DESI report from 2021 cites Czechia's NRRP as a major step in the right direction if the country wants to become a key player in the EU's digital landscape.⁶⁷

2.3. Eco-Soc resilience.

The economic and social resilience aspect of the plan, while receiving less attention than its climate and digital objectives, is still one of the main components of the Czech NRRP. The European Commission's fact sheet on Czechia's ⁶⁸ cites three areas within this category: ensuring equal access to education (EUR 393 million), increasing the resilience of healthcare workers through funding for new hospitals and

63 European Commission (2021a), 'Czechia's recovery and resilience plan'.

64 European Commission (2021a), 'Czechia's recovery and resilience plan'.

65 European Commission. (2021b), 'Digital Economy and Society Index (DESI) 2021 Czechia', <https://ec.europa.eu/newsroom/dae/redirection/document/80485>

66 'Úřad vlády České republiky' (2022), *Digitalní Česko*, <https://www.digitalnicesko.cz/>

67 European Commission. (2021b), 'Digital Economy and Society Index (DESI) 2021 Czechia'.

68 European Commission (2021a), 'Czechia's recovery and resilience plan'.

equipment (EUR 823 million), and improving the business environment (EUR 222 million).

3. Taking stock.

The Czech NRRP clearly has ambitious goals regarding climate change, digitalisation, and strengthening economic and social resilience, but with all this information laid out, the most pressing question is: how has it fared compared to its goals? So early into the initiative it is difficult to determine the extent to which these reforms have worked, or to see the exact return on investments.

3.1. The assessment of the European Commission and the Czech Ministry of Industry and Trade.

The European Commission provides an assessment of the NRRP on its website (freely accessible), highlighting what follows.

As a whole, the Czech Republic did quite well in this evaluation, with the plan being recognised as consistent with the conditions of the aid package. However, not everything was assessed to be adequate. Section 2.11 of the Commission's assessment states that 'The plan ensures an overall balance between reforms and investments. Yet, for some components, investment is not accompanied by relevant reforms.'⁶⁹ This assessment was published upon the acceptance of the Czech NRRP in July 2021, and despite the gaps found in the policy framework, it was given the green light by the European Commission. It is interesting to note that certain concerns raised in late 2020 by the ISFC were mirrored almost a year later by the organisation that approved the plan.

Moreover, in March 2022, the Czech Ministry of Industry and Trade conducted an inventory of the NRRP to assess its progress.⁷⁰ According to this report, several key aspects are seen as being in danger of

⁶⁹ European Commission. (2021c), 'Summary of the assessment of the Czech recovery and resilience plan', https://ec.europa.eu/info/sites/default/files/cz_rrp_summary.pdf

⁷⁰ Ministry of Industry and Trade (2022), 'Government has approved changes to the National Recovery Plan. Management and financing are to be revised', <https://mpo.cz/en/guidepost/for-the-media/press-releases/government-has-approved-changes-to-the-national-recovery-plan--management-and-financing-are-to-be-revised--266725/>

not meeting deadlines for their implementation. This is significant, as the original plan submitted to the European Council focused mainly on meeting certain milestones by specific deadlines, and this was the basis for drawing funds from the NGEU RRF.

The report, which considers all 244 milestones and objectives laid out in the NRRP, categorises them into three groups:

1. Those that are expected to be fulfilled without any changes;
2. Those that will need to receive additional funding from the state budget in order to be fulfilled or cover other costs;
3. Those that will have to be adjusted or completely changed. These changes relate to time, conditions, text, and other funds, or a combination of the aforementioned.⁷¹

The report shows that a significant portion of the NRRP needs to be revised: 21% of the milestones fit within the second category and 16% in the third, making for a total of 40 out of the 244 milestones that require attention to be effectively carried out.

One of the key issues that the Minister of Industry and Trade, Jozef Síkela, points out is that there seems to be a lack of oversight by the individual ministries that are sponsoring these projects. After reviewing the report, he said: 'We want only one person to be in charge of the process and coordination for each Ministry. The readiness of the project will be continuously monitored by the Ministry of Industry and Trade, which will coordinate the individual Ministries'.⁷² As of now, the projects supported by the RRF fund are perceived to be managed relatively poorly because it isn't clear who is in charge. The Ministry of Industry and Trade submitted a proposal to the Czech government that is intended to make changes within the NRRP that will keep the plan congruent with its milestones and objectives as well as the criteria of the RRF.⁷³

71 Ministry of Industry and Trade (2022), 'Government has approved changes to the National Recovery Plan. Management and financing are to be revised'.

72 Ministry of Industry and Trade (2022), 'Government has approved changes to the National Recovery Plan. Management and financing are to be revised'.

73 Ministry of Industry and Trade (2022), 'Government has approved changes to the National Recovery Plan. Management and financing are to be revised'.

3.2. The public opinion.

Despite these optimistic plans for a greener and more digital future within the Czech Republic, domestic public opinion is not unanimously positive.

According to the European Investment Bank (EIB),⁷⁴ there are concerns among the Czech population about how the green transition will affect various aspects of everyday life. According to the EIB's polling, 60% of Czechs believe that the climate policies being introduced will reduce economic growth. The study also found that 51% of the population believes these policies will negatively impact their quality of life, and 54% 'believe policies to tackle climate change will remove more jobs than they create'. These findings contrast with those for Europe as a whole – with roughly 61% of Europeans regarding the climate policies that are being introduced as positively affecting their quality of life.

However, public opinion within the Czech Republic must be contextualised, given that the largest sector in the economy is the automotive industry. Škoda is one of the largest employers in the country, producing and exporting cars and other transportation equipment across the continent.⁷⁵ In an effort to significantly reduce carbon emissions, the EU's Green Deal (separate from the NGEU) plans to completely phase out the European sale of vehicles with combustion engines within the next decade. The Czech government has fought this initiative on the basis that the Czech automotive industry is not equipped to make such a transition without facing substantial economic losses and affecting employment.⁷⁶

3.3. Energy, digitalisation, economic and social resilience.

The Czech Republic is also still heavily reliant on coal-powered electricity, which the NRRP plans to replace with more sustainable forms

⁷⁴ European Investment Bank (2022), 'Czechs concerned about the outcome of the Green Transition', 22 March, <https://www.eib.org/en/press/all/2022-146-czechs-concerned-about-the-outcome-of-the-green-transition>

⁷⁵ <https://msmstudy.eu/top-5-employers-in-the-czech-republic/>

⁷⁶ D. Lazarová (2021), 'New Czech government says 2035 ban on combustion engines "unacceptable"', *Radio Prague International*, 20 December, <https://english.radio.cz/new-czech-government-says-2035-ban-combustion-engines-unacceptable-8737220>

of energy such as nuclear power.⁷⁷ This is currently still somewhat unfeasible for the Czech Republic, as it lacks the infrastructure to make the transition within the short time frame of the NGEU initiative. The Czech government initially expected to see a complete phase-out of fossil-fuelled energy sources to be replaced by nuclear power by 2033, but is now considering a more realistic deadline of 2038,⁷⁸ despite (understandably) the population at large regarding these climate policies in a negative light. Overall, the country is still at a point where the green transition's milestones and objectives are highly ambitious.

Aside from issues with project management, however, the Czech Republic has fared well in adhering to the milestones and objectives it has set regarding digitalisation and economic and social resilience. In the realm of healthcare, the Czechs have been praised by the World Health Organization (WHO) for their leading efforts to provide affordable, quality healthcare to all its citizens.⁷⁹ A recent joint plan between the WHO and the Czech Ministry of Health focuses on a wide array of reforms within the healthcare system, helping to promote the Czech Republic as a global health leader.

As for digital transition, the Czech government has taken action on several different initiatives to enhance digital and technology skills. These include updating the digital education strategy as new technologies become available, increasing teachers' digital competence (in line with the Teacher Digital Competence Standard), and beefing up the curriculum within schools to better understand the impacts of the digital revolution on industry.⁸⁰ From the list of actions taken to improve digital and tech skills available on the EU's Digital Skills and Jobs Platform website,⁸¹ one of the most compelling items is Czechia's efforts to es-

77 D. Lazarová (2021), 'New Czech government says 2035 ban on combustion engines "unacceptable".'

78 J. Hovet & R. Mülle (2022), 'New Czech government sees coal exit by 2033, Backs Nuclear Power', *Reuters*, 7 January, <https://www.reuters.com/markets/commodities/new-czech-government-sees-coal-exit-by-2033-backs-nuclear-power-2022-01-07/>

79 World Health Organization (2022), 'WHO and Czechia sign new agreement to improve health for all', 5 April, <https://www.euro.who.int/en/countries/czechia/news/news/2022/4/who-and-czechia-sign-new-agreement-to-improve-health-for-all2>

80 M. Jäkobson (2021), 'Czech Republic - Innovation Strategy (2019-2030)', *Digital Skills and Jobs Platform*, 18 May, <https://digital-skills-jobs.europa.eu/en/actions/national-initiatives/national-strategies/czech-republic-innovation-strategy-2019-2030>

81 Available at <https://digital-skills-jobs.europa.eu/en>.

establish tech support centres for current and future university teaching staff. This is one of the biggest issues facing digitalisation within the Czech school system. The rapid pace of new tech entering the market makes it increasingly difficult for teachers to implement it in the classroom. By providing support for teaching staff, the implementation of programmes that take advantage of new technology will increase, and the Czech government will be able to see investment in digitalisation produce tangible results.

4. Conclusion: future challenges and options.

In the context of the NGEU initiative, the Czech Republic's NRRP has overall met with relative success.

The efforts of the three main areas of investment – climate goals, digitalisation, and enhancing the economic and social sector – have made some headway towards goals within the tight time frame of the RRF. There are, however, still significant hurdles the country has to overcome, while some original milestones need to be re-evaluated. Nevertheless, a year after the NRRP's implementation, the programme has produced tangible results within each focus area.

The NGEU has been criticised in several areas: the ambiguity of management within each Member State and the exact allocation of funding, over-ambitious expectations in terms of regional competency to carry out reforms, and the short time frame that is available in which to take action.⁸² The Czech Republic, with the approval of its NRRP in July 2021, still has work to do in terms of its regional management if it intends to reach its milestones and objectives within the set time frame. Yet the aim of the NGEU is clear: Europe needs to take a leading position in the world digitally and environmentally.

⁸² <https://www.europeanpapers.eu/en/europeanforum/critical-analysis-european-union-measures-overcome-economic-impact-covid19>.

The tight time frame of the initiative and the subsequent conditionality of funding, while somewhat restrictive, is effectively placing pressure on other European countries to reach these objectives. There is a consensus among EU Member States that Europe is ripe to become a global leader in the fields of climate and digitalisation. Despite general scepticism among the public that the plan is too ambitious, European citizens are already beginning to see and experience some tangible results from the initiative.

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CHAPTER 3

Finland, the EU Model **Student:** Does this Apply to its Recovery and Resilience Plan?

Ted Urho

Abstract

Finland is one of the most well-functioning, clean, and safe EU Member States. Such a trend can also be seen in the Finnish National Recovery and Resilience Plan (NRRP). This text focuses on the green transition and digitalisation aspects of the NRRP. The chapter compares the NRRP to the current government programme from 2019, which also focuses on issues of green transition and digitalisation, and shows where the two correlate. The text lists several of the proposed reforms and anchors them in statistical data, offering explanation to why and how they could be effective in Finland. Most of the reforms and projects are aimed at improving and strengthening infrastructure, reducing Finnish dependence on fossil fuels, and increasing the number of renewable sources of energy. The ultimate goal for Finland is to become carbon neutral by 2035.

KEYWORDS: Finland, digitalisation, economy, carbon neutral, energy efficiency, building stock, cybersecurity, infrastructure investments

1. An overview of the national context.

The Finnish National Recovery and Resilience Plan (NRRP) sets its aims very high. The plan consists of grants worth EUR 2.1 billion and is set to focus on sustainable growth in four sectors (or pillars): green transition, digitalisation, employment and skills, and health and social services. The plan was adopted by the Finnish government on 27 May 2021, and goes by the name Sustainable Growth Programme for Finland – Recovery and Resilience Plan.⁸³

Finland is a Nordic welfare state that aims to be carbon neutral by 2035. It is also the happiest country in the world,⁸⁴ around 75% of its surface is covered with forests, and it has the world's biggest archipelago, as well

⁸³ 'Sustainable Growth Programme for Finland - Recovery and Resilience Plan', p. 8, <http://urn.fi/URN>, ISBN:978-952-383-694-5

⁸⁴ J. F. Helliwell, R. Layard, J. D. Sachs, J. E. De Neve, L. B. Aknin, & S. Wang (Eds.), 'World Happiness Report 2022', New York: Sustainable Development Solutions Network.

as Europe's largest lake district and its last untamed wilderness, Lapland. Finland is also a safe travel destination – for example, 11 out of 12 lost wallets are returned to their owners.⁸⁵ The country shares a 1,300-kilometre border with Russia, has a population of 5.5 million people, and is heavily dependent on sea freight. The only available route for this is via the Baltic Sea, which is among the most heavily trafficked waters, with an approximate 15% share of global freight traffic. In 2013, the Baltic Sea was visited by over 10,000 vessels, of which a clear majority were freight ships.⁸⁶

2. General assessment of the NRRP

The NRRP is based on grants that amount to a total of slightly over EUR 2 billion, with no loans. It contains 57 measures (18 reforms and 39 investments, divided into 13 components), and there are 140 milestones and targets. The climate target stands for 50.1% of these and the digital target for 27%.⁸⁷ Of the four pillars, the green transition gets the lion's share of the funding, EUR 822 million, while digitalisation is allotted EUR 217 million, employment and skills EUR 636 million, and health and social services EUR 400 million.⁸⁸

The plan tackles issues that Finland currently struggles with: reduction of greenhouse gas emissions, productivity growth, raising the employment rate, access to treatment at hospitals, and progress in equality. Several of the goals set up in the recovery plan are closely linked to the goals set in the current government programme, which was adopted by Prime Minister Sanna Marin's government in December 2019. In the Finnish political tradition of coalition governments, the current administration consists of five parties: the Social Democrats, the Green League, the Centre Party, the Left Alliance, and the Swedish People's

85 'Facts about Finland', <https://new.visitfinland.com/en/practical-tips/facts-about-finland/>

86 M. Brunnberg (2021), 'Sjöfartens betydelse för Finlandsförsörjningsberedskap', https://helda.helsinki.fi/dhanken/bitstream/handle/10227/420687/Brunnberg_Magnus.pdf?sequence=1

87 'Summary of the assessment of the Finnish recovery and resilience plan', https://ec.europa.eu/info/sites/default/files/fi_rrp_summary.pdf

88 'Forecast: Road transport emissions to decrease slightly faster than anticipated - the reason for this is a boost in the popularity of electric cars, Ministry of Transport and Communications', 24 September 2021, <https://vm.fi/en/finlands-recovery-and-resilience-plan>

Party. Finland does not have a threshold for Parliament; the current Parliament therefore consists of MPs from eight political parties and two independent MPs. It is highly unlikely that any one party would win over half of the 200 seats, which would be required for a parliamentary majority – and since Finland does not have a political tradition of minority governments, a coalition government has turned out to be the most efficient system. After the elections, the leader of the largest party is asked to form a government. They then summarise the government programme, and probe which other parties will support it. After a period of negotiations and consensus finding, a government is formed.

The aforementioned explanation is essential in order to understand that Finland is governed more by pragmatism than by ideology.

The idea is that a green transition will support structural adjustment of the economy and underpin a carbon-neutral welfare society, whereas digitalisation and the fortifying data economy will strengthen productivity and guarantee services for all citizens – including in rural areas. By raising employment rate and skill levels, Finland will accelerate sustainable growth. The final pillar focuses on access to health and social services, which will be improved, with their cost-effectiveness enhanced.⁸⁹

The NRRP was well received by the European Commission: as stated in the Commission's assessment:

'Structured around four thematic objectives and encompassing a well-balanced mix of reforms and investments, the plan aims at addressing the key structural challenges Finland faces and pursues the objective of the Recovery and Resilience Facility (...) Regulation to promote the Union's economic, social and territorial cohesion. The plan also provides a good balance across the six policy pillars referred to in Article 3 of the RRF Regulation'.⁹⁰

89 'Sustainable Growth Programme for Finland - Recovery and Resilience Plan', p. 9

90 'Summary of the assessment of the Finnish recovery and resilience plan', https://ec.europa.eu/info/sites/default/files/fi_rrp_summary.pdf

This is an indication that the NRRP is well formulated and addresses the right issues. In its assessment of the plan, the European Commission awarded it an A rating (on a scale from A to C) on all points, except one, cost estimates:

'Finland has provided individual cost estimates for all components of the RRP, relying on a number of sources to justify the costs of investments and reforms. [...] However, the evidence submitted to underpin the methodologies could in some cases be more granular and provide more comprehensive costing information, in particular as regards some horizontal investment schemes. Finally, the estimated total cost of the RRP is in line with the principle of cost-efficiency and is commensurate to the expected national economic and social impact'.⁹¹

All in all, the assessment of the plan is very positive, and indicates that Finland takes its membership of the European Union (EU) very seriously.

3. Taking stock: assessment of selected elements of the national plan.

Each pillar of the NRRP consists of larger components that are divided into reforms and investments. This section describes the contents of the pillars and offers an assessment of key points in order to gain a better understanding of the underlying challenges.

3.1. Pillar 1 – the green transition will support structural adjustment of the economy and underpin a carbon-neutral welfare society.

Finland aims to be carbon neutral by the year 2035 and to halt biodiversity loss by 2030. In addition, it is striving to become the world's first fossil-free welfare society and is committed to halving emissions from traffic by 2030.⁹² This is the basis of the NRRP, and is also anchored in

⁹¹ 'Summary of the assessment of the Finnish recovery and resilience plan', https://ec.europa.eu/info/sites/default/files/fi_rrp_summary.pdf

⁹² Press release, <https://valtioneuvosto.fi/en/-/transport-emissions-can-be-halved-by-2030-through-national-and-eu-measures>

the Finnish Government programme:

'The government is committed to reforming the climate policies of the European Union and Finland so that we can do our part to limit the global mean temperature increase to 1.5 degrees Celsius. Finland aims to develop the EU's long-term climate measures so that the EU can achieve carbon neutrality before 2050. This means tightening the emissions reduction obligation for 2030 to at least 55 per cent below the 1990 emissions level'.⁹³

The proposed methods include, among other things, the acceleration of emissions reduction measures and the strengthening of carbon sinks.

Finland has reduced its emissions to more than 21% below the 1990s level and will reach the EU's climate targets for 2020 ahead of schedule. However, the 1.5-degree target also means tightening Finland's emissions reduction requirements.⁹⁴ As the European security situation has changed radically (i.e., the Russian invasion of Ukraine), it is vital to cut the dependence on fossil fuels, which the country does not have itself.

The green transition pillar is composed of five components:

1. Energy system transition;
2. Industrial renewal and investments supporting the green and digital transition;
3. Reducing the climate and environmental impacts of the building stock;
4. Low-carbon solutions in communities and transport;
5. Environmental sustainability and nature-based solutions.

3.1.1. Energy system transition.

The key target in the first component area is to facilitate the green and digital transition by increasing clean energy production and storage

⁹³ 'Government Programme', <https://valtioneuvosto.fi/en/marin/government-programme/carbon-neutral-finland-that-protects-biodiversity>

⁹⁴ 'Government Programme', <https://valtioneuvosto.fi/en/marin/government-programme/carbon-neutral-finland-that-protects-biodiversity>

and by making the energy system crisis-proof. A further target is integrating energy systems with one another more closely and to curb rises in electricity transmission charges.

The reforms focus on a significant reduction of coal use by 2026 and a comprehensive reform of energy taxation. The investments in this component total EUR 318.7 million.⁹⁵ Proposed actions are to be found in the government programme: emissions guidance in energy production will be increased by abolishing the industrial energy tax rebate system and reducing category II electricity tax towards the minimum rate allowed by the EU. Moreover, the government will provide property tax relief for offshore wind power plants and remove the double taxation on electricity storage for pumped storage facilities and smaller batteries.⁹⁶ Considering that wind power is both a marginal and highly debated phenomenon in Finland, any removal of obstacles is welcome.

However, Finland is still heavily dependent on fossil fuels for energy. Looking at the total energy consumption for the first three quarters of 2021, wood fuels stood for almost a third of the total, while nuclear power and oil accounted for a fifth each.⁹⁷ Coal and natural gas stood for 6% each, both taking a bigger part than in the previous year (a 17% rise for coal and an 8% rise for natural gas). The controversial use of peat accounted for 2%, which was 24% lower than 2020. At the bottom of the list, there is a marginal use of wind (2%) and hydro power (1%).⁹⁸

This challenge is that in many cases, the best circumstances for clean energy production are to be found quite far from where the energy is to be consumed, which is also tackled in the NRRP:

95 'Sustainable Growth Programme for Finland – Recovery and Resilience Plan', p. 28

96 'Objective 2, Measures, The Government Programme', <https://valtioneuvosto.fi/en/marin/government-programme/carbon-neutral-finland-that-protects-biodiversity>

97 'Official Statistics of Finland (OSF): Energy supply and consumption [e-publication]'. ISSN=1799-7976, 3rd quarter 2021, Helsinki: Statistics Finland, 6 May 2022, http://www.stat.fi/ti/ehk/2021/03/ehk_2021_03_2021-12-20_tie_001_en.html

98 'Official Statistics of Finland (OSF): Energy supply and consumption [e-publication]'

'Linking clean energy production to the grid, electrifying society and ensuring security of supply require major investments in electricity transmission and distribution infrastructure, in heating networks, in the transmission of low-carbon gases and in smart energy system integration. Finland's carbon-neutrality target will translate into a considerable increase in electricity consumption in industry'.⁹⁹

This can prove problematic, as Finland recently halted construction on its third nuclear power plant, mainly because it was being built and was (in large part) owned by Russian Rosatom.¹⁰⁰

3.1.2. Industrial renewal and investments supporting the green and digital transition.

The second component in the pillar focuses on green transition, jobs, business structure reform, sustainable growth, and exports by means of reforming the Climate Change Act and a low carbon renewal of industries, as well as strategic promotion of the circular economy and a reform of the Waste Act.

The investments in this component are as follows: clean hydrogen and carbon capture with permanent storage/carbon capture and utilisation in industry (EUR 156 million), direct electrification and low carbonisation of industrial processes (EUR 60 million), and reuse and recycling of key materials and industrial residues (EUR 110 million – of which EUR 30 million will finance the bioeconomy, whereas EUR 30 million will stimulate recycling solutions in battery manufacturing).¹⁰¹ This is also supported by a government programme: the transition to a low-carbon economy will require additional investments (particularly in the bioeconomy, circular economy, clean energy solutions, energy efficiency, emissions-free forms of energy production, energy storage solutions, carbon recovery, and energy utilisation), along with research,

⁹⁹ 'Sustainable Growth Programme for Finland - Recovery and Resilience Plan', p. 29

¹⁰⁰ <https://www.fennovoima.fi/en/press-releases/fennovoima-has-terminated-contract-delivery-hanhikivi-1-nuclear-power-plant-rosatom>

¹⁰¹ 'Sustainable Growth Programme for Finland - Recovery and Resilience Plan', p. 51

development, and innovation activities, and measures to bring these solutions to the market.¹⁰²

3.1.3. Reducing the climate and environmental impacts of the building stock.

The third component focuses on reducing the climate and environmental impacts of the housing stock, which is an important policy area as buildings account for about 32% of Finland's energy consumption and for approximately 30% of the carbon dioxide emissions from energy consumption.¹⁰³

The reforms focus on legislation that governs construction, mandating low-carbon construction and a digital knowledge base, and with an action plan to phase out fossil-based oil heating. The investments in this component consist of aid for converting building heating systems from fossil-based oil heating to energy-efficient heating (EUR 70 million) and a low-carbon built-environment programme (EUR 40 million).¹⁰⁴

In 2020, the total number of dwellings in Finland amounted to 3.1 million: slightly under half the Finnish population lives in flats, 13.4% in attached houses, and close to 40% reside in a detached house. Over 55% of Finnish dwellings are owner-occupied, while 32.7% are rented.¹⁰⁵

In 2020, the heating of residential buildings consumed 39 TWh of energy. As a comparison, the total consumption of energy in Finnish households in 2020 was 61 TWh. The most common sources of energy for heating indoor spaces were district heat, wood, and electricity, with 82% of the energy consumption heating indoor spaces. The next most common energy source was heat pump energy – approximately 10 TWh, or 17% of total household consumption, was used to heat domestic water.¹⁰⁶ To put this in perspective, the total energy consumption for the entire country in 2020 was 1,281 PJ, which is roughly 355

¹⁰² 'Objective 2, Measures, The Government Programme', <https://valtioneuvosto.fi/en/marin/government-programme/carbon-neutral-finland-that-protects-biodiversity>

¹⁰³ 'Sustainable Growth Programme for Finland - Recovery and Resilience Plan', p. 12

¹⁰⁴ 'Sustainable Growth Programme for Finland - Recovery and Resilience Plan', p. 72

¹⁰⁵ 'Official Statistics of Finland (OSF): Dwellings and housing conditions [e-publication]', ISSN=1798-6761, Helsinki: Statistics Finland, 10 May 2022, http://www.stat.fi/til/asas/index_en.html

¹⁰⁶ 'Official Statistics of Finland (OSF): Energy consumption in households [e-publication]'

TWh.¹⁰⁷ In order to reduce carbon emissions, it is important to make heating in houses as energy efficient as possible, especially in a country with such an extreme winter climate.

3.1.4. Low-carbon solutions in communities and transport.

The investments in this area will focus on a fossil-free transport roadmap and tax reforms in sustainable transport, promoting the replacement of fossil fuels by supporting the establishment of a public recharging and refuelling infrastructure for transport electricity, biogas, new motive power alternatives (EUR 20 million), and promoting the replacement of fossil fuels by supporting private charging infrastructure in housing companies and at workplaces (EUR 20 million).¹⁰⁸

Finland's greenhouse gas emissions from road transport are projected to decrease faster in the 2020s than previously estimated. According to the new forecast prepared by VTT Technical Research Centre of Finland (a government-owned research institute), they will decrease by about 40% between 2005 and 2030.

Notably, the share of electric and gas cars is increasing, whereas the share of petrol and diesel cars is decreasing. According to a 2021¹⁰⁹ forecast by VTT, there will be approximately 600,000 electric passenger cars in Finland by 2030. In 2020, a similar forecast predicted that there would be 350,000 electric cars by that date. In June 2021, there were around 82,000 electric cars and 15,000 gas cars in Finland.¹¹⁰ The larger the amount of electric or gas cars, the lower the rate of carbon emissions.

107 'Energy in Finland – Pocket book 2020', *Statistics Finland*, https://www.stat.fi/tup/julkaisut/tiedostot/julkaisu-luettelo/yene_efp_202000_2020_23210_net.pdf,

108 'Sustainable Growth Programme for Finland - Recovery and Resilience Plan', p. 81

109 Forecast: Road transport emissions to decrease slightly faster than anticipated - the reason for this is a boost in the popularity of electric cars, Ministry of Transport and Communications', 24 September 2021, <https://www.lvm.fi/en/-/forecast-road-transport-emissions-to-decrease-slightly-faster-than-anticipated-the-reason-for-this-is-a-boost-in-the-popularity-of-electric-c-1515798>

110 Forecast: Road transport emissions to decrease slightly faster than anticipated - the reason for this is a boost in the popularity of electric cars, Ministry of Transport and Communications', 24 September 2021, <https://www.lvm.fi/en/-/forecast-road-transport-emissions-to-decrease-slightly-faster-than-anticipated-the-reason-for-this-is-a-boost-in-the-popularity-of-electric-c-1515798>

3.1.5. Environmental sustainability and nature-based solutions.

The fifth and final component in the pillar focuses on improving the state of the environment and of waterways, increasing biodiversity, promoting the circular economy and carbon neutrality, as well as curbing – and adapting to – climate change, boosting investment activity, and making technological innovations. This will be done by a reform of nature conservation legislation and strategic promotion of the circular economy. The investments in this component will focus on gypsum treatment of fields and nutrient recycling (EUR 20 million) together with climate-sustainable actions in the land use sector (EUR 10 million).¹¹¹

3.2 Pillar 2 – digitalisation and the data economy will strengthen productivity and make services available to all.

Finland ranks second (after Denmark) out of the 27 EU Member States in the European Commission's 2021 edition of the Digital Economy and Society Index. The country continues to lead in human capital, integration of digital technology, and digital public services, as well as excelling in the availability and use of e-government services, with high take-up by the public.¹¹² Finland strongly supports digital skills: the proportion of information and communications technology (ICT) graduates is almost double the EU average (7.4% versus 3.9%), and almost twice as many enterprises provide ICT training (38% versus 20% in the EU). This is insufficient, however, as 59% of companies trying to recruit ICT specialists report hard-to-fill vacancies (EU 55%). These shortages could negatively affect the digitalisation of Finnish businesses.¹¹³

The digitalisation pillar is divided into three component areas:

1. Digital infrastructure;
2. Accelerating the data economy and digitalisation;
3. Digital security.

¹¹¹ 'Sustainable Growth Programme for Finland - Recovery and Resilience Plan', p. 91-92

¹¹² 'European Commission, Digital Economy and Society Index (DESI) 2021 Finland', p.3, <https://ec.europa.eu/newsroom/dae/redirection/document/80484>

¹¹³ 'European Commission, Digital Economy and Society Index (DESI) 2021 Finland'

3.2.1 Digital infrastructure.

The first component is focused on delivering digitalisation of the rail network and improving the quality and availability of telecommunications networks. The Digirail project (EUR 85 million) will replace the current train management system, which is coming to the end of its service life. EU regulations require that Finland must begin to introduce a new rail traffic management system in the 2020s.

The second target is to improve the quality and availability of telecommunications in areas of Finland where advanced telecommunications are not built commercially, and to co-ordinate broadband investment (EUR 50 million).¹¹⁴ According to Traficom (the Finnish Transport and Communications Agency), digitalisation in Finland is at a high level. At the end of 2020, a fixed broadband connection of 100 Mbit/s or more was available to 1.8 million Finnish households (65%). Out of these 1.8 million, more than 1.6 million have a fixed broadband connection. The data transfer speeds of broadband connections have increased steadily as old copper-based networks have been replaced with fibre-optic ones. Mobile network coverage is relatively high in Finland, and a mobile broadband connection of 100 Mbit/s or more was available in 93% of households. As a comparison, at the end of June 2019, 68.4% of EU households had access to broadband services capable of providing at least 100 Mbps actual download speeds.¹¹⁵

The download speed of 46% of connections used by households was 100 Mbit/s or more. Finnish households had 6.5 million mobile telephone subscriptions with internet access, a quarter of which were data-only subscriptions for devices such as 4G/5G modems. Of these mobile broadband connections, 58% reached download speeds of 100 Mbit/s at best.¹¹⁶

¹¹⁴ 'Sustainable Growth Programme for Finland - Recovery and Resilience Plan', p. 104-105

¹¹⁵ 'Broadband coverage in Europe', p. 47, <https://ccn.unistra.fr/websites/ccn/documentation/AdministrationFonctionpublique/BCE2019Finalreport.pdf>

¹¹⁶ <https://www.traficom.fi/en/news/reliable-network-connections-requirement-smooth-telecommuting-importance-broadband-network>

3.2.2. Accelerating the data economy and digitalisation.

The second component of the digitalisation pillar focuses on:

1. Automating financial management by introducing e-invoices and e-receipts across the board – which will also facilitate digitalisation in other processes;
2. Digitalisation of Finland's internationalisation services and streamlining processes for incoming foreign labour and enterprises;
3. Making investments in the research and introduction of spearhead technologies that are vital for Finland;
4. A national system will be set up to contain technical and financial information of housing companies, to allow for digitalisation and the establishment of a positive credit registry in the field.

The total costs of these proposed projects are EUR 79 million.¹¹⁷

3.2.3 Digital security.

The third component consists of reforms and investments in digital security, worth EUR 20 million. The first reform targets the effective prevention of money laundering and the second the implementation of a cybersecurity development programme in the form of exercises and investments in cybersecurity research.¹¹⁸

In view of recent global events, including the Russian military invasion of Ukraine, it would be wise to focus more resources on the prevention of cyber-threats and hybrid attacks. This is also noted in the government programme: 'The significance of the cyber environment and hybrid threats is growing and we cannot rule out the possibility that they could be used to achieve political and military goals'.¹¹⁹ This is supported by a paper published by the Hybrid Centre of Excellence, located in Helsinki, which highlights that 'emerging and disruptive technologies (EDTs) can be seen as a revolutionary step forward in the way that conventional and unconventional conflict is conducted, or the way that

¹¹⁷ 'Sustainable Growth Programme for Finland - Recovery and Resilience Plan', p. 118

¹¹⁸ 'Sustainable Growth Programme for Finland - Recovery and Resilience Plan', p. 145

¹¹⁹ 'Inclusive and competent Finland – a socially, economically and ecologically sustainable society - Programme of Prime Minister Sanna Marin's Government 2019', <https://valtioneuvosto.fi/en/marin/government-programme>

modern deterrence can function'.¹²⁰ This is also a potential growth and export sector for Finland, a point that was noted some time ago by the state. In 2013, the then government noted in its cybersecurity strategy that 'Finland [...] has excellent chances of becoming a global forerunner of cybersecurity and the novel approach it entails. Our undisputed fortes include strong competence, a tradition of both intersectoral and public-private cooperation as well as well-defined processes and division of duties between different actors'.¹²¹

4. Conclusion: future challenges

The NRRP is very ambitious and well-constructed. Finland has a tradition of taking its commitments very seriously, and a good follow-through is a matter of national pride.¹²²

Owing to the COVID-19 pandemic, the government and Parliament have worked in crisis mode for a very long time, so one challenge will be clearing the backlog in the legislative system: there is a lot of legislation in the government programme that is still waiting to be written, such as updating legislation on transgender issues. To further complicate matters, this government's governance period is coming to an end in less than a year. At this time, it is difficult to predict which parties will be in the next government, and whether they will put the same emphasis on environment and digitalisation as the current one. As stated earlier, the current government consists of five parties, thus leaving four parties in opposition. The major opposition party, Kokoomus (EPP), is topping the polls right now and has been doing so for a while. If this party wins the elections and is asked to form a new government, there is a risk that it will seek support from the currently third largest party,

¹²⁰ D. Fiott (2022), 'Hybrid CoE Paper 13. Digitalization and hybrid threats: Assessing the vulnerabilities for European security', April, <https://www.hybridcoe.fi/wp-content/uploads/2022/04/20220404-Hybrid-CoE-Paper-13-Digitalization-and-hybrid-threats-WEB.pdf>

¹²¹ 'Finland's Cyber security Strategy', Secretariat of the Security Committee, p. 21, ISBN: 978-951-25-2438-9 pdf, Forssa print 2013, https://www.defmin.fi/files/2378/Finland_s_Cyber_Security_Strategy.pdf

¹²² Finns seldom remind the world of this themselves, but their homeland was the only country that paid its war reparations in full after the Second World War.

the True Finns (I&D), a populist party with an active anti-environmental rhetoric in combination with illiberal values. A government with the True Finns may be detrimental both to minority rights and to environmental progress in Finland.

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CHAPTER 4

The Hungarian Recovery Plan: Policy Ideals and Political Realities

Dániel Mikecz

Abstract.

The chapter reviews and assesses the Hungarian government's recovery plan as related to NextGenerationEU in the context of economic and, particularly, political developments in Hungary during the COVID-19 pandemic. The priorities of the recovery plan, such as the promotion of digital skills, increasing mobility in rural areas, and the application of renewable energy on a local scale, are in line with previous recommendations made by the European Commission. Nevertheless, in light of the scapegoating of Brussels ever since 2016, the activation of the rule of law conditionality process against Hungary by the Commission, and the neglect of education, healthcare, and environmental protection by the fifth Orbán government, there is a high chance that even progressive measures will be introduced without real consultation if the recovery plan is to be endorsed in a timely fashion by the European Commission.

KEYWORDS: NextGenerationEU, Hungary, Rule of Law Conditionality Regulation, digital transition, European Green Deal

1. General overview.

The NextGenerationEU (NGEU) is intended to aid recovery from the COVID-19 pandemic-related economic and social downturn, and at the same time to promote digital and green transition in European Union (EU) Member States. The Commission rejected the Hungarian National Recovery Plan (NRP) owing to the lack of an anti-corruption framework.¹²³ As later sections of this chapter demonstrate, the NRP was in many cases in line with the Commission's former recommendations.

Nevertheless, the government and Fidesz politicians reacted to the spread of the virus with anti-migration framing at a time when the pandemic was a real policy challenge. When the COVID-19 virus first ap-

¹²³ P. Tamma (2021), 'Brussels withholds approval of Hungary's recovery plan', *POLITICO*, 7 July, <https://www.politico.eu/article/brussels-turns-down-hungarys-recovery-plan/>

peared in Hungary, students from Iran who had been diagnosed with the virus were expelled from the country for behaving aggressively towards medical staff, not being cooperative with the authorities, and breaking pandemic related rules.¹²⁴ While it is hard to assess the behaviour of these students, Vice-President of the Fidesz and State Secretary Szilárd Németh linked migration and COVID-19 in May 2020 when he suggested that migrants were bringing the virus into the country.¹²⁵

However, this migration framing of the pandemic did not dominate because people were focusing much more on real-life problems. In March 2019, as COVID-19 started to spread in Hungary, teachers in the public school system had a weekend to switch from onsite to online education. On the morning of 13 March, Prime Minister Viktor Orbán stated that he did not wish to shut down schools, as children were not threatened by the virus.¹²⁶ As this news spread on social media, more and more parents decided not to allow their children to attend school owing to their fear of infection. This appeared to be a major policy failure for the government. To avoid a massive wave of civil disobedience, the prime minister announced the transition to online education live on Facebook.¹²⁷

In the next weeks and months, companies and private individuals volunteered to assist schools and teachers. They offered their leisure time, knowledge, and information technology infrastructure – to help disadvantaged children in particular. Voluntarism generally grew in the first month of the pandemic;¹²⁸ but entrepreneurs and employees from various sectors directly felt the economic impacts of lockdown measures. In 2020 and 2021, 15,000 restaurants and buffets, and 2,300 bars and clubs closed permanently, according to data from the national sta-

124 Portfolio (2020a), 'Magyarország kiutasított két iráni egyetemistát—Miután engedély és védőruha nélkül elhagyták a karantént', *Portfolio.hu*, 13 March, <https://www.portfolio.hu/gazdasag/20200313/magyarorszag-kiutasi-tokt-irani-egyetemistat-miutan-engedely-es-vedoruha-nelkul-elhagytak-a-karantent-419409>

125 Origo (2020), 'Arra akarják kényszeríteni Magyarországot, hogy a határkerítést bontsa le', 17 May, *Origo.hu*, <https://www.origo.hu/itthon/20200517-arra-akarjak-kenyszeriteni-magyarorszagot-hogy-a-hatarkeritest.html>

126 B. Á. Nagy (2020), 'Orbán Viktor szerint fizetés nélküli szabadságra kéne küldeni a tanárokat, ha bezárnák az iskolákat', 13 March, *Alfahír*, https://alfahir.hu/2020/03/13/orban_viktor_kossuth_radio_iskolak_bezarasa

127 Portfolio (2020a), 'Hétfőtől új élet kezdődik, gyakorlatilag bezárnak a magyar iskolák'

128 D. Mikecz, & D. Oross (2021), 'Political participation, volunteering during the covid-19 pandemic in Hungary', *Corvinus Journal of Sociology and Social Policy*, 11(2), <https://doi.org/10.14267/CJSSP.2020.2.15>

tistical bureau.¹²⁹ After years of ideological conflicts with non-political entities (such as non-governmental organisations and the European Commission) over national sovereignty and migration, the fourth Orbán government faced a real policy challenge. Nevertheless, the government's priorities were set in the first month of the pandemic: instead of offering direct financial support for those who lost their jobs, companies were assisted in order to preserve jobs or continue part-time employment.

Viktor Orbán demonstrated that he is prepared to promote his political agenda even in times of crisis. After the 2015 migration crisis, for instance, a referendum and national consultation were held, and the results set the political agenda until the 2018 general election. Immediately before the 2022 general election, a new and complex geopolitical, energy, and financial crisis emerged as Russia invaded the Ukraine. The economic consequences of this far outweigh the costs of offering asylum to refugees. The fifth Orbán government needs the recovery funds of the NGEU scheme to overcome economic hardship in the country.

2. General assessment of the national recovery plan

According to an economic survey by the Organisation for Economic Co-operation and Development (OECD), the COVID-19 pandemic appeared in Hungary during a period of economic growth that had begun in 2016.¹³⁰ The country had already recovered from the economic downturn by 2021: in 2020, the gross domestic product had declined by 5.1% per cent over the previous year, in 2021 it had increased by 4.6%, with a projected 5% for 2022.¹³¹

¹²⁹ D. Molnár (2022), 'Két év alatt több ezer étterem, kocsmá és diszkó húzta le a rolót', *24.hu*, <https://24.hu/fn/gazdasag/2022/05/19/vendeglatohely-koronavirus-bezaras/>

¹³⁰ OECD (2021), 'OECD Economic Surveys: Hungary 2021', Organisation for Economic Co-operation and Development, https://www.oecd-ilibrary.org/economics/oecd-economic-surveys-hungary-2021_1d39d866-en

¹³¹ OECD (2021), 'OECD Economic Surveys: Hungary 2021'

As noted earlier, the Hungarian government focused on protecting jobs and did not provide direct aid for those who became unemployed. While the opposition demanded direct financial support for those who lost their jobs, the pay-out period for unemployment benefits was not extended from three to nine months.¹³² Instead, the government introduced a short-time working scheme, introduced a moratorium of loan payments for businesses and individuals, and lowered social security contributions for companies.¹³³ While the unemployment rate did not grow substantially during the pandemic, there are serious regional differences owing to the low level of geographical mobility, as the economic survey notes.¹³⁴ The main reason for this is the lack of necessary infrastructure, in the north-eastern regions of the country in particular, which restricts the workforce's mobility. Labour market opportunities especially for young people could also be enhanced by focusing more on literacy, numeracy, and information and communications technology skills.¹³⁵

In regard to the political context of the NRRP, it is important to note that Hungary is a special case, as international organisations (such as the International Monetary Fund under the second Orbán government between 2010 and 2014) have been identified as adversaries by the governing right. The same is true for the EU. Any criticism from abroad is interpreted in a globalist-sovereigntist framework. The government frequently refers to the 'Eurocrats', against whom Hungarian interests should be defended.¹³⁶

In 2017, the government even launched a national consultation about migration and utility costs under the slogan 'We should stop Brussels!'.¹³⁷ Nevertheless, the Hungarian population in general, as well as

¹³² Népszava (2020), 'Megháromszorozná a munkanélküli segély időtartamát az MSZP', *Népszava*, 18 March, http://nepszava.hu/3071231_megharomszorozna-a-munkanelkuli-segely-idotartamat-az-mszp

¹³³ OECD (2021), 'OECD Economic Surveys: Hungary 2021'

¹³⁴ OECD (2021), 'OECD Economic Surveys: Hungary 2021'

¹³⁵ OECD (2021), 'OECD Economic Surveys: Hungary 2021'

¹³⁶ Origo (2022), március 24). 'Gulyás Gergely: Se katonákat, se fegyvereket nem küldünk Ukrajnába', *Origo.hu*, <https://www.origo.hu/itthon/20220324-se-katonakat-se-fegyvereket-nem-kuldunk-ukrajnaba.html>

¹³⁷ L. Cerulus (2017), 'Hungary's 'Let's stop Brussels!' survey', *POLITICO*, 1 April, <https://www.politico.eu/article/hungarys-lets-stop-brussels-survey/>

Fidesz voters, cannot be regarded as predominantly Eurosceptic. According to an analysis by the Republikon Institute,¹³⁸ Hungarian voters, regardless of party affiliation, support Hungary's membership of the EU. In a referendum, the overwhelming majority of both opposition voters (80%) and governing party voters (75%) voted in favour of EU membership. However, according to the 2021 data, there are differences between opposition and Fidesz voters regarding the issue of Western orientation and rapprochement with Russia.¹³⁹

It is no wonder that Fidesz's communications separate the EU, or Europe, from the often-maligned Brussels, which primarily represents the European Parliament and the Commission's administration. Fidesz is fond of presenting Western Europe as having undergone an identity crisis, having lost its Christian roots, while East-Central Europe represents the new, young power.¹⁴⁰ Against this background, it is surprising that a majority of Fidesz-KDNP voters (51%) believe that things are going in the right direction in the EU, compared with only 45% of opposition voters.¹⁴¹ One reason for this trend is that some voters identify moving in the right direction with governance in general and, therefore, with the government. Opposition views may also be explained by resentment that the Hungarian and Polish governments are blocking deeper integration and joint economic and foreign policy action.

In a different study, the Republikon Institute investigated attitudes towards the EU in light of the COVID-19 pandemic.¹⁴² According to the data, 60 to 86% of respondents considered the role of the EU to be important in various related policy fields, especially when it came to the training of doctors. However, respondents were more satisfied with the government (44%) than with the EU (28%) in dealing with the COVID-19 pandemic.

¹³⁸ Republikon Institute (2021), 'Az Európai Unió megítélése a magyar társadalomban', *Republikon Institute*, <http://republikon.hu/media/98168/republikon-az-eu-megitelese-21-06-14.pdf>

¹³⁹

¹⁴⁰ P. Krekó (2017), 'Viktor Orbán: The self-nominated future leader of central Europe—and then Europe', *Aspen Institute Central Europe*, <https://www.aspen.review/article/2017/viktor-orban%3a-the-self-nominated-future-leader-of-central-europe-and-then-europe/>

¹⁴¹ Republikon Institute (2021), 'Az Európai Unió megítélése a magyar társadalomban'

¹⁴² Republikon Institute (2020), 'Az emberi jogok helyzete Szlovéniában és Magyarországon a járvány első hulláma alatt', *Republikon Institute*, <http://republikon.hu/media/88696/20-11-27-republikon-szloven-magyar-kutatas.pdf>

Until 2021, conflicts between the Hungarian government and the European Commission were one-sided, as the government was able to use the EU as a punching bag. The European Commission had neither real instruments to challenge accusations made by the Hungarian government, nor authority to effectively protect and enforce democratic and European values and principles in a Member State. Nevertheless, at the end of 2020, the European Parliament and the European Council adopted a regulation relating to a general regime of conditionality for the protection of the EU budget, primarily when the rule of law is infringed.¹⁴³ Consequently, the mechanism can be set in motion when the rule of law principle is harmed during the utilisation of EU funds. However, in the case of Hungary, a net beneficiary country of the EU, the suspension of EU funds could have serious consequences on the country's economy, and hence on elections.

It comes as no surprise, therefore, that Hungary, together with Poland, turned to the European Court of Justice and challenged the regulation as being too vague when it came to rule of law standards.¹⁴⁴ However, the court ruled that rule of law conditionality is in line with the EU's values. According to members of Viktor Orbán's cabinet, the court made a 'political decision', as it wanted to punish Hungary for the so-called child protection referendum, which was held on the same day, 3 April 2022, as the general election.¹⁴⁵

Even before the court decision, in April 2021, the Hungarian government refused to take EUR 9.1 billion credit from the Recovery and Resilience Facility (RRF) and applied only for a grant worth EUR 6.9 billion. Hungary had been one of the first countries to apply for the RRF, yet the Commission refused to endorse the country's recovery plan.¹⁴⁶ Nevertheless, in March 2022, Viktor Orbán decided to apply for the loan

¹⁴³ Regulation (Eu, Euratom) 2020/2092 of the European Parliament and of the Council of 16 December 2020 on a General Regime of Conditionality for the Protection of the Union Budget. (2020). Official Journal of the European Union L1 433/1.

¹⁴⁴ E. Zalán (2021), 'ECJ told to dismiss Poland and Hungary rule-of-law challenge', *Euroobserver*, 3 December, <https://euobserver.com/rule-of-law/153707>

¹⁴⁵ Infostart (2022a), 'Gulyás Gergely: Nőtt a gyermekvédelmi népszavazás tétje', *Infostart.hu.*, 16 February, <https://infostart.hu/belfold/2022/02/16/gulyas-gergely-nott-a-gyermekevedelmi-nepszavazas-tetje>

¹⁴⁶ P. Cseresnyés (2021), 'Past deadline, Hungary to soon strike deal with eu on covid recovery plan', *Hungary Today*, 1 October, <https://hungarytoday.hu/hungary-soon-strike-deal-eu-covid-recovery-plan/>

as well, mainly owing to the Russian invasion of Ukraine, which raised energy prices and endangered energy security as well.¹⁴⁷

In the meantime, preparation for political campaigning for the 2022 general election began in 2021. For the first time ever, a wide political coalition was forged with the participation of vastly different parties, including the formerly radical right-wing Jobbik and post-communist MSZP. The united opposition decided to run with a joint list and common candidates in every member district.

In order to achieve unity, demonstrate democratic commitment, and involve opposition voters, the parties decided to hold primary elections to find a single prime minister candidate and individual district candidates. After the primary elections, 75% of the voters indicated they would participate in the election, and when this took place, the opposition gained 8% more support among party voters than it had done a month before.¹⁴⁸

The debate over EU recovery funds between the European Commission and the Hungarian government also became a campaign issue. After the European Court of Justice's decision about the conditionality mechanism, the opposition claimed that under Viktor Orbán Hungary would have no opportunity to access the funds, and thus the country would eventually leave the European Union.¹⁴⁹ On the basis of popular approval for Hungary's EU membership,¹⁵⁰ opposition politicians and spin doctors assumed that such a campaign message would resonate well with the majority of the electorate. However, after the Russian invasion of Ukraine, Prime Minister Orbán successfully reframed the conflict by stating that the opposition would send arms and Hungar-

¹⁴⁷ G. Brückner (2022), 'Orbán is requesting the EU loan: After four big blows, Hungary has decided that cheap money is better than expensive money', *Telex*, 25 March, <https://telex.hu/english/2022/03/25/orban-is-requesting-the-eu-loan-after-four-big-blows-hungary-has-decided-that-cheap-money-is-better-than-expensive-money>

¹⁴⁸ J. Fehér (2021), 'Republikon: Az előválasztásban megerősödött az ellenzék, Jakab Péter lefelé húzta a Jobbikot', *Telex*, 11 October, <https://telex.hu/belfold/2021/10/11/republikon-partok-tamogatottsag-szeptember-ellenzek-nov-elte-fidesz-34-szazalek-stagnal-elovalasztas>

¹⁴⁹ Infostart (2022b), 'Ha győz a Fidesz, nem jön uniós pénz – ellenzéki reakciók a Magyarország elleni ítéletre', *Infostart.hu*, 16 February, <https://infostart.hu/belfold/2022/02/16/ha-gyoz-a-fidesz-nem-jon-unios-penz-ellenzeki-reakciok-a-magyarorszag-elleni-iteletre>

¹⁵⁰ Republikon Institute (2021), 'Az Európai Unió megítélése a magyar társadalomban'

ian troops to Ukraine.¹⁵¹ It could have been disturbing for voters that an Eastern neighbour, a non-EU Member State, represented Western values.

The election resulted in a landslide victory of the Fidesz party, so Viktor Orbán could form his fifth cabinet. After the election, the European Commission activated the rule of law conditionality mechanism ('EC activates rule-of-law' 2022),¹⁵² which would potentially also affect the application for funds from the RRF.

3. Taking stock: assessment of various elements of the national plan.

The Hungarian Recovery Plan has nine components that all support green transformation and digitalisation. The components and allocations of the EUR 7.2 billion are: Demography and Public Education (9.19%), Highly Skilled and Competitive Workforce (11.19%), Inclusionary Settlements (3.08%), Water Management 1.76%), Sustainable Green Transport (25.13%), Energy (10.45%), Transition to a Circular Economy (4.10%), Healthcare (34.13%), and Horizontal Measures (0.96%).

- 1. Demography and Public Education:** the primary objective of this component is to create a public education system in which young people and schoolchildren can acquire the skills needed for digital literacy and an eco-conscious attitude. Linked to this is expanding early-learning opportunities. It is also essential to reduce early school leaving and to focus on developing the digital literacy of both teachers and students in light of the experience of distance learning during the COVID-19 pandemic.
- 2. Highly Skilled and Competitive Workforce:** this aims to increase resources for research and development, modernise higher education, and strengthen cooperation between the business and higher education sectors. It gives higher education an important role in adult learning, which can contribute to strengthening competitiveness in the labour market.

¹⁵¹ K. Than (2022), 'Hungary will stay out of Ukraine war, PM Orbán tells rally', *Reuters*, 15 March, <https://www.reuters.com/world/europe/tens-thousands-rally-support-hungarys-orban-election-nears-2022-03-15/>

¹⁵² Hungary Today (2022), 'EC activates rule-of-law conditionality mechanism against Hungary', *Hungary Today*, 6 April, <https://hungarytoday.hu/ec-to-activate-rule-of-law-conditionality-mechanism-against-hungary/>

- 3. Inclusionary Settlements:** this is intended to strengthen social inclusion through the construction and renovation of social housing. It also supports the application of renewable energy on a local scale, thereby contributing to climate objectives by reducing fossil fuel usage.
- 4. Water Management:** this is primarily about protecting nature, raising awareness, and introducing new systems for water management. Water recharge in drought-prone areas has the potential to achieve additional climate objectives.
- 5. Sustainable Green Transport:** this aims to reduce geographical disparities and strengthen local transport infrastructure. It is also intended to develop suburban transportation and alternative transportation (such as bicycles). This component is 25% of the whole budget of the NRP, and 77% of it is intended to be spent on the development of the Budapest metro area suburban railway.
- 6. Energy:** the goal of this component is to increase the security of the electricity grid by integrating renewable energy sources and supporting the use of solar panels and heating upgrades for households.
- 7. Circular Economy:** this is intended to contribute to sustainable growth through the chemical recycling of waste. By strengthening the circular economy, the component can contribute to the carbon goals of the EU.
- 8. Health:** this brings greater efficiency to the health sector through digital solutions. Other objectives include the phasing out of the gratuity system, the improvement of the hospital network, and a digitalisation programme for remote monitoring. This component alone accounts for more than a third of the requested fund. The component involves structural reforms that will make the healthcare system more effective.
- 9. Horizontal Measures:** this supports cooperation between prosecutors, the modernisation of public administration, the expansion of e-government, a reduction in healthcare bribery, and the strengthening of competition in public procurement.

The structural reforms of the healthcare system and the development of the suburban railway in the Budapest metro area add up to half of the NRP budget.

This brief assessment of the Hungarian Recovery Plan demonstrates that in numerous aspects the goals of the document are in line with several recommendations made by the European Commission. According to the 2021 Digital Economy and Society Index, the country is doing well with its broadband and 5G network, even though it lags behind other Member States when it comes to the digital literacy and digital skills of its people.

Another crucial point to note is the low level of digital public services and digital intensity of small and medium enterprises. The 2019 Environmental Implementation Review acknowledges the progress that has been made in waste recycling and in improving air quality, yet more efforts should be made to achieve the targets. The Demography and Public Education, Highly Skilled and Competitive Workforce, Health, and Horizontal Measures components can contribute to strengthening the digital skills of the population and the development of digital public services. The Inclusionary Settlements, Water Management, Sustainable Green Transport, Energy, and Transition to Circular Economy components may support achieving the EU's climate- and environment-related goals. Furthermore, there is a focus on the integration of the marginalised Roma communities, improving houses in rural areas, promoting public procurement competition, and sustainable water management – all of which are in line with the Commission's recommendations.

The disagreement lies not between the European Commission's recommendation and the HRP, but between the plan's goals and the government's political actions. In 2014, the Fidesz government offered new tenants state-owned fields used by an eco-model-farm, which ceased to exist after the decision.¹⁵³ As of May 2022, the prosecutor's office is still investigating a corruption case without accusation involving a

¹⁵³ H. Joó (2021), 'Öt éve tart a nyomozás a híd a munka világába ügyében, de még mindig nem jutott el Farkas Flóriánig', *HVG.hu*, 18 May, https://hvg.hu/itthon/20210518_nyomozas_hid_a_munka_vilagaba_farkas_florian

former Fidesz MP, Flórián Farkas, who oversaw an employment programme for Roma people since 2016 without accusation¹⁵⁴

It is noteworthy that even before the 2022 general elections, teachers protested because their right to strike was restricted by a government decree as part of the pandemic emergency. After the victory of the Fidesz party, the restrictions will be made law.

Overall, the goals listed undoubtedly serve climate goals and resilience if there is another pandemic, as well as benefiting the population's general health. Yet two important policy fields of the recovery plan – namely, education and healthcare – belong to the portfolio of the Minister of the Interior, while environment belongs to the Ministry of Agriculture. This governmental structure indicates the political priorities of the fifth Orbán government, to which the goals of the NRP are subordinate. However, if the Commission endorses the Hungarian NRP, the funds will contribute to the general development of the country, provided that they are allocated according to the NRP. From the Commission perspective, it is not the content of the NRP that is problematic, but rather the lack of an anti-corruption framework, which would ensure the proper allocation of funds. Consequently, the issue is not about policies, but rather about the excessively centralised political structure: there are no real checks and balances, and no official organ that could at least partly oversee the prime minister's actions.

¹⁵⁴ H. Joó (2021), 'Öt éve tart a nyomozás a híd a munka világába ügyében, de még mindig nem jutott el Farkas Flóriánig'

4. Conclusion: future challenges and possible scenarios.

The HRP is in line with former recommendations by the European Commission. The main points are the integration of Roma communities, housing, decreasing geographical inequalities in terms of employment, strengthening digital skills, and offering better digital public services. Digital solutions will also enhance the effectivity of the healthcare system. The plan also aims to contribute to climate targets by promoting the chemical recycling of waste, modernising infrastructure and transportation, and supporting local power production with the help of renewable energy sources (mainly solar panels).

Nevertheless, political conflicts with research institutions, higher and public education stakeholders (which ensued between 2018 and 2022), and the low priority of education, healthcare, and environmental protection in national government suggest that even forward-looking measures will be introduced in a top-down manner without real consultation. Given the ongoing rule of law conditionality process against Hungary and the debates over sanctions against Russia between Hungary and other member states, the plan might not be endorsed in a timely enough manner to achieve the policy targets. A typical feature of the Orbán government is political rather than policy-focused governance, which means that policy goals always have direct political aims. Hence, the political reality can contradict policy ideals.

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CHAPTER 5

Do Not Put the Cart Before the Horse: On the Path to Next-Generation Lithuania

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Abstract

The NextGenerationEU Lithuania Plan has many ambitious goals, ranging from the aim to reduce the negative implications of climate change to the digitalisation of the state and its services. However, these goals alone may fail to provide efficient progress if systemic and chronic flaws are not addressed. The state's plans on digitalisation include updating some state functions and initiatives that are outdated and will not directly benefit the set goals. In terms of the green transition, it is also evident that structural and systemic reviews are lacking. The majority of concerns regarding renewable energy are not primarily caused by insufficient funding but rather by bureaucracy.

KEYWORDS: green transition, digitalisation, optimised resources, bureaucracy, efficient state, unemployment trap, profit tax, quality of law making

1. Introduction to Lithuania's plan.

Under the NextGenerationEU Lithuania Plan (hereafter the Plan),¹⁵⁵ Lithuania has been allocated EUR 2,225 billion in grants under the Recovery and Resilience Facility (RRF) for 2021–2026. However, the preparation of this Plan was made difficult by economic, geopolitical, and political circumstances.

The primary draft plan was significantly changed upon the appointment of a new government in 2020, which had different aims and reforms in its programme.¹⁵⁶ Among its goals was not only the task of supporting the green transition but also reformation of the public sector in order to optimise the state's resources and digitalise its services.¹⁵⁷ The government's goals also included improving the quality of law-making in Lithuania. The newly appointed government emphasised the way in

¹⁵⁵ The Ministry of Finance of the Republic of Lithuania (2021) , Ekonomikos gaivinimo ir atsparumo didinimo planas 'Naujos kartos Lietuva' <https://finmin.lrv.lt/uploads/finmin/documents/files/Naujos%20kartos%20Lietuva%20planas.pdf>.

¹⁵⁶ Lietuvos Respublikos Seimo nutarimas, Dėl Aštuonioliktosios Lietuvos Respublikos Vyriausybės programos', No. XIV-72, 2020-12-11 <https://e-seimas.lrs.lt/portal/legalAct/lt/TAD/973c87403bc311eb8c97e01ffe050e1c>.

¹⁵⁷ Lietuvos Respublikos Seimo nutarimas „Dėl Aštuonioliktosios Lietuvos Respublikos Vyriausybės programos’

which Lithuanian laws were hastily passed, and the lack of impact assessment was noted as one of the most crucial issues in Lithuania's law-making.¹⁵⁸

However, the Plan may be held to illustrate most of the government's concerns regarding the quality of law-making. Regardless of its ambitious goals, the Plan was prepared without analysing the current state of play and without addressing the underlying issues regarding the lack of investment in the green economy and the fruitless digitalisation efforts. Many social partners have noted that investments into green energy are being delayed not because of a lack of interest or funds, but because of the overpowering burdens caused by bureaucracy.¹⁵⁹

It has also been noted that key procedures were not duly followed: stakeholders have noted that a lack of public consultations has significantly affected the efficiency of the Plan's implementation, and that the Plan does not address many of their concerns.¹⁶⁰ This chapter notes that digitalisation efforts will be fruitless without optimising the public sector and eliminating burdensome and unjustified state functions. The same goes for the green transition: many of the Plan's instruments will not bring the desired results if bureaucratic issues are not initially solved. If the underlying issues are not tackled, the funds will be spent inefficiently, and more funds and efforts will be required to fix the problems caused by the Plan's implementation.

2. General assessment of the national recovery plan.

The European Council endorsed Lithuania's Plan in July 2021, and the first funding instalment was received soon afterwards – in August 2021. However, the Plan's preparation and implementation were – and still are – aggravated by ongoing political, geopolitical, and economic struggles.

¹⁵⁸ Lietuvos Respublikos Seimo nutarimas „Dėl Aštuonioliktosios Lietuvos Respublikos Vyriausybės programos“

¹⁵⁹ G. Gaidamavičius (2022), 'Verslui įsirengti nuosavas jėgaines trukdo per menkas finansavimas ir biurokratija', *BNS, LRT.LT*, 18 February, <https://www.lrt.lt/naujienos/verslas/4/1618500/verslui-isirengti-nuosavas-jegaines-trukdo-per-menkas-finansavimas-ir-biurokratija>.

¹⁶⁰ Švietimo NVO tinklas (2021), 'NVO kreipiasi į Ingridą Šimonytę dėl nepakankamo bendradarbiavimo su pilietine visuomene', *svietimotinklas.lt*, 25 March, <https://svietimotinklas.lt/nvo-kreipiasi-i-ingrida-simonyte-del-nepakankamo-bendradarbiavimo-su-pilietine-visuomene/>.

2.1. Economic and political background.

Owing to the political cycle, the new Lithuanian government took over during the Plan's preparation. The so-called DNA plan, prepared by the previous government of the Lithuanian Farmers and Greens party (formerly known as the Lithuanian Peasants and Greens party), was revised, with the Homeland Union coalition (Lithuanian Christian Democrats, the Liberal Movement, and the Freedom Party) making significant cuts to it.

According to Minister of Finance Gintarė Skaistė, the measures set in the DNA plan prepared by the former government would have required EUR 1.3 billion. The majority of the measures amounted to EUR 1.019 billion, which would come from the EU's Economic Recovery and Resilience Facility (RRF). According to the Minister of Finance, it is intended to implement a full range of 42 projects for EUR 484 million. Another 12 projects, for EUR 263 million, are to be remodelled, and 53 projects, worth EUR 587 million, are to be abandoned.¹⁶¹ The Plan now allocates 38% of its total funds to climate investment and 32% to digitalisation.

On 2 July 2021, the European Commission positively assessed the Plan, proposing that the Council should approve it. In ten of the 11 assessment criteria set in the RRF Regulation, the Commission attributed the Plan's highest possible rating (A). The Commission concluded that Lithuania's Plan provides a comprehensive and adequately balanced response to the economic and social situation.¹⁶²

Lithuania was struck by one crisis after another (as explained in more detail later). Thus, the government has focused on the challenges posed by a new wave of inflation that has been caused by the war in Ukraine. Investment in the green and digital transformation of the post-pandemic economy has been relegated to the background.

¹⁶¹ The Minister of Finance Mrs G. Skaitė noted that the plan of the previous government had to be revised, so that the new plan better met the goals set by the newly elected government, most of which the previous plan had neglected to address (BNS, 2021), 'G.Skaitė: iš buvusio DNR plano liko tik 750 mln. eurų vertės projektų,' *15min.lt*, 21 April, <https://www.15min.lt/verslas/naujiena/finansai/g-skaiste-is-buvusio-dnr-plano-liko-tik-750-mln-euru-vertes-projektu-662-1490628>.

¹⁶² J. Saulnier (2022), 'Lithuania's national recovery and resilience plan latest state of play', [https://www.europarl.europa.eu/RegData/etudes/BRIE/2022/729283/EPRS_BRI\(2022\)729283_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/BRIE/2022/729283/EPRS_BRI(2022)729283_EN.pdf).

The Plan was confirmed amid the COVID19 pandemic in April 2021. Soon after it was approved, a migrant crisis struck Lithuania. In May 2021, illegal migration flows from Belarus began to increase. According to the Minister of the Interior, Agnė Bilotaitė, there was a threat of migration from Belarus, and it was considered that Belarusian officials might have been deliberately helping migrants to illegally enter Lithuania.¹⁶³ She later called this 'hybrid warfare'¹⁶⁴. Owing to these circumstances, many public funds were redirected to deal with the migrant crisis, and tensions in the society continued to rise.

One of the most significant crises struck Lithuania when Russia invaded Ukraine on 24 February 2022. Given that a significant portion of Lithuania's trade was connected with Russia, the economy was also significantly hit. For example, representatives of the construction industry stated that Russia's attack would lead to a shortage of essential building materials in Lithuania and an increase in their prices, which would halt state and/or business investments.¹⁶⁵

As a result of these developments, the plan for economic transformation was overshadowed by both war and inflation, which skyrocketed to a record high. In April 2022, adjusted for the consumer price index compared to April 2021, inflation rose to 16.6% from 15.6% in March. A year previously, annual inflation had been at 2.4%. Accordingly, in April 2022, the government approved a EUR 2.3 billion-worth package for 'Mitigating the effects of inflation and strengthening energy independence'.¹⁶⁶ Part of this will be financed from the Plan's funds. It is expected that all

¹⁶³ U. Paulauskaitė (2021), 'Bilotaitė: padaugėjo migrantų iš Baltarusijos, stiprinama sienos apsauga', *BNS*, tv3.lt, 27 May, <https://www.tv3.lt/naujiena/lietuva/bilotaite-padaugejo-migrantu-is-baltarusijos-stiprinama-sienos-apsauga-n1098018>.

¹⁶⁴ ELTA, BNS (2021), 'Bilotaitė: prieš Lietuvą pradėtas hibridinis karas, bet situacija valdoma', *delfi.lt*, 4 June, <https://www.delfi.lt/news/daily/lietuva/bilotaite-pries-lietuva-pradetas-hibridinis-karas-bet-situacija-valdoma.d?id=87389401>.

¹⁶⁵ I. Kuzmicka (2022), 'Kelių statybos rinkos atstovai: situacija įtempta, dalis įmonių gali bankrutuoti', *BNS*, 28 March, <https://www.delfi.lt/verslas/verslas/keliu-statybos-rinkos-atstovai-situacija-itempta-dalis-imoniu-gali-bankrutuoti.d?id=89816757>.

¹⁶⁶ Lietuvos Respublikos Vyriausybės nutarimas „Dėl patobulinto Lietuvos Respublikos 2022 metų valstybės biudžeto ir savivaldybių biudžetų finansinių rodiklių patvirtinimo įstatymo Nr. XIV-745 preambulės, 1, 2, 6, 7, 9, 10, 11, 14, 15, 21 straipsnių ir 1, 2, 3, 4, 5, 6, 7, 11 priedų pakeitimo įstatymo projekto pateikimo Lietuvos Respublikos Seimui“, No. 22-7025, 2022-05-09 <https://e-seimas.lrs.lt/portal/legalAct/lt/TAP/7dbcbe81cf6911ecb69ea7b9ba9d787b?position-InSearchResults=2&searchModelUUID=8af0ff54-358f-4ecf-af59-50b7e03f5251>. Digest made available by LRT (BNS, 2022), 'Lithuania to raise benefits, pensions to tackle effects of rising inflation', 1 April, <https://www.lrt.lt/en/news-in-english/19/1659790/lietuva-to-raise-benefits-pensions-to-tackle-effects-of-rising-inflation>.

measures in the package aimed at increasing renewable energy sources and energy efficiency will contribute to Lithuania's energy independence.

2.2. Goals for digitalisation and the green transition

The most significant digital investments are developing digital Lithuanian language solutions, extending the scope of digital public services (including healthcare) and developing the 5G network.¹⁶⁷ Other investments address country-specific recommendations from the European Commission, such as healthcare, education, and tax compliance investment.

The digitalisation initiatives include the following objectives:

1. Transformation of public information technology (IT) governance;
2. Ensuring the effectiveness of data management and open data;
3. Customer-oriented services.

The most significant projects concerning green transition are:

1. Renewable energy production and storage;
2. Renovation of buildings;
3. Greenhouse gas reduction via changes in transportation.

3. Taking stock: assessment of various elements of the national plan.

There is a concern that some investment projects are less relevant than others. The following analysis explores these critiques and the gaps in the national Plan concerning digitalisation and the green transition. The last section provides a general critique regarding both spheres, as well as the preparation and implementation of the Plan.

3.1. Digitalisation.

The Plan has the primary objectives of transforming public IT governance and ensuring customer-oriented services. Some digital platforms

¹⁶⁷ The Ministry of Finance of the Republic of Lithuania (2021), *Ekonomikos gavtinimo ir atsparumo didinimo planas „Naujos kartos Lietuva“*, <https://finmin.lrv.lt/uploads/finmin/documents/files/Naujos%20kartos%20Lietuva%20planas.pdf>.

are an investment at first, but become a running cost when they require maintenance, cybersecurity efforts, and personnel. Even though Lithuania already has a striking 5% budget deficit this year, the government intends to add even more burden to public finance with some of the measures included in the Plan, primarily those that aim to expand public services and thus public spending.

One of the Plan's goals is 'to increase employment via a digital employment platform',¹⁶⁸ which, although outdated, already exists. The government aims to increase benefits for the non-working population. It is hardly believable that a modern digital employment platform will outweigh the effects of lower incentives to work caused by higher government transfers. In the latest Going for Growth report on Lithuania,¹⁶⁹ the Organisation for Economic Co-Operation and Development (OECD) recalls that the crisis has led to high poverty rates and a relatively weak labour market integration of less-skilled workers. In its economic outlook for Lithuania, the OECD has also recently noted that boosting productivity remains a crucial priority for long-term growth, and that better policies that address skills-related challenges and promote wider diffusion of advanced technologies could be instrumental.¹⁷⁰

However, in its study of the unemployment trap¹⁷¹, the Lithuanian Free Market Institute (LFMI) found that before the crisis caused by COVID-19, with the rapid growth of the economy and the creation of more and more job vacancies, the number of unemployed in Lithuania remained relatively high. Paradoxically, a simultaneous high number of unemployed and record high level of vacancies is noticeable. This may have been due to retraining and reorientation measures for workers, and the unemployed not being targeted or relevant targets being adequately implemented.

¹⁶⁸ The Ministry of Finance of the Republic of Lithuania (2021), *Ekonomikos gaivinimo ir atsparumo didinimo planas „Naujos kartos Lietuva“*.

¹⁶⁹ OECD (2021b), *Economy Growth Report: Lithuania*, <https://www.oecd.org/economy/growth/Lithuania-country-note-going-for-growth-2021.pdf>.

¹⁷⁰ OECD (2021a), *Economic outlook: Lithuania*, https://www.oecd-ilibrary.org/sites/66c5ac2c-en/1/3/2/30/index.html?itemId=/content/publication/66c5ac2c-en&csp_=9b4ecb1aafc11518f34da944ee244a5b6&itemIGO=oecd&itemContentType=book.

¹⁷¹ Lithuanian Free Market Institute (2022), *Nedarbo spąstai Lietuvoje: kaip išsilaivinti?*, <https://www.llri.lt/wp-content/uploads/2022/01/NEDARBO-SPASTAI-Lietuvoje-2022-01-12.pdf>.

People do not have sufficient motivation to enter the labour market owing to high unemployment pay-outs. In the event of a high unemployment trap, opportunity employment costs (benefits for deprived people who have lost their job, free time that can be used for the benefit of the household) are too high: it therefore seems more favourable to live on social benefits and not to work. There is a more general problem: it is more beneficial for unemployed people to get involved in shadow activities, thus contributing to their income. The unemployment trap in Lithuania is well above the Euro Area average.¹⁷² Therefore, the update of the digital employment platform may not succeed in achieving its goals if the primary issues around the unemployment trap in Lithuania are not solved before initiating the digitalisation of possibly ineffective measures.

Another goal of the government is to expand the public services it provides and to digitalise these processes. Such initiatives, among other things, cover the expansion of the e-health portal.¹⁷³ Yet the platform's glitches and imposed burdens must be addressed and resolved beforehand. The previous modernisation of the e-health portal was intended to reduce the administrative duties for doctors, other health sector specialists, and the patients themselves. However, the portal that was implemented faced a lot of criticism¹⁷⁴. Representatives of the health sector publicly noted that the new system causes even more inconvenience, and the difficulties in using the portal result in increased burdens on doctors, which in turn affects patients.

In addition, the portal is criticised for not being convenient enough for patients to use. According to Vygantas Sudaris, the Chairman of the Association of Lithuanian District Hospitals, although government officials widely praised the e-health system, it seems that the 'pump was inflated more than the real result'.¹⁷⁵ Sudaris notes that this system needs to be completely redesigned altogether.¹⁷⁶

172 Lithuanian Free Market Institute LFMI (2020), 'The Unemployment Trap in Lithuania: Among the Highest in Europe', 8 December, <https://www.llri.lt/wp-content/uploads/2020/12/LFMI-Lithuania-essay-2020-12-08.pdf>.

173 <https://www.esveikata.lt/>.

174 A. Tavoraitė (2021), 'Lieja kritiką naujai registracijos pas gydytojus sistemai: pacientams tenka nueiti kryžiaus kelius', tv3.lt, 18 March, <https://www.tv3.lt/naujiena/lietuva/lieja-kritika-naujai-registracijos-pas-gydytojus-sistema-pacientams-tenka-nueiti-kryiaus-kelius-n1085947>.

175 A. Tavoraitė (2021), 'Lieja kritiką naujai registracijos pas gydytojus sistemai: pacientams tenka nueiti kryžiaus kelius'.

176 A. Tavoraitė (2021), 'Lieja kritiką naujai registracijos pas gydytojus sistemai: pacientams tenka nueiti kryžiaus kelius'.

Furthermore, there were cases over the years when governmental IT structures failed. For example, in 2020, the State Enterprise Centre of Registers broke down owing to heavy summer rain. The system is connected to the e-health portal, which also collapsed, significantly hurting health specialists and patients.¹⁷⁷ Considering all of this, the government's ambitions to engage in digitalisation should rely not only on introducing more and more services but must also include specific groundwork to identify the drawbacks of current digitalisation initiatives.

The Plan also includes new subsidy mechanisms for businesses that have trouble getting finance from financial institutions as they are too risky, such as artificial intelligence start-ups. The fact that ordinary investors are reluctant to provide financing for such enterprises means that most of them are destined to go bankrupt. As a result, a large sum of money from subsidies will be lost without any value being created.

Another economically questionable project is the 5G network expansion to rural regions, where it is economically unreasonable for private businesses to invest. Even though such an investment in infrastructure will be very costly, the end number of consumers reaping the benefits will be small. The number of persons living in rural areas (potential users of the 5G network) is declining rapidly, thus disproportionately increasing the cost to the state of maintaining regional infrastructure.¹⁷⁸

In addition, the non-governmental organisation (NGO) sector has noted a lack of safeguards to prevent 'digital laundering'; that is, the implementation of inappropriate or unnecessary digitisation projects.¹⁷⁹ This could also significantly impact the effectiveness of the Plan.

177 D. Plūkūnė (2020), 'Kaip viena liūtis galėjo paralyžiuoti valstybę: kas iš tiesų atsitiko Registrų centre', *DELFI.LT*, 23 July, <https://www.delfi.lt/news/daily/lithuania/kaip-viena-liutis-galejo-paralyziuoti-valstybe-kas-is-tiesu-atsitiko-registru-centre.d?id=84835951>.

178 Lietuvos Respublikos Seimo nutarimas, Dėl demografinės, migracijos ir integracijos politikos 2018–2030 metais", <https://e-seimas.lrs.lt/portal/legalActPrint/lt?jfwid=3sskjj8ht&documentId=9d935050423411e8844381e3890556cc&category=TAK><https://e-seimas.lrs.lt/portal/legalActPrint/lt?jfwid=3sskjj8ht&documentId=9d935050423411e8844381e3890556cc&category=TAK>

179 D. Simėnas, J. Budreikienė (2021), 'Ragina nesudėti RRF plano lėšų j televizorius klasėse kaip j trinkelės kaimuose', *Verslo žinios*, 14 May, <https://www.vz.lt/finansai-apskaita/2021/05/14/ragina-nesudeti-rrf-plano-lesu-i-televizorius-klasese-kaip-i-trinkelės-kaimuose&da3319ae490f58>.

3.2. The green transition.

A large portion of the funds will be spent on the purchase of less-polluting cars in the public sector,¹⁸⁰ even though this is not a long-term solution that can be considered a reform. The goal of lower public sector pollution can only be achieved by changing the requirements for public procurement of transport, as the purchase of cars is more of a running cost than a long-term investment.

Among the top priorities are ensuring energy independence and expanding the green energy infrastructure. Although there are many plans for promoting sun and wind energy (e.g., through compensation and investment in infrastructure), critical systemic issues are not addressed. In particular, wind energy business representatives note that they were promised huge improvements upon the Plan's implementation;¹⁸¹ but no specific progress is evident since their possibilities to invest are severely slowed down by bureaucracy.¹⁸² Companies that have applied for state support and have acquired (a part of) wind or solar power plants are paid out only after the project has been implemented. According to Lithuanian Small and Medium Business Council Chairwoman Dalia Matukienė, this may deter some companies from using renewable energy resources as they would prefer to opt for payments in advance instead of compensations.¹⁸³

Another goal of the government is to promote the production and use of biomethane gas in transport, the production and use of second-generation liquid biofuels, and the development and use of hydrogen technologies.¹⁸⁴ However, there is no such market in Lithuania. This means that the government intends to create both the supply and demand for biomethane gas. This must be scrutinised carefully to ensure that such

¹⁸⁰ The Ministry of Finance of the Republic of Lithuania (2021), *Ekonomikos gaivinimo ir atsparumo didinimo planas „Naujos kartos Lietuva“*

¹⁸¹ G. Gaidamavičius (2022), 'Verslui įsirengti nuosavas jėgaines trukdo per menkas finansavimas ir biurokratija', *BNS, LRT.LT*, 18 February, <https://www.lrt.lt/nauijenos/verslas/4/1618500/verslui-isirengti-nuosavas-jegaines-trukdo-per-menkas-finansavimas-ir-biurokratija>

¹⁸² G. Gaidamavičius (2022), 'Verslui įsirengti nuosavas jėgaines trukdo per menkas finansavimas ir biurokratija'

¹⁸³ BNS (2022) 'Verslui įsirengti nuosavas jėgaines trukdo per menkas finansavimas ir biurokratija', *BNS*, 18 February, <https://www.bns.lt/topic/1912/news/65726831/print/true/>.

¹⁸⁴ The Ministry of Finance of the Republic of Lithuania (2021), *Ekonomikos gaivinimo ir atsparumo didinimo planas „Naujos kartos Lietuva“*

an initiative does not unduly deprive society and business enterprises of free economic activity and protects fair competition.

Another topical issue in Lithuania is the profit tax and its calculation methods, particularly in the context of creating a fostering environment for the green transition. LFMI's study suggests that the currently applied profit tax also plays a significant role in promoting investments into renewable energy. A recent study has showed that profits earned in Lithuania are taxed twice – at the company level and through dividends.¹⁸⁵ The effective corporate tax rate is as high as 27.75%. Since the abolition of the zero rate on reinvested earnings in 2002, a chronic development in corporate tax incentives has been observed. Ongoing initiatives to supplement corporate tax with new benefits confirm the need to waive the taxation of investments. Income tax places a hefty indirect burden on small and medium enterprises. Calculating and controlling income tax costs are regressive: the smaller the company, the higher the ratio of these costs to turnover. This, in turn, demotivates companies from investing in green energy because of the higher costs. A group of MPs registered a draft law to provide a zero-profit tax on investments – particularly those regarding the green transition.¹⁸⁶ However, such an exemption would only put additional administrative burden on companies to prove the nature of their investments. It would therefore be most prudent to enact a broad sector profit tax.

3.3. Common critique.

Superfluous bureaucracy together with rigid and slow implementation on the part of the public sector have become common leitmotifs for the majority of criticism. For example, Klaudijus Maniokas, the Chairman of the Board of ESTEP (which is involved in European social, legal, and economic projects), has shared his doubts about the Plan's implementation. According to Maniokas, it was supposed to be a plan

¹⁸⁵ Lithuanian Free Market Institute (2021), 'Faktai ir analizė. Atsigausti po krizės padės investicijoms palankus pelno mokesčio modelis.', 19 February, <https://www.lfri.lt/naujienu/faktai-ir-analize-atsigausti-po-krizes-pades-investicijoms-palankus-pelno-mokescio-modelis/lrinka>.

¹⁸⁶ Lietuvos Respublikos Seimas, Pelno mokesčio įstatymo Nr. IX-675 5 straipsnio pakeitimo įstatymo projektas, No XIVP-1295, 2022-01-18, <https://e-seimas.lrs.lt/portal/legalAct/lt/TAP/36d0f230785111ecb2fe9975f8a9e52e>.

for fast-paced projects that would quickly pour money into the economy.¹⁸⁷ He stated that speed is a crucial element – even more relevant than Russia’s war in Ukraine and its effect on private investments. The expert also noted that speed is not apparent: ‘Given that, in general, all public investment plans are seriously delayed, it is unlikely that those EUR 200 million will be invested this year’,¹⁸⁸ Maniokas expressed his doubts.

Another line of criticism focuses on the involvement of society. The National Network of Education NGOs has joined more than a hundred Lithuanian NGOs in addressing the prime minister of Lithuania about unfulfilled promises to involve civil society in processes that are critical to the country, mainly connected with designing the Plan.¹⁸⁹ Many NGO representatives have publicly criticised the government for not including the community enough and disregarding many wider opinions and arguments.¹⁹⁰ In June 2021, Business Europe and the Lithuanian Confederation of Industrialists surveyed their members on the Lithuanian plan; those who expressed their views underlined the minimal involvement of social partners in designing the Plan. While stressing that the European Union has generally taken an appropriate emergency response, they also said that the Lithuanian plan fails to make the best use of available funds. In particular, they emphasised the insufficient focus on business competitiveness and research, development, and innovation.¹⁹¹

The Lithuanian Business Confederation noted that the Plan vaguely describes reforms relevant to business and society without specifying the specific implementation measures on which the success of the reforms

¹⁸⁷ D. Simėnas (2022), ‘Ekonominės transformacijos planą užgožė karo ir infliacijos šešėlis’, *Verslo žinios*, 21 April, <https://www.vz.lt/finansai-apskaita/2022/04/21/ekonominės-transformacijos-plana-uzgoze-karo-ir-infliacijos-seselis>.

¹⁸⁸ D. Simėnas (2022), ‘Ekonominės transformacijos planą užgožė karo ir infliacijos šešėlis’.

¹⁸⁹ Švietimo NVO tinklas (2021), ‘NVO kreipiasi į Ingridą Šimonytę dėl nepakankamo bendradarbiavimo su pilietine visuomene’, svetimotinklas.lt, 25 March, <https://svietimotinklas.lt/nvo-kreipiasi-i-ingrida-simonyte-del-nepakankamo-bendradarbiavimo-su-pilietine-visuomene/>.

¹⁹⁰ See, e.g., D. Simėnas (2022), ‘Ekonominės transformacijos planą užgožė karo ir infliacijos šešėlis’; G. Šavelė (2021), ‘Trys (ne)tiesos, lydejusios „Naujos kartos Lietuva“ plano pristatymą’, LRT.LT, 24 April, <https://www.lrt.lt/nauji-jenos/verslo-pozicija/692/1394015/gaja-savele-trys-ne-tiesos-lydejusios-naujos-kartos-lietuva-plano-pristatyma>.

¹⁹¹ Business Europe (2021), ‘Reform Barometer 2021 - Country results for Lithuania’, 11 June, <https://www.business-europe.eu/publications/reform-barometer-2021-country-results-lithuania>.

themselves depends. Therefore, the Confederation calls for combining all investments in consultation with the end-users of the designed products.¹⁹² The Lithuanian Confederation of Industrialists noted that there is no system, clarity, no overall picture of the Plan's implementation, and 'it all gets lost in the general chaos'.¹⁹³ The Confederation also emphasised that it is difficult to say how much will be spent on the technological renewal of companies and the green transformation of companies, and at what stage, and it is not clear which measures will be subsidised and to what extent.¹⁹⁴

The Plan also indicates the quality of law-making in Lithuania. Many social partners have noted that the Plan's public discussions were a mere formality, and that it is destined to be inefficient, since many of the stakeholders' arguments and concerns were addressed.¹⁹⁵ The fundamental principles of law making imply the requirement to hold public consultations and to consider the suggestions made in those forums so that regulations achieve their objectives efficiently.¹⁹⁶

Secondly, research shows that many of the Plan's measures do not tackle the core underlying problems of, for example, reluctance to invest in the green transition and failing digitalisation efforts. The Law on the Legislative Framework also provides the principle of expediency, meaning that a draft legal act must be drawn up, and this must be adopted only when objectives pursued cannot be achieved by other means.¹⁹⁷ Without identifying the core issues and alternatives, quality requirements are not met, while the measures themselves may prove to be inefficient.

192 D. Simėnas, J. Budreikienė (2021), 'Ragina nesudėti RRF plano lėšų į televizorius klasėse kaip į trinkelės kaimuose'

193 D. Simėnas (2022), 'Ekonominės transformacijos planą užgožė karo ir infliacijos šešėlis'

194 D. Simėnas (2022), 'Ekonominės transformacijos planą užgožė karo ir infliacijos šešėlis'

195 Švietimo NVO tinklas (2021), 'NVO kreipiasi į Ingridą Šimonytę dėl nepakankamo bendradarbiavimo su pilietine visuomene', svetimotinklas.lt, 25 March, <https://svietimotinklas.lt/nvo-kreipiasi-i-ingrida-simonyte-del-nepakankamo-bendradarbiavimo-su-pilietine-visuomene/>.

196 Lietuvos Respublikos Teisėkūros pagrindų įstatymas, No. XI-2220, <https://e-seimas.lrs.lt/portal/legalAct/lt/TAD/722be922696011ecb2fe9975f8a9e52e?fwid=-g2wmxtx6l>.

197 Lietuvos Respublikos Teisėkūros pagrindų įstatymas

4. Conclusion: future challenges and options.

It has become evident that efficient allocation of the RRF funds in Lithuania relies heavily on a systemic review of digitalisation and the green transition.

The e-health system case proves that to invest the RRF funds wisely it is necessary to first invest in the current infrastructure and fix mistakes that are already present instead of stacking up additional e-services on an ill-built platform. Given that the e-health system's concerns have not been duly addressed and recur constantly, particular attention must be drawn to the maintenance of IT infrastructure.

Another aspect of digitalisation is whether it is prudent to invest in an outdated instrument that does not deliver the desired results. This applies to the ambition to increase employment via a digital employment platform. To ensure that the RRF funds are used efficiently, it is first necessary to assess the unemployment situation, as solving it requires complex decisions. Given that research shows that the unemployment trap is significantly caused by social benefits granted by the state, the plan to reduce unemployment via a platform may not deliver on its promises.

Another task for the future is to ensure the Plan's efficiency by reducing administrative burdens and bureaucracy. For example, regardless of ambitious promises, producers of wind and solar energy claim that bureaucracy is preventing businesses from setting up new power plants. In addition, the Lithuanian Confederation of Industrialists emphasises that the private sector could invest in solar or wind energy without state aid but is hampered by bureaucratic constraints – particularly the procedure to obtain a permit, which is criticised as being too long and difficult.¹⁹⁸

The current geopolitical tensions and the accumulated effects of various crises have highlighted the importance of time as a resource. Thus, savings and optimisation are expected from the government's ongoing

¹⁹⁸ G. Gaidamavičius (2022), 'Verslui įsirengti nuosavas jėgaines trukdo per menkas finansavimas ir biurokratija'

ing Civil Service Restructuring Concept (e.g., Ministry of Interior of the Republic of Lithuania, 2022).¹⁹⁹ First, in the areas on which the future depends the most (green energy, labour migration, sustainability), it is necessary to reduce bureaucratic chains, time, and financial costs. De-bureaucratisation efforts must also include revising state functions and abolishing unnecessary and unduly prolonged ones. The Civil Service Restructuring Concept indicates that the government intends to review the current functions of the state, and that the state sector could be decreased by at least 15%. Given that the majority of issues regarding green transition and digitalisation are caused by superfluous bureaucracy, the government's ambition to optimise the public sector is a great source of hope that the economy will be allowed to bounce back more swiftly and that in the process public spending will be reduced.

In terms of digitalisation, it is essential that the optimisation of the public sector is completed. Otherwise, without abolishing unnecessary functions and requirements, all digitalisation efforts may prove to be inefficient and costly in the long term, as digital solutions will have to be reviewed following the public sector's optimisation.

The Plan includes new subsidy mechanisms for businesses that are having trouble getting finance from financial institutions – such as artificial intelligence start-ups. The fact that ordinary investors are reluctant to provide financing for such enterprises means that most of them are destined to go bankrupt, subsidies thereby failing to create any value. No negative implications are foreseen by policymakers regarding this issue. Rather, the LFMI suggests a more sustainable and efficient investment strategy. It also states that an investment-friendly corporate tax model will help recovery from the crises and ensure long-term benefits for all.²⁰⁰ A transition to taxation of distributed profits would boost investment and help the economy recover as quickly as possible, as well

¹⁹⁹ See, e.g., Ministry of Interior of the Republic of Lithuania (2022), 'Valstybės tarnybos tobulinimo planas pristatytas įstaigų vadovams', 8 April, <https://vrm.lrv.lt/lt/naujienos/valstybes-tarnybos-tobulinimo-planas-pristatytas-istai-gu-vadovams>.

²⁰⁰ Lithuanian Free Market Institute (2021), 'Faktai ir analizė. Atsigauti po krizės padės investicijoms palankus pelno mokesčio modelis.', 19 February, <https://www.lfri.lt/naujienos/faktai-ir-analize-atsigauti-po-krizes-pades-investicijoms-palankus-pelno-mokescio-modelis/irinka>.

as relieve the burdens on experimental start-ups. At the same time, it would increase jobs, economic productivity, and people's incomes.

Regarding taxation, particularly on investments, President of the LFMI Elena Leontjeva has noted that Lithuania has to catch up with its neighbours Estonia, Latvia, and particularly Poland (where LFMI's suggested taxation mechanism is implemented). Under this model, tax is levied only on dividends paid out, and all funds invested in investment and development are tax-free. This frees up investment funds and eliminates the need for tax profit accounting. At the same time, all related burdens and tensions between taxpayers and administrators and incentives for shadow activities decrease. The experience of neighbouring countries shows that profits and other tax revenues will soon start to grow. Therefore, instead of classifying such a tax regime as involving budgetary losses, it would be most prudent to deem it as a long-term investment.²⁰¹

These issues may be condensed into those involving the quality of law-making in Lithuania. Many social controversies regarding the Plan's preparation, implementation, and overall efficiency may have been better addressed if public consultation procedures had taken place. Given the relevance of the Plan and its funds, it is crucial to enact both *ex ante* and *ex post* impact assessments, which have been lacking for many projects connected to the Plan. To move forward more efficiently, the requirements of law-making (including those of negotiating alternative means, the principle of proportionality, and public consultations) must be upheld for the Plan to actually deliver its goals.

201 Lithuanian Free Market Institute (2021), 'Faktai ir analizė. Atsigauti po krizės padės investicijoms palankus pelno mokesčio modelis.'

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CHAPTER 6

Under House Arrest: Polish National Recovery and Resilience Plan, Climate, and Populism

Milosz Hodun

Abstract

This chapter examines the Polish National Recovery and Resilience Plan (NRRP) from the perspective of climate investments and reforms. It proves that an unambiguous assessment of the plan is not possible. The investments envisaged by the NRRP can make a positive contribution to the sustainable transition and will strongly support important renewable projects. However, while it includes proposals that have the potential to speed up and scale up decarbonisation efforts, there is a lack of ambition, holistic vision of social development, and systematic planning. The chapter critically analyses the NRRP, presenting arguments of various think tanks and non-governmental organisations, both socio-economic and environmentalist. Finally, it embeds the NRRP in the context of extremely polarised political debate in Poland, explaining why it has still not been approved by the European Commission and why it may never be approved.

KEYWORDS: National Recovery and Resilience Plan, renewables, green technologies, transition, coal neutrality

1. Politics over recovery

Polish public discussion about the NextGenerationEU (NGEU) has been long and loud. Long, because politicians from both sides of the political barricade have tried to utilise it for their own purposes. Loud, because it focused on emotions and lofty slogans rather than on visions, numbers, and arguments. The NGEU could be a once in a lifetime chance to emerge stronger from the pandemic, transform economies, create opportunities and jobs across Europe, a once in a lifetime chance to move Poland from the darkness of a coal-based economy and make a leap towards carbon-neutral development. Unfortunately, Poland has not seized this chance yet, and possibly never will. In spring 2022, after some months, the NGEU returned to the Polish public debate, stimulating the imagination of lawmakers and adding fuel to the political fire.

In 2020, the Law and Justice (PiS) government and the opposition was already using the NGEU as just another battlefield, where Euro-enthusiastic and Eurosceptic forces could confront each other in a public arena. The ruling right-wing populists have treated the NGEU in much the same way they approach European integration in general, reducing the European Union (EU) to a purely financial organisation, a handy milch cow that helps to fulfil promises made during election campaigns. PiS furiously opposed the rule of law conditionality mechanism that was introduced by the NGEU.²⁰² When it was convenient to them, discussions about the NGEU were presented as all about sovereignty, tradition, national pride, evil Eurocrats, and even aggressive Germans. The PiS politicians interpreted the NGEU mechanisms through their homophobic lenses, claiming that they were a first step towards forcing Poland to accept policies such as gay marriage and the adoption of children by same-sex couples.²⁰³

And yet the NGEU is one of the most extensive stimulus packages ever financed, aiming to create a more sustainable, more digital, and more competitive Europe. The Recovery and Resilience Facility (RRF) is the centrepiece of the NGEU,²⁰⁴ and Poland was meant to become the fourth biggest beneficiary of this instrument. In other words, the NGEU is an opportunity for the Polish economy, and even the PiS politicians realise this.²⁰⁵ To access these funds, Member States must submit a national Recovery and Resilience Plan (NRRP) to the European Commission, which checks alignment with EU priorities and the country's specific recommendations. Each Member State must allocate a minimum of 37% to climate investments²⁰⁶ and reforms in its NRRP, and a minimum of 20% to digital transition. Additionally, the EU suggests that its members should focus their strategic choices on mature projects, so relatively quick absorption of EU funds during the next two to three years is feasible.²⁰⁷

202 M. Hodun, 'Battle for Money. War of Independence. Polish Right-Wing Populists Narratives about the NGEU', in G.M. Bovenzi (ed.) (2021), *Next Generation EU: A Southern-Northern Dialogue* (Brussels: European Liberal Forum).

203 M. Hodun, 'Battle for Money. War of Independence. Polish Right-Wing Populists Narratives about the NGEU'

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

205 M. Hodun, 'Battle for Money. War of Independence. Polish Right-Wing Populists Narratives about the NGEU'

206 On the climate agenda, the EU's guidelines for Poland suggested renewable energy, energy efficiency, and sustainable transport as key areas for public intervention.

207 <https://think.ing.com/articles/poland-launches-public-consultations-on-the-national-recovery-plan>.

The Polish NRRP (known in Poland as the Krajowy Plan Odbudowy, or KPO) was born in silence. It was adopted without much discussion and with even less consultation – even though it is crucial in democracy to plan solutions in association with stakeholders and the beneficiaries of future activities. Compared with other Member States, consultations in Poland were poor and organised only at the ‘last minute’.²⁰⁸ There was a lot of party politics associated with them, and there were not enough serious debates about the future, much-needed reforms, or actual recovery.

In May 2022, at the time of writing, Poland’s NRRP has still not been approved by the European Commission owing to a conflict over judicial independence in particular and observance of the rule of law principle in general.²⁰⁹ Many Polish politicians see this lack of a green light from Brussels as an excuse to attack the EU for disrespecting Poland and its authorities.

Most mainstream commentators believe that the Polish government will finally compromise and take billions of Euros to boost the economy and in order to win the 2023 general elections,²¹⁰ but as time passes this becomes less likely. The ruling coalition in the Polish Sejm is very slim and depends on radicals. Any concessions to Brussels would result in a major political crisis and, most probably, the dissolution of the coalition by its most anti-European member – United Poland. This party’s leader, Justice Minister Zbigniew Ziobro, has already made threats about leaving the government and presenting his independent plans in 2023 if the prime minister follows the recommendations from Brussels. This would be devastating for Deputy Prime Minister Jarosław Kaczyński and his dream about gaining another term to implement his conservative revolution.

208 <https://oko.press/kpo-skonsultowalismy-wszystko-co-mozliwe-rzadowy-falsz-nad-falsze/>.

209 <https://www.politico.eu/article/poland-not-there-yet-reform-receive-eu-recovery-funds-vdl/>.

210 In light of the upcoming billions of euros from the NGEU, PiS presented the Polish Deal. The new socio-economic programme for 2021–30 was announced in May 2021 and approved by the government in September of the same year, before coming into force at the beginning of 2022. Its aim was to present investment from the NGEU as investments of the PiS party, and to win popular support before the next elections. Unfortunately for PiS, the Polish Deal created chaos and was widely criticised by experts and the public opinion. Under pressure, the ruling party had to withdraw from the programme’s key reforms. See Makowski (2022).

The conflicts are growing. The media report that the government is seriously considering withdrawal from the NGEU.²¹¹ Zbigniew Ziobro has proposed suspension of Poland's EU budget contribution, either in full or partially.

2. From coal to neutrality?

Any discussion about the NGEU and the NRRP that has gone beyond the usual conflict between the Polish government and the opposition has mostly been about general post-COVID-19 recovery. But if there is one topic that has gained public awareness, it is climate and environment. This is because the NRRP is linked with European climate policies, the problems of the Polish coal industry, and energy prices. The latter have become particularly important since early 2022 when they became evident, and painful, to most voters – after the Russian invasion of Ukraine and the shutting off of Russian gas supplies to Poland.²¹² The opposition has stressed that the NRRP must be used to transform the Polish energy²¹³ sector, and that 'sustainable' also means 'Putin-free'.

The PiS government's somewhat ambiguous attitude towards environment and climate, and its unwillingness to take action to reach the EU's ambitious goals is well known. In 2019, Poland was fourth in the ranking of the largest CO₂ emitters in the European Union, fifth in Europe, and twentieth in the world, with a share of nearly 1% in global emissions²¹⁴. The country produces 70% of its electricity from coal,²¹⁵ and the ruling party has close ties with the mining industry (c. 83,000 potential voters).²¹⁶ PiS regularly blames the EU for rising gas and electricity prices,

211 <https://www.rp.pl/kraj/art35659161-ziobro-rezygnacja-z-funduszu-odbudowy-byla-przedmiotem-wielu-rozmow>

212 Poland's long-term gas contract with Russia signed in 1996 would expire at the end of 2022, and the government has repeatedly said it did not intend to extend it. Instead, consecutive Polish governments were building alternatives (including, for instance, the LGN terminal, the Baltic Pipe, an interconnector with Lithuania), thus diversifying Polish energy sources and decreasing dependence on Russia. The latter ended even earlier, when Gazprom announced that deliveries through the Yamal–Europe pipeline would stop in April 2022. Poland uses about 20 billion cubic metres of gas a year, 9.9 billion cubic metres of which come through the Yamal pipeline from Russia.

213 E.g., <https://www.polityka.pl/tygodnikpolityka/rynek/2155571,1,oze-przeciwno-putinowi-jak-obronic-transformacje-energetyczna.read>

214 <https://ourworldindata.org/co2/country/poland>

215 <https://notesfrompoland.com/2022/03/01/coal-drops-from-87-to-71-of-polands-energy-mix-in-a-decade-with-renewables-up-to-17/>

216 Read more: <https://www.politico.eu/article/poland-coal-mining-deep-trouble/>

saying that the country is 'tied to the EU's climate policies' in order to diminish trust in EU institutions in Poland.²¹⁷ In recent years, Prime Minister Mateusz Morawiecki has begun many new conflicts about climate and environment with Brussels and other partners in Europe. The infamous dispute in early 2022 over the lignite mine in Turow is a symbolic example that has had devastating consequences for the Polish economy and the country's reputation.²¹⁸

Nevertheless, Poland cannot pretend that climate change is not among the most important global challenges that will shape the future of the EU and its socio-economic agenda. After much resistance to European climate mechanisms (created particularly for its domestic audience), PiS has had to embrace them; for example, in 2020, it committed to the neutrality goal²¹⁹ and began work on its own climate agenda. In 2021, the Polish government adopted the Energy Policy of Poland until 2040 (PEP2040) (IEA/IRENA Renewables Policies Database, 2022),²²⁰ the first strategic document in this area for 12 years, which set out the direction for development of the energy sector.

PEP2040 provides a vision for energy transformation. It assumes a significant reduction in coal use for energy production. In 2040, more than half of all energy production will be from zero-emission sources, with the role of offshore wind energy, nuclear power (the first plant shall be opened in 2033), and gas being stressed. PEP2040 assumes that coal mines will be closed by 2049, and that the transformation of the mining sector will cost almost EUR 13 billion. This plan was developed in the context of the EU's New Green Deal policy and in light of the upcoming NGEU. It was a key reference for the NRRP.²²¹

217 <https://www.cer.eu/publications/archive/bulletin-article/2021/permanent-eu-recovery-fund-can-help-poland-change>

218 <https://www.dw.com/en/eu-to-withhold-funds-for-poland-over-turow-coal-mine/a-60486445>

219 <https://www.euractiv.com/section/energy-environment/news/warsaw-says-committed-to-eus-climate-neutrality-goal/>

The PiS government still threatens to stop the *Fit for 55* climate package, and has announced it was building a coalition against it. Read more: <https://emerging-europe.com/news/fit-for-55-polands-stalling-casts-dark-cloud-over-eus-climate-goals/>

220 <https://www.iea.org/policies/12882-energy-policy-of-poland-until-2040-pep2040>

221 The main criticism about the PEP2040 concerns its ambitions and the planned speed of necessary reforms (often deemed too slow). Among more specific criticisms, there are supposedly various risks associated with the scenario proposed in the PEP2040, which may threaten Poland's energy security; the document is said to make no reference to jointly agreed EU energy and climate goals, especially in the field of RES and the improvement of energy efficiency; it fails to address the heating sector in an adequate manner; as well as it overlooks trends related to new technologies.

Polish political elites understand that the transition towards a climate and environmentally friendly economy is only possible with EU funds. Very substantial financial injections from the EU have already helped to reduce pollution and improve the energy efficiency of the Polish economy by upgrading infrastructure. The Polish authorities are aware that the NGEU will be able to finance spectacular and necessary projects, bringing the country's economy closer to European sustainability goals: Poland will be among the biggest beneficiaries of the RRF. The Polish NRRP is worth EUR 35.97 billion in total, of which EUR 21.8 billion is related to 'Green energy and reducing energy consumption' and 'Green, smart mobility' (EUR 14.31 billion and EUR 7.51 billion respectively). These two items will receive 60% of all funding.²²²

Both budget lines are further split into grants and loans. In the case of 'Green energy and reducing energy consumption' there will be EUR 5,696 million in grants and EUR 8,617 million in loans, and in the case of 'Green, smart mobility' – EUR 6.81 billion in grants and EUR 700 million in loans. A total of 37.5% of the entire plan will be directed to the state government, whereas local government and the private sector will receive 31.2% each.

²²² It is worth noticing that the analysis of the Green Recovery Tracker sees the Polish NRRP differently: 'Poland's recovery plan achieves a green spending share of 28%, below the EU's 37% climate spending benchmark. Notably, when only considering the measures financed through grants, the plan achieves a green spending share of just 13%. At the same time, 29 of the spending may have a positive or negative impact on the green transition depending on the implementation of the relevant measures, illustrating the importance of further scrutiny during the further planning, review and implementation of the recovery measures' (Zygmunt et al., 2021). https://assets.website-files.com/602e4a891047f739eaf5dfad/60dee83d7aecbeea61dedf0c_Poland_Green%20Recovery%20Tracker%20Analysis_updated.pdf

3. Big numbers, huge projects.

When the Law and Justice government published a nearly 500-page NRRP outlining this spending, it was a surprise for many observers.²²³ Poland seems to be a leading investor in a sustainable post-COVID-19 recovery.

An analysis conducted by European think tank Bruegel shows that Poland has allocated the largest share of its plan to renewables and clean technology. While the EUR 13.49 billion that Warsaw is planning to devote to such facilities (by the end of 2026) is less than the EUR 15.1 billion allocated by Rome, the latter represents only slightly less than 8% of the total spending package tabled by the Italian government and approved by the EU.²²⁴ Meanwhile, clean power and technology spending accounts for 37.5% of the budget submitted in the Polish NRRP (compared with, for example, the Czech Republic's 25.6% or Bulgaria's 22.1%). With the European Commission having required the NRRPs to allocate at least 37% of the funds to a wider 'green transition' definition, Poland surpassed that threshold for renewables and clean tech alone.

One of the key priorities of the NRRP is improvements in efficiency. This covers both the industry and the housing sectors. The Polish government suggested a reform of the white certificates issuing system in order to promote more innovative solutions.²²⁵ What is more, improving energy efficiency of buildings continues to be Warsaw's pet-subject. The NRRP aims to support the insulation of schools, as well as the construction of apartments with a good energy performance for low- and middle-income households.

The Polish NRRP pencils in EUR 836 million for renewables, with just over half, EUR 437 million, being for offshore wind development in the Baltic Sea. This has gained the support of the government and there is substantial interest from both Polish and foreign companies (for in-

²²³ The Polish NRRP broken down by items: resilience and competitiveness (PLN 18.7 billion), health care (PLN 19.2 billion), sustainable transport (PLN 28.6 billion), green energy (PLN 27.4 billion), and digital transformation (PLN 13.7 billion).

²²⁴ <https://www.bruegel.org/publications/datasets/european-union-countries-recovery-and-resilience-plans/>

²²⁵ <https://www.realinstitutoelcano.org/en/analyses/the-polish-recovery-plan-a-careful-step-toward-energy-transition/>

stance, those in Germany and Scandinavia). The development of offshore wind energy is one of the pillars of the country's energy strategy up to 2040. The first wind farms will add up to 5.9 GW of installed capacity in 2030 and around 11 GW in 2040.²²⁶ Poland has tailored the use of financial instruments to increase the economic efficiency and effectiveness of this investment. Port infrastructure for offshore wind will be supported through grants (EUR 437 million), while the development of offshore wind farms (1,500 MW) will be supported through loans (EUR 3.50 million).²²⁷ After negotiations with the European Commission in 2021, the Polish government has agreed to increase the number of renewables in its energy mix to 23.5 GW by 2026.

Compared with offshore, onshore wind energy is much more controversial in Poland. In 2016, the Law and Justice government introduced a restrictive law that severely hindered the construction of onshore wind farms, but this has recently been relaxed.²²⁸ Support for onshore wind energy is obvious in the NRRP: it should translate into an additional 6–10 GW of wind capacity within the next ten years, compared with the current 6 GW.

The Polish government also wants to invest in solar panels for individual households. Photovoltaics has been a boom industry in recent years thanks to state subsidies.²²⁹ The goal is to reach 14.5 GW of installed solar capacity by 2030. The NRRP aims to invest in home and local power storage, which could help to develop local renewable energy sources, and to manage supply and demand. Financial support for pre-investment initiatives focused on energy communities has been included in the plan.

The NRRP also lays out a hydrogen strategy,²³⁰ with a draft being adopted in January 2021. This sets the goal of 2 GW by 2030 for electrolyzers

²²⁶ In May, the European Commission approved the Polish support scheme for offshore wind (European Commission, 2021b). https://ec.europa.eu/commission/presscorner/detail/en/ip_21_2567

²²⁷ https://assets.website-files.com/602e4a891047f739eaf5dfad/60dee83d7aecbeea61dedf0c_Poland_Green%20Recovery%20Tracker%20Analysis_updated.pdf

²²⁸ <https://notesfrompoland.com/2022/03/29/poland-moves-to-end-rule-banning-onshore-wind-construction/>

²²⁹ <https://www.politico.eu/article/poland-solar-power-subsidy-program/>

²³⁰ https://ec.europa.eu/energy/sites/default/files/documents/8_-_polish_hydrogen_strategy_draft_presentation.pdf

using renewable energy. However, it includes low emission hydrogen, generated, for example, from natural gas with nuclear-based electrolyzers (this has a higher carbon footprint than green hydrogen that is produced exclusively from renewable energy sources).

It is no surprise that the Polish NRRP bets on electric transport solutions. For many years, Prime Minister Morawiecki has been promoting electric transport as one of his priorities. His promise to meet the target of one million electric vehicles by 2025 is extremely unrealistic,²³¹ but Poland is very successful in the production of electric buses (the country is the largest exporter in the EU)²³² and batteries (Polish production amounts to almost a third of European demand for electric vehicle batteries).

On paper, most of these objectives and data look impressive. Nevertheless, a deeper analysis draws a slightly different conclusion.

4. The grass is greener on the other side.

The fundamental flaw in the NRRP is that it provides no clear path to Poland's 2050 climate neutrality target or to the much less ambitious targets that are outlined in PEP2040. Experts from the WiseEuropa think tank stress that the investments described in the NRRP rarely include specific (climate) targets, conditionalities, or performance indicators for individual support measures, making it difficult to see how progress will be monitored and how it will contribute to the national and EU climate targets.²³³ The NRRP does not offer quantitative information regarding its contribution to the achievement of the objectives of adopted policy frameworks.

According to critics, the NRRP will not bring about effective and sustainable reductions in greenhouse gas emissions in line with the EU's

231 <https://www.nik.gov.pl/en/news/nik-about-ineffective-support-for-electromobility.html>

232 <https://notesfrompoland.com/2021/02/09/poland-becomes-eus-largest-electric-bus-exporter/>

233 https://assets.website-files.com/602e4a891047f739eaf5dfad/60dee83d7aecbee61dedf0c_Poland_Green%20Recovery%20Tracker%20Analysis_updated.pdf

Renovation Wave strategy objectives. Many measures involve investment in fossil fuels; for example, some of the planned spending will feed the Clean Air programme.²³⁴ The Polish government foresees the greatest share of climate and energy spend, or EUR 3.81 billion out of EUR 6.35 billion, going to 'clean heat'. Over 80% of this will support the 'replacement of heat sources and energy efficiency in dwellings'; therefore, it financially supports the installation of new coal and pellet boilers. It should be mentioned that fuel pellets in Poland have no quality or sustainability standards, which is incompatible with the EU's 'do no significant harm' standard because of the potential risk of increasing CO₂ emissions.²³⁵ Environmentalists also criticise investments in gas, which is seen not as a transition fuel, but rather an energy source that is supposed to replace coal and remain as part of the energy mix in Poland for good (in negotiations with the EU, the Polish government agreed to limit to 40% the share of gas in sources of heat). In this context, NRRP's support for blue hydrogen as something that strengthens dependence on fossil gas has to be noted.²³⁶ The NRRP definitely lacks much-needed ambition.

In general, it is concerning that the government's plan lacks advanced reforms and projects, such as those introducing the economy 4.0.²³⁷ In other words, it lacks proper focus on new technologies that support reaching the goals set at European level and would bring a sustainable economy closer. There is a threat that a significant share of the budget will be thrown into (and wasted on) old administrative tools rather than much-needed innovation.

Additionally, the Polish plan does not contain any general vision of how to add new renewables to the existing system.²³⁸ It is easier to propose flashy mega-investments than to suggest invisible yet systematic

²³⁴ <https://www.gov.pl/web/climate/clean-air-20-programme-launched>

²³⁵ R. Rykowski, (2021) <https://bankwatch.org/blog/latest-unambitious-domino-falls-as-poland-publishes-eu-recovery-spending-plan>

²³⁶ R. Rykowski (2021) <https://bankwatch.org/blog/latest-unambitious-domino-falls-as-poland-publishes-eu-recovery-spending-plan>

²³⁷ <https://think.ing.com/articles/poland-launches-public-consultations-on-the-national-recovery-plan>

²³⁸ R. Rykowski (2021), <https://bankwatch.org/blog/latest-unambitious-domino-falls-as-poland-publishes-eu-recovery-spending-plan>

changes that will bring necessary changes over months or years. Institutions should be strengthened and existing laws should be reviewed, with regulations suggested by the EU being implemented and red tape removed.

The NRRP refers to other documents that are already outdated and/or need to be amended (e.g., the Strategy for Responsible Development), and those that are still not fully completed (e.g., a hydrogen strategy). The Strategy for Responsible Development was adopted five years ago, before the European Green Deal and the new climate targets were set; it needs not only evaluation, but also significant updates.

The Polish NRRP does not include any activities that are aimed at protecting biodiversity, ecosystems, ecological corridors, species, or any measures that will strengthen the protection or enlargement of protected areas. On the contrary, some of the proposed actions undermine environmental legislation – for example, the adoption of a special law on anti-drought investments, which contains new regulations that threaten biodiversity and water resources, is suggested. The Polish programme is based on a philosophy that does not comply with the EU's regulations on drawing up recovery plans. The NRRP should explain how none of the proposed measures and investments will seriously damage nature, and all actions should contribute to protecting biodiversity and not causing damage to nature.²³⁹

Activists accuse the Law and Justice government of leaving citizens out of the planning process and using funds to support low-quality projects. For reforms to be effective, they should be developed with stakeholders, but the government has kept most of the process secret.²⁴⁰ There were only some modest forms of consultations, an example being the online survey that the government published for interested parties and the five online hearings that were organised.²⁴¹ Representatives of var-

²³⁹ <https://bankwatch.org/blog/latest-unambitious-domino-falls-as-poland-publishes-eu-recovery-spending-plan>

²⁴⁰ <https://oko.press/kpo-ustawa-wdrozeniowa-bez-konsultacji-z-ngo/>

²⁴¹ After these online interactions some changes were introduced into the NRRP; for example, EUR 3.25 billion in support of offshore wind-farm construction; EUR 300 million of additional funds for railway lines and EUR 566 million for passenger rolling stock; and an additional EUR 200 million in loans for energy storage.

ious non-governmental organisations, including the Polish Green Network, the WWF, and the ClientEarth, as well as business organisations, signed a letter to Prime Minister Morawiecki that indicated how to ensure the plan complies with the 'do no significant harm' principle. They believe that Poland's NRRP should include the following projects: clean air and energy; mobility and inclusive transport; broadband internet; drought and water pollution solutions; and healthy and safe food.²⁴²

Experts from WiseEuropa also point out that the interplay of RRF funds with national funds is not clear. Poland is currently planning the operationalisation of several financing mechanisms that will, at least partially, support the transition (e.g., the Modernisation Fund, the Just Transition Fund, the Cohesion Policy funds), but the question about their complementarities with the NRRP remains open.²⁴³ The NRRP emphasises, in several instances, that envisaged funds from the RRF will not fully cover the investment needs associated with the given measures, and that an indication of the scale and possible sources of the remaining funds is required. Furthermore, the available information does not make it possible to identify whether the NRRP's funds will be used to cross-finance previously planned or existing programmes.²⁴⁴ Finally, it is stressed that there might be problems with some investments for which the financing instrument has been changed from a grant to a loan, and it is unlikely that the return needed to attract private capital will be generated; it is thus unlikely they will happen at all (e.g., investments in the neutralisation of threats and restoration of large degraded areas and the Baltic Sea).²⁴⁵

Poland's NRRP has also come under more general criticism from experts, representatives of Polish local and regional authorities, and part of the Polish opposition, who point out a lack of independent supervision over the disbursement of funds and a distribution of funds based on political criteria.²⁴⁶

242 <https://bankwatch.org/blog/poland-s-recovery-planning-lacks-public-consultation-and-transparency>

243 <https://bankwatch.org/blog/poland-s-recovery-planning-lacks-public-consultation-and-transparency>

244 <https://bankwatch.org/blog/poland-s-recovery-planning-lacks-public-consultation-and-transparency>

245 <https://bankwatch.org/blog/poland-s-recovery-planning-lacks-public-consultation-and-transparency>

246 <https://bankwatch.org/blog/poland-s-recovery-planning-lacks-public-consultation-and-transparency>

5. Speed-up, scale up.

Evaluation of Poland's NRRP in the area of climate and environment is not an easy feat. The investments envisaged could make a positive contribution to sustainable transition and will strongly support important renewable projects, such as massive investments in offshore wind energy and local solar energy sources. However, while the NRRP includes proposals that have great potential to speed up and scale up decarbonisation efforts, the lack of ambition, holistic vision of social development, and systematic planning, combined with detachment from the newest developments in knowledge and trends in science, lacks a long-term perspective and will prevent full advantage being taken of the NGEU. This is not the time for a moderate approach: the NGEU is a one-time solution that should be used to its fullest potential, in order to counteract the years of neglect and create the foundations for prospective sustainable development.

This is something Polish people want. Poles appreciate the NGEU and expect cooperation across the entire political spectrum to adopt and implement a strong NRRP.²⁴⁷ Politicians see it differently. The Polish Parliament approved the NRRP in a special session, with 290 MPs voting in favour, 33 against, and 133 abstaining. Part of the ruling right-wing coalition voted against the initiative, and Deputy Prime Minister Jarosław Kaczyński had to build an ad hoc alliance with the Left.²⁴⁸ The PiS government was on the verge of collapse, and the democratic opposition was engaged upon an uncontrolled campaign of blame and allegations. Work on the NRRP was nothing like what Polish public opinion expected.

As previously stressed, in May 2022, Poland's NRRP has still not been approved by the European Commission owing to a conflict over its

247 According to a 2021 poll, 66.3 of Poles wanted the opposition to support the government in adopting the NRRP, only 20.5 believed the opposition should abstain, and 2.7% said the opposition should vote against the plan (Kolanko, 2021). <https://www.rp.pl/polityka/art8605121-sondaz-polacy-chca-poparcia-opozycji-dla-pieniedzy-z-ue>

248 The latter was promised by PiS amendments in the NRRP on housing, healthcare, and support for companies struggling owing to pandemic restrictions. What is more, almost one-third of spending will be channelled through local governments, and the government will form a special committee consisting of representatives of municipalities, unions, non-governmental organisations, and employers' associations, to oversee implementation of the plan. Centre-right and liberal parties abstained. The biggest opposition block, the Civic Coalition, did not want to back the Own Resources Decision unless PiS provided guarantees that the EU funds would be spent fairly and transparently.

judicial independence. A multi-billion deal is blowing up in Polish people's faces. All the analyses about the NGEU's impact on the Polish economy, energy, biodiversity, job market, and so on are still purely theoretical. While other Member States are spending, reforming, and boosting their economies, Poland is arguing and making threats. It looks, yet again, as if the country's right-wing government is more interested in preserving conflicts with European institutions for its own electoral benefit than beginning to work for the common good. Under normal circumstances, this would look silly; but when faced with the war in Ukraine and serious threats to European security, it is irresponsible and dangerous.

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Ministry of Climate and Environment (2021). 2030 Polish Hydrogen Strategy [presentation], https://ec.europa.eu/energy/sites/default/files/documents/8_-_polish_hydrogen_strategy_draft_presentation.pdf.

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- Zygmunt, I. et al.** (2021). 'Green Recovery Tracker Analysis: Poland', *Green Recovery Tracker*, https://assets.website-files.com/602e4a891047f739eaf5dfad/60dee83d7aebceea61dedf0c_Poland_Green%20Recovery%20Tracker%20Analysis_updated.pdf.



CHAPTER 7

The Portuguese Plan for Recovery and Resilience: Contribution for a comparative analysis between EU Member States on effects on governmental institutions and policies

Ricardo Silvestre

Abstract

The Portuguese Plan for Recovery and Resilience, part of the European Union Recovery and Resilience Facility, a response to the COVID-19 crisis, means that Portugal will benefit from a financial help in the range of EUR 13.9 billion in grants and EUR 2.7 billion in loans, to be used in a time span of five years. This creates an enormous opportunity for the country to recover, together with the rest of the Union, from a once in a century pandemic. The PRR is expected to have a wide-ranging effect in the country, starting with badly needed changes on governmental institutions and policies. Some are of a structural nature, while others will focus on necessary investments in digital and climate transition. These alterations in governing thinking and setting of long-term goals can be included in a comparative analysis with other models of management of funds of this nature and magnitude.

KEYWORDS: Portugal, European Union, NextGenerationEU, digital transition, climate transition, COVID-19

1. Overview of the Portuguese Plan for Recovery and Resilience

On 16 June 2021, the European Commission adopted a positive evaluation of the Portuguese Plan for Recovery and Resilience (PRR, in the Portuguese acronym), part of the European Union Recovery and Resilience Facility, a response to the COVID-19 crisis that had devastating impacts on Portuguese (and the EU) health, social, and industries sectors.²⁴⁹

This meant, for Portugal, a financial help in the range of EUR 13.9 billion in grants and EUR 2.7 billion in loans to be used in a time span of five years. For an attentive part of the Portuguese society, this meant a tremendous opportunity for the country to recover, together with the rest of the Union, from a once in a century pandemic. On the other hand, it was also (very) present a decades long fear that Portuguese

²⁴⁹ European Commission (2021), 'NextGenerationEU: European Commission endorses Portugal's €16.6 billion recovery and resilience plan', Press Release, Brussels, 16 June, https://ec.europa.eu/commission/presscorner/detail/en/ip_21_2985.

rulers and legislators would squander, once more, this kind of help, due to funds being misappropriated and/or misused because of ineptitude and corruption.²⁵⁰

Aware of the momentous occasion, from the beginning of the process, the Portuguese government made a wise choice to involve national and regional partners: first this implied reaching out to several stakeholders; second, the Prime Minister nominated a recognised expert, and a consensual choice, to lead the elaboration of a comprehensive proposal for what would be the final plan to present to the European Commission.²⁵¹ The invitation to the expert, as well the creation of the National Commission for Monitoring the Recovery and Resilience Plan²⁵² was deemed by analysts, journalists, and the public opinion, as a sensible choice, allowing to avoid the pitfalls presented above.

Resulting from this initial work, and after a consultation with the public, a plan consisting of 836 investments and 32 reforms was presented with the aim of making the country more sustainable and resilient, ready to face the challenges from, and reap the benefits of, a successful digital and green transition. In the proposed plan, 38% of the funds would be allocated for green transition projects, and 22% for digital ones.²⁵³ A quick initial overview of some crucial investments shows that there are needs with immediate effects, while others have a more long-term horizon.

On environmental policies, there will be a considerable investment in forest fire prevention something that has been an affliction for continental Portugal for years on end.²⁵⁴ Equally, due to the ancient con-

250 J.P. Batalha (2021), 'Take the money and run: corruption risks in the next round of EU funds in Portugal', in F. Sampalmieri and G.M. Bovenzi (eds.), *Corruptissima Re Publica Plurimae Leges* (Brussels: European Liberal Forum), p.88. ISBN: 978-2-39067-017-9

251 Agência Lusa (2021), 'António Costa Silva já é presidente da comissão que vai acompanhar o PRR', *Eco Sapo*, 18 May, <https://eco.sapo.pt/2021/05/18/antonio-costa-silva-ja-e-presidente-da-comissao-que-vai-acompanhar-o-prr/>.

252 República Portuguesa (2021), 'Primeiro-Ministro na reunião da Comissão Nacional de Acompanhamento do Plano de Recuperação e Resiliência', Press Release, Lisbon, 19 May, <https://www.portugal.gov.pt/pt/gc22/comunicacao/noticia?i=primeiro-ministro-na-reuniao-da-comissao-nacional-de-acompanhamento-do-plano-de-recuperacao-e-resiliencia>.

253 European Commission (2022), 'Portugal's recovery and resilience plan'. *European Union*, https://ec.europa.eu/info/business-economy-euro/recovery-coronavirus/recovery-and-resilience-facility/portugals-recovery-and-resilience-plan_en.

254 F. Leite-Ferreira, L. Lourenço, & A. Bento-Gonçalves (2013), 'Large Forest fires in mainland Portugal, brief characterization', *Méditerranée*, 121, pp. 53-65, <https://journals.openedition.org/mediterranee/6863>

structions that characterise most of the cities in Portugal, there is a need to make the building stock more energy-efficient - considering both residential and public buildings. Another important investment is the increase of public transportation network - particularly in the cities of Lisbon and Porto - which will decrease the difficulty to access these cities and diminish unnecessary traffic. On one hand, such investments will bring further benefits associated to the environment (due to less pollution), while on the other hand playing a significant role in developing energy independence, because of fossil fuels usage.

The increase of the public transportation network is also connected to another important investment, that is, the creation of 15,000 electric vehicle charging stations by 2025.²⁵⁵

Portugal also needs to invest in the training of its workers, to better face the increased digitalisation of labour and markets. The development of digital skills - both of basic and advanced levels - as well as the familiarisation with digital technologies, and an equal and easy access to quality education and training, will represent a step forward for Portugal under several aspects: the country will stop being so dependent on tertiary services,²⁵⁶ there will be an increase of foreign capital influx for industry, and finally it will incentivize domestic entrepreneurship.

However, one of the main undertakings that are necessary to make the PRR better streamlined, is a set of reforms that address structural problems in Portuguese society. These include the needs for measures that would enable sustainable growth, increased productivity, a decrease of gaps in human capital, enhanced public financial management, develop the efficiency of public administration and of the judicial system, create income convergence competitiveness of the economy, capitalisation of enterprises, more business research, boosting the efficiency of the health and long-term care services, and better housing affordability, among others.

²⁵⁵ European Commission, 'Portugal's recovery and resilience plan'.

²⁵⁶ A. Bugge (2018), 'Portugal's flourishing tourism becomes economic mainstay', *Reuters*, 16 March, <https://www.reuters.com/article/us-portugal-tourism/portugals-flourishing-tourism-becomes-economic-mainstay-idUSKC-N1GS1YF>.

All these reforms and investments are to be started and completed in a somewhat short period of time, since they have to be finalized, or at least should be in place, by August 2026.²⁵⁷ These deadlines are a challenge on itself, since it requires breaking from what has been a somewhat 'Portuguese way of doing things' when it comes to structural changes.

2. General assessment of the National Recovery Plan

In *typical fashion* for Portuguese society (to look for simpler terms to obtain a maximum effect), the possibility of the creation of the Next Generation EU fund (NGEU), via the emission of EU SURE social bonds,²⁵⁸ made Prime-Minister, António Costa, refer to the funds as a... 'bazooka',²⁵⁹ a catchy phrase quickly picked-up by the media and the average citizens. Indeed, as negotiations progressed, the term was used in running jokes, mixed with cynical scepticism, if, in the end, the bazooka was going to be no more than a 'pellet gun', a 'nuclear bomb', or something in between.

Eventually, the most optimistic predictions materialised, and Portugal had once again the opportunity to benefit from a considerable financial help from the EU. It was also good news that, early on, the European Commission gave a positive assessment of Portugal's PRR under the Recovery and Resilience Facility (RRF) criteria. Of particular importance was the consideration that the investments, and reforms feature, in the plan (particularly in the green and digital transitions), would 'contribute to effectively addressing challenges identified in the European Semester; and strengthen its growth potential, job creation and economic and social resilience'.²⁶⁰

²⁵⁷ European Commission, 'Portugal's recovery and resilience plan'.

²⁵⁸ European Commission (2020), 'European Commission issues first emission of EU SURE social bonds', Press Release, Brussels, 21 October, https://ec.europa.eu/commission/presscorner/detail/en/IP_20_1954.

²⁵⁹ RR Sapo (2020), 'Costa anuncia fundo de emissão de dívida europeia. 'Se tudo se concretizar será uma bazuca'', Radio Renascença, 23 April, <https://rr.sapo.pt/2020/04/23/economia/costa-anuncia-fundo-de-emissao-de-divida-europeia-se-tudo-se-concretizar-sera-uma-bazuca/noticia/190392/>.

²⁶⁰ European Commission, 'NextGenerationEU: European Commission endorses Portugal's €16.6 billion recovery and resilience plan'.

The need for State reforms (known for a long time in Portugal), was also acknowledged by the Commission, which considered the plan to have an 'extensive set of mutually reinforcing reforms and investments that contribute to effectively addressing all or a significant subset of the economic and social challenges'; moreover, a comprehensive and adequate balance was found for an economic and social recovery with the application of the PRR in line with the six pillars of the RRF Regulation.²⁶¹ The vote of confidence by the EU on the work done by the government in constructing the PRR was well received by the majority of Portuguese society. Such feedback was particularly due to legitimate expectations that the (very) large amounts of money would be used appropriately, as Portugal was one of the countries in the Union more affected by the pandemic.

Apart from sanitary and health shockwaves to the system, the multiple confinements, and restrictions to traveling took a serious toll on the finances of the state and of small enterprises, due to a strong dependence on tourism as a source of revenue,²⁶² but also due to the high levels of public debt, decrease of GDP and a GDP shock.²⁶³ After an initial denunciation that the period allocated for public debate was relatively short (15 days), criticism was aimed at the government by some civil societies' organizations, like economist groups, non-profits watchdogs, civic associations,²⁶⁴ and from the political opposition,²⁶⁵ which

²⁶¹ European Commission, 'NextGenerationEU: European Commission endorses Portugal's €16.6 billion recovery and resilience plan'.

²⁶² A. M. López (2021), 'Total contribution of travel and tourism to the gross domestic product in Portugal in 2019 and 2020', *Statista*, 2 September, <https://www.statista.com/statistics/770057/travel-and-tourism-s-total-contribution-to-gdp-in-portugal/>.

²⁶³ A. Sapir (2020), 'Why has COVID-19 hit different European Union economies so differently?', *Policy Contribution* 2020/18, (Brussels: Bruegel).

²⁶⁴ Pubillionico (2021), 'O Plano de Recuperação e Resiliência – da pseudo consulta pública à falta de coragem para imaginar um futuro diferente', Pubillionico, 3 March, <https://www.pubillionico.pt/2021/03/03/opinio/noticia/plano-recuperacao-resiliencia-pseudo-consulta-pubillionica-falta-coragem-imaginar-futuro-diferente-1952967>; Agência Lusa (2021a), 'SEDES critica falta de 'visão estratégica ambiciosa' do Plano de Recuperação e Resiliência', *Eco Sapo*, 24 February, <https://eco.sapo.pt/2021/02/24/sedes-critica-falta-de-visao-estrategica-ambiciosa-do-plano-de-recuperacao-e-resiliencia/>; Agência Lusa (2021b), 'Plano de Recuperação e Resiliência divide autarcas entre o agrado e o descontentamento', *Jornal de Negócios*, 27 February, <https://eco.sapo.pt/2021/02/24/sedes-critica-falta-de-visao-estrategica-ambiciosa-do-plano-de-recuperacao-e-resiliencia/>; J. F. Almeida (2021), 'Economistas rejeitam PRR', *Dinheiro vivo*, 10 April, <https://www.dinheirovivo.pt/opinio/economistas-rejeitam-prr-13573981.html>.

²⁶⁵ A. Cristas (2021), 'Plano de Recuperação e Resiliência: os grandes ausentes', *Diário de Notícias*, 22 February, <https://www.dn.pt/opinio/plano-de-recuperacao-e-resiliencia-os-grandes-ausentes-13376015.html>; J. M. Sarmen- to (2021), 'Os vinte erros do Plano de Recuperação e Resiliência', *Eco Sapo*, 1 March, <https://eco.sapo.pt/opinio/os-vinte-erros-do-plano-de-recuperacao-e-resiliencia/>; RTP (2020), 'Críticas e desilusão. Partidos céticos face ao Plano de Recuperação e Resiliência', RTP, 21 September, https://www.rtp.pt/noticias/economia/criticas-e-desilusao-partidos-ceticos-face-ao-plano-de-recuperacao-e-resiliencia_n1260741.

led the President of the Republic to promote a round of 30 auditions to evaluate the proposed PRR.²⁶⁶

However, it was interesting to observe that the major chorus of disapproval about the scope and ambition of the plan came from two political parties, the Portuguese Communist Party and the Left Bloc (also communist inspired), that had at the time represented 15.8% of the Portuguese electorate.²⁶⁷ These two political parties are characterised for not believing in the European Union project, with calls for the country to exit the Union and/or the Euro Zone, or for the end of the Euro in Portugal. Despite initial controversies, the effects COVID-19 pandemic forced the NGEU and the Recovery and Resilience Plan to become more than merely governing instruments, but rather the central pieces in the administering strategy pursued by the government in functions at the time. This strategic decision was, for example, recommended by the Portuguese Public Finance Council, an independent body that oversees the compliance with budgetary rules and the sustainability of public finances in Portugal.²⁶⁸

When it became known that the Portugal could possibly receive an extra EUR 1.5 billion to EUR 1.6 billion, resulting from a recalculation of the subsidies for Member States (since these were based on the projections and not concrete data, 30% of the PRR support is calculated based on the accumulated loss of GDP in real terms in 2020 - 2021 period), the appeals to spend the RRP money to solve other structural problems were immediately eared. For example, the recognised expert mentioned above, reclaimed more support to enterprises that were not 'enough protected, which doesn't create the conditions for further investments.²⁶⁹

266 D. Santiago (2021), 'Marcelo quer tirar a limpo críticas ao Plano de Recuperação', *Jornal de Negócios*, 5 April, <https://www.jornaldenegocios.pt/economia/politica/detalhe/marcelo-quer-tirar-a-limpo-criticas-ao-plano-de-recuperao>.

267 Ministério Administração Interna (2019), 'Eleições Legislativas 2019, Resultados Globais', *República Portuguesa*, <https://www.eleicoes.mai.gov.pt/legislativas2019/resultados-globais.html>.

268 J. Milheiro (2022), 'As sete pragas para o novo Orçamento do Estado', *TSF*, 17 March, <https://www.tsf.pt/portugal/economia/as-sete-pragas-para-o-novo-orcamento-do-estado-14689024.html>.

269 T. Varzim (2022), 'António Costa Silva, o senhor PRR, é o novo ministro da Economia', *Eco Sapo*, 23 March, <https://eco.sapo.pt/2022/03/23/antonio-costa-silva-o-senhor-prr-e-o-novo-ministro-da-economia/>.

In the meantime, political forces in the opposition, started to shoot in every direction, asking for extensions to the original PRR, including more investments in adaptation of the territory to climate change, water preservation, green agriculture, and housing warming, and to cover needs not found in the digital and energy transition, but rather in the resilience package. This is the third strategic dimension in the Portuguese PRR with a main investment being the increase of capital at the Portuguese Development Bank (Banco Português de Fomento) as an instrument to compensate lack of capital in the small and medium enterprises more affected by the pandemic. This, following the 'applicable rules regarding support from the state, and with companies that are strategic and/or operational and financially viable'.²⁷⁰ Moreover, further suggestions for the utilisation of this extra amount were outside the scope of the PRR (like tax reductions for citizens or money to fight corruption).²⁷¹

Despite the overwhelming potential benefits resulting from the PRR application, a large part of the Portuguese population lacks a comprehensive knowledge of the package. In a scientific poll of 1,123 respondents, conducted in May 2021, 49% of the population said they did not know what the plan was about, and 38% had an idea but not a detailed understanding. Also, only 30% of the respondents believe that the funds would have a *positive* benefit on their lives, with 20% not having an opinion on it.²⁷² These meagre results can be attributed to a historical disbelief that these kinds of measures, as big as they may be, will have a positive effect on the larger society, but also due, at the time of the poll, to other more pressing concerns like going through a pandemic that had a serious physical and emotional impact on the Portuguese society.

²⁷⁰ Recuperar Portugal (2022), '106: Capitalização de empresas e resiliência financeira/ Banco Português de Fomento', *República Portuguesa*, <https://recuperarportugal.gov.pt/2021/06/13/investimento-re-c05-i06/>.

²⁷¹ M. Silveiras (2022), 'Partidos querem usar folga do PRR na habitação e ambiente', *Eco Sapo*, 21 March, <https://eco.sapo.pt/2022/03/21/partidos-querem-usar-folga-do-prr-na-habitacao-e-ambiente/>.

²⁷² A. Martins (2021), 'Sondagem. Portugueses dão nota positiva a políticos e entidades durante a pandemia', *RTP*, 14 May, https://www.rtp.pt/noticias/economia/sondagem-portugueses-dao-nota-positiva-a-politicos-e-entidades-durante-a-pandemia_n1319696.

3. Taking stock: Assessment of various elements of the national plan

Due to a (yet) decreased application of the funds (an issue that will be tackled below), one possible exercise regarding the taking stock of the Recovery and Resilience Plan can be done on what is the contribution that the Portuguese case can give to a comparative analysis between Member States, particularly when thinking about the effects of such an endeavour on governmental institutions and policies.

The importance of the correct management of the PRR, and the need to view it as a priority for the nation was, for example, very visible during the Portuguese political crises of October 2021, when the national budget proposed by the government was refused by a majority in the Parliament, and therefore the 2021 elections had to be scheduled for 60 days after the fall of the executive branch. This created the fear that such a political paralysis could have had a negative effect on the management of the PRR. Quickly, from the Prime Minister to the Portuguese Commissioner for Cohesion and Reforms in the EU, assurances were given that the application of the plan would not be delayed²⁷³ or affected in any way.²⁷⁴

As a result of the elections of the 30 January 2022, with the clear victory of the incumbent Prime Minister António Costa, which was in the genesis of the process of developing a financial aid to recover from the COVID-19 pandemic, there was an interesting reshuffling of positions in the new government. For example, a new Secretary of State position, called Digitalization and Administrative Modernization, was created under the responsibility of a former Director-General of the DG CONNECT, the Directorate-General for Communications Networks, Content and Technology in the European Commissioner for Internal Market. This new body will report directly to the Prime Minister.²⁷⁵

²⁷³ J. N. Mateus (2021), 'António Costa livre para gastar a bazuca até às eleições: 'Não vamos adiar nada'', *Expresso*, 9 November, <https://expresso.pt/economia/2021-11-09-Antonio-Costa-livre-para-gastar-a-bazuca-ate-as-eleicoes-Nao-vamos-adiar-nada-797dc64f>.

²⁷⁴ Agência Lusa (2021c), 'PRR não é condicionado pela crise política, diz Elisa Ferreira', *Jornal de Notícias*, 29 October, <https://www.jornaldenegocios.pt/economia/detalhe/prr-nao-e-condicionado-pela-crise-politica-diz-elisa-ferreira>.

²⁷⁵ Agência Lusa (2022), 'Mário Campolargo é o novo Secretário de Estado da Digitalização e da Modernização Administrativa', *Tek Sapo*, 27 March, <https://tek.sapo.pt/noticias/negocios/artigos/mario-filipe-campolargo-e-o-novo-secretario-de-estado-da-digitalizacao-e-da-modernizacao-administrativa>.

A decision was also made to include a Secretary of State for Environment and a Secretary of State for Energy, in the Ministry of Environment and Climate Action, which was considered by some of the stakeholders as a double edge sword: positive due to the interchange of the areas, but with the fear that energy policies might take priority over the environmental ones.²⁷⁶

3.1. Decentralisation.

When thinking about the management of funds and maximum benefit of their application, another important effect of the PRR is its potential contribution to a political and economic decentralisation in Portugal. A closer relationship between the municipalities and the central government paves the way for a new law on local finances that might enable municipality budgets execution to get closer to the EU average level, and this should be considered relevant when thinking about execution of funds allocated by the PRR.

This change also reflects one of the concerns regarding the way of managing development funds and economic bailouts: a tendency, in Portugal, for all to be managed centrally, from the Council of Ministers to the specific Ministries based in Lisbon.

In fact, this proclivity for centralisation can be observed, even if by status-quo, in the Law-Decree No. 29-B/2021 which Establishes the governance model of European funds allocated to Portugal through the Recovery and Resilience Plan and where one can read under Article 2, General principles, that 'The general principles that the governance of the PRR complies with are: a) The principle of centralization of management and decentralization of execution (...)'.²⁷⁷ This tendency to concentrate processes in the central government is easily understood when thinking historically how governing policies have, most of

²⁷⁶ Agência Lusa (2022a), 'Ambientalistas preocupados com Ambiente e Energia na mesma secretaria de Estado', *CNN Portugal*, 23 March, <https://cnnportugal.iol.pt/novo-governo/organizacoes-ambientalistas/ambientalistas-preocupados-com-ambiente-e-energia-na-mesma-secretaria-de-estado/20220323/623bab970cf2cc58e7ea30cf>.

²⁷⁷ Recuperar Portugal (2022a), 'Presidência do Conselho de Ministros. Decreto-lei n.º 29-B/2021 de 4 maio, Sumário: Estabelece o modelo de governação dos fundos europeus atribuídos a Portugal através do Plano de Recuperação e Resiliência', <https://recuperarportugal.gov.pt/wp-content/uploads/2021/10/Governacao-PRR.pdf>, p. 11-(3).

the time, assumed a paternalistic position that citizens, and even local power, are not as knowledgeable as they need to be involved in policy making. Fortunately, this tendency has changing progressively with positive examples like consultation time for public debate on macro-decisions, participatory budgets, more economic autonomy regionally, and a promised referendum in 2024 regarding an even more decentralised structure of political power.²⁷⁸

3.2. Transparency.

Another important initiative, now reinforced with this influx of EU funds, is for Portugal to increase transparency in its decisions and processes, aimed at avoiding a lack of oversight and possible fraud and mismanagement.²⁷⁹ In fact, several structures are in place for internal controls and allow early identification and correction of errors in the eventuality of duplication on the allocation of funds. Such structures deal with the risks associated with the management of the PRR and have the goal to ensure the protection of the financial interests of the Union, as well as to detect, report, and correct cases of fraud, corruption, and conflict of interest. The documental support for this kind of actions is public and of easy access, and ranges from a Code of Ethics and Conduct, a Declaration of Policy Antifraud, to the Plan for the Management of Risks of Corruption and Connected Infractions. This internal control system is under the purview of a Commission for Audit and Control.

Another important measure was establishing, in April 2021, a Portal More Transparency (Portal Mais Transparência)²⁸⁰ where the average citizen, stakeholders and other agents, can learn more about the management of the European funds²⁸¹, in particular, of the RPP.²⁸² This includes an overview of the life cycle of investments, from inception to

278 Agência Lusa (2021d), 'Costa promete dar 'voz ao povo' sobre a regionalização em 2024', *Jornal de Negócios*, 11 December, <https://www.jornaldenegocios.pt/economia/politica/detalhe/costa-promete-dar-voz-ao-povo-sobre-a-regionalizacao-em-2024>.

279 Brussels Times (2021), 'Investors concerned about lack of transparency and legal protection in EU recovery', *The Brussels Times*, 23 June, <https://www.brusselstimes.com/news/eu-affairs/174877/investors-raise-concerns-about-lack-of-transparency-and-legal-protection-in-the-eu>.

280 <https://transparencia.gov.pt>.

281 Mais Transparência (2022), 'Fundos Europeus', *República Portuguesa*, <https://transparencia.gov.pt/fundos-europeus/tema/>.

282 Mais Transparência (2022a), 'Sobre o plano', *República Portuguesa*, <https://transparencia.gov.pt/fundos-europeus/prr/sobre-o-plano>.

the closing, information concerning benefits provided to organisations, and the contracts that have been signed.

As presented above, when thinking about the relationship between central and regional governments, transparency shall also increase.²⁸³ Enhanced transparency has already proved to produce positive outcomes, with a considerable number of daily and monthly views in the Portal,²⁸⁴ which can grow even more with a progressive decentralisation in the management of the PRR.

These are must do steps in Portuguese society, even more justified because of the size of the financial package, and the necessity to be able to deal with the continuous concern - from average citizens and mostly all policy makers and legislators - of obscurity in decision making and the management of funds. For example, the already mentioned expert chosen by the by the Prime Minister to lead the National Commission for Monitoring the Recovery and Resilience Plan made it abundantly clear in the process leading to him assuming his position that the creation of the Portal was 'absolutely decisive to solve the problem of trust',²⁸⁵ a trust that involves citizens, investors and goes up to the EU institutions. This also aims to solve the 'Portuguese problem', sometimes real, but sometimes unfairly attributed by some of our friends from central Europe²⁸⁶ of lightness and obliviousness.

3.3. Bureaucracy, climate, and digital transition.

Another pressing need is to have celerity of processes and removing bureaucracy so that matters might move forward in an effective way. More celerity can translate to swiftness when dealing with stakeholders and enterprises applying for funds, or with the average citizen when

283 Mais Transparência (2022c), 'Municípios', *República Portuguesa*, <https://transparencia.gov.pt/municipios/tema/>.

284 República Portuguesa (2022), 'Lançada nova versão do Portal Mais Transparência com maior detalhe sobre os fundos europeus', *Press Release*, Lisboa, 21 March, <https://www.portugal.gov.pt/pt/gc22/comunicacao/noticia?i=lançada-nova-versão-do-portal-mais-transparencia-com-maior-detalhe-sobre-os-fundos-europeus>.

285 M. Silveiras (2022a), 'Portal Mais Transparência disponibiliza mais dados sobre fundos europeus', *Eco Sapo*, 21 March, <https://eco.sapo.pt/2022/03/21/portal-mais-transparencia-disponibiliza-mais-dados-sobre-fundos-europeus/>.

286 Portugal News (2017), "Portugal spent EU cash on wine and women", *Portugal News*, 20 December, <https://www.theportugalnews.com/news/portugal-spent-eu-cash-on-wine-and-women/44272>; E. Schaart (2020), 'Dutch finance minister acknowledges lack of empathy on corona bonds', *Politico Europe*, 31 March, <https://www.politico.eu/article/dutch-finance-minister-acknowledges-lack-of-empathy-on-corona-bond/>.

they need to access services from the state.²⁸⁷

Celerity is also needed to use the PRR to its completion. Portugal was the Member State to have its RPP accepted by the EU,²⁸⁸ but should not be the last to execute it to its fullness. In April 2022, there was a positive preliminary assessment of Portugal's payment request for EUR 1.16 billion, including EUR 553.44 million in grants and EUR 609 million in loans, resulting from the achievement of the 38 milestones and targets selected in the Council Implementing Decision for the first instalment.²⁸⁹ In this case, it is essential to bear in mind that, overall, the funds allocated by the EU amounted to EUR 13.9 billion in grants and EU 2.7 billion in loans (given that EUR 2.2 billion was already transferred via pre-financing in August 2021).²⁹⁰ In Spring 2022, Portugal had percentages as high as 35% in climate transition and 49% in digital transition of approvals, which means the approvals of procurements established with direct (entities responsible for the concrete and financial execution of reforms and investments) and intermediate beneficiaries (entities globally responsible for the execution of the reforms and investments which select third-party entities who are the final beneficiaries and are responsible for the execution of the investments and the goals).

Regarding the payments to direct and intermediate beneficiaries, the numbers are even more discrete: 5% in both strategic dimensions. However, there are also positive aspects, the most important one being the fact that both climate and digital packages reached the 100% limit for procurements, aiming to use EUR 3,059 billion for the former and the EUR 2,258 billion for the latter. Part of this funds will be applied in key areas that can translate to important contributions for the rest of

287 República Portuguesa (2021a), 'Um Estado para ser forte tem de ser ágil e leve', *Press Release*, Lisboa, 17 September, <https://www.portugal.gov.pt/pt/gc22/comunicacao/noticia?i=um-estado-para-ser-forte-tem-de-ser-agil-e-leve>.

288 República Portuguesa (2021b), 'European Commission approves Portugal's Recovery and Resilience Plan', *Press Release*, Lisboa, 16 June, <https://www.portugal.gov.pt/en/gc22/communication/news-item?i=european-commission-approves-portugals-recovery-and-resilience-plan>.

289 European Commission (2022a), 'NextGenerationEU: European Commission endorses positive preliminary assessment of Portugal's request for €1.16 billion disbursement under the Recovery and Resilience Facility', *Press Release*, Brussels, 25 March, https://ec.europa.eu/commission/presscorner/detail/en/ip_22_1965.

290 D. F. Nunes (2021), 'Primeira 'fatia': Portugal recebe 2.2 mil milhões do Plano de Recuperação', *Dinheiro Vivo*, 3 August, <https://www.dinheirovivo.pt/economia/primeira-fatia-portugal-recebe-22-mil-milhoes-do-plano-de-recuperacao-14002164.html>.

the Union. This includes investments in hydrogen (EUR 185 million), which is a part of a larger strategy for producing green hydrogen²⁹¹, that has the potential to become an optimal solution for a sustainable growth of the EU.²⁹² Moreover, there is a connection with investments in decarbonisation of industry (EUR 715 million) and more sustainable mobility with a decarbonisation of public transportation (EUR 48 million). Regarding digital transition,²⁹³ some of the most important investments will focus on digital capacitation (EUR 100 million), and digital transition (EUR 450 million) of enterprises, and of schools (EUR 500 million).

4. Conclusion

If there could be a silver lining from the COVID-19 pandemic, with all the pain, suffering, and despair that it has caused, it is the fact that the Portuguese society, including politicians and legislators, saw the need for a more resilient and modern country.

The sudden displacement of a considerable part of the work force and the entire education system to remote work and learning, revealed how great a need there is to invest in a digital transition in the country.

At the same time, the NGEU fund opened the door for key investments in environmentally friendly energy production, from an increase in the capture of renewable energies (particularly due to the very favourable geographical position) to Portugal attempting to place itself on the forefront of producers of hydrogen with non-polluting sources of energy. Therefore, it came as no surprise that when the Portuguese Plan for Recovery and Resilience was presented, the European Commission

²⁹¹ R. Silvestre (2021), 'Next Generation EU, Portugal and the future of the EU energy transition and independence', in G.M. Bovenzi (ed.), *Next Generation EU: A Southern-Northern Dialogue* (Brussels: European Liberal Forum), p.193. ISBN: 978-2-39067-009-4.

²⁹² R. Silvestre (2021a), 'Clean Hydrogen and the Future of Energy: Investing in a Sustainable Growth for the EU', *European Liberal Forum*, July, <https://liberalforum.eu/wp-content/uploads/2021/10/Research-Paper-Clean-Hydrogen-and-the-Future-of-Energy.pdf>, DOI: 10.53121/ELFRP2.

²⁹³ J. Cerejeira (2021), 'Next Generation EU, Portugal and the future of the EU energy transition and independence', in G.M. Bovenzi (ed.), *Next Generation EU: A Southern-Northern Dialogue* (Brussels: European Liberal Forum), p.173. ISBN: 978-2-39067-009-4

considered it to be transformative. This evaluation was a result of a strong combination of reforms and investments addressing the 'specific challenges of Portugal'.²⁹⁴

The investments in energy-efficiency of residential and public buildings, the increase in the offer of non-polluting public transportation, and the substantial advance in the number of vehicles charging stations, constitute only a few of the measures that will help Portugal have a smaller carbon footprint, while, at the same time, becoming an exporter of clean energy to other Member States in the EU.²⁹⁵

Regarding digital transition, the investments and reforms will focus on the digitalisation of the education sector and of enterprises, as well as digitalisation of the public sector, with courses and qualifications for vocational education and training, as well as lifelong learning programmes. In the business sector, the goal is to help workers of small and medium enterprises to access digital skill trainings, tailored coaching, and support systems to adopt digital technologies. These policies will make the country more digital, more apt for technological changes in labour practices, production of goods, and services.

The goal of applying the PRR is to have Portugal to maintain a sustained growth, and to become less dependent on subsidies and (continuing) financial help. The blueprint is a solid one and the political stability is guaranteed until the end of the period of the implementation of the plan. There is a need to better inform the population of the benefits of the PRR to Portugal, and its effects on the EU. As a result, this process shall increase citizens' interest and participation in its undertaking. The PRR will not solve all the problems of the country, however, the conditions for it to be successful and have a significant long-lasting impact have been met.

²⁹⁴ European Commission, 'Portugal's recovery and resilience plan'.

²⁹⁵ R. Silvestre & G. M. Bovenzi (2021), 'Policy Brief: NextGenerationEU, A Southern-Northern dialogue', European Liberal Forum, December, https://liberalforum.eu/wp-content/uploads/2021/12/Policy-Brief_Next-Generation-EU-A-Southern-Northern-Dialogue_final_-_compressed-1.pdf.

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- ern Dialogue*, p.173. Brussels: European Liberal Forum. ISBN: 978-2-39067-009-4.
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Silvaes, M. (2022a). 'Portal Mais Transparência disponibiliza mais dados sobre fundos europeus', *Eco Sapo*, 21 March, <https://eco.sapo.pt/2022/03/21/portal-mais-transparencia-disponibiliza-mais-dados-sobre-fundos-europeus/>.

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Silvestre, R., & Bovenzi, G. M. (2021). 'Policy Brief: NextGenerationEU, A Southern-Northern dialogue', *European Liberal Forum*, December, https://liberalforum.eu/wp-content/uploads/2021/12/Policy-Brief_Next-Generation-EU-A-Southern-Northern-Dialogue_final-_compressed-1.pdf.

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CHAPTER 8

NextGenerationEU in Slovakia: Mutton dressed as lamb

Martin Vlachynsky

Abstract

The NextGenerationEU package was broadly welcomed in Slovakia by politicians and among the general public, with only minor dissent from a few economists. While internationally the plan is communicated as 'post-pandemic', 'green', and 'digital', in Slovakia it has been viewed as a potential restart of the reforms that have been dragging on for the past two decades. Despite having a good start, the plan and its implementation face a number of problems in Slovakia. These include political haggling, lobby pressures, a questionable or outright unrealistic time frame for implementation, an inability to envision systemic changes, and manpower deficiencies. The Slovak National Recovery and Resilience Plan allocated EUR 3.4 billion out of EUR 6.6 billion to the green and digital components. Both represent a very different set of challenges. The digital component has ambitious goals, but the public sector is lacking skilled personnel and inter-institutional communication, and has an extremely slow feedback process, which hampers successful implementation of digital innovation. On the other hand, the green component can swallow as much money as can be found. There is no big challenge in implementation, besides material shortages. But the green component mainly relies on the 'brute force' approach of replicating existing solutions.

KEYWORDS: Slovakia, reforms, implementation, digital, green

1. General overview of the Slovak plan.

Governments around the world reacted to the COVID-19 pandemic in a similar fashion. Costly economic stimulus packages were quickly planned, undermining the role of decentralised reactions and strengthening the state's role in the economy. The European Union (EU) itself introduced the EUR 750 billion NextGenerationEU (NGEU) package.

It is difficult to define the exact size of the national pandemic stimulus in Slovakia. In July 2021, the Ministry of Finance announced that the

total size of the stimulus had reached EUR 7.5 billion (c. 8 % of GDP).²⁹⁶ However, several billion of this was in the form of various guarantees – many of which were hardly tapped. Other hundreds of millions of Euros were labelled as ‘pandemic help’, although in reality they had different aims (an example being a subsidy to the state-owned health insurer).²⁹⁷ Nevertheless, within the 2020–2021 period, Slovak public finances changed for the worse. The S2 public finance sustainability indicator for 2021 was the worst in the whole of the EU (RRZ, 2021).²⁹⁸

Therefore, the NGEU package was broadly welcomed in Slovakia by politicians and large elements of the general public, with only minor dissent from a few economists, including the author.²⁹⁹ Initially, the package was viewed as ‘structural funds on steroids’, and it took some time to process its different nature.³⁰⁰ However, the first international impression of the country’s performance was not bad. Slovakia was the fifth Member State to deliver a National Recovery and Resilience Plan (NRRP), consisting of 60 reforms worth EUR 6.6 billion, and the system for its implementation was built at the end of 2021. This was achieved mainly owing to the strong team built by former European Commission representative Livia Vašáková and several other professionals with extensive experience with EU structures.

Ladislav Miko, who was the Head of European Commission Representation in Slovakia, summarised the Slovak NRRP from the Commission perspective in an answer to a journalist’s question:

296 Úrad vlády Slovenskej Republiky (2021), ‘Vláda dala podľa Hegera na podporu zamestnanosti 7,5 miliardy eur’, Úrad vlády Slovenskej Republiky, 8 June, <https://www.vlada.gov.sk//vlada-dala-podla-hegera-na-podporu-zamestnanosti-75-miliardy-eur/>

297 TASR (2020), ‘Štát opäť dofinancuje Všeobecnú zdravotnú poisťovňu, posiela jej 98 miliónov eur’, *Postoj*, 11 November, <https://www.postoj.sk/65430/stat-opaet-dofinancuje-vseobecnu-zdravotnu-poisťovnu-posiela-jej-98-mil-ionov-eur>

298 The S2 indicator provides quantification of the size of current and future budgetary imbalances and, therefore, of the size of the challenge.

299 M. Vlachynsky (2021), ‘Next Generation EU: Why we should be concerned about the recovery Plan’ (Bratislava: INESS), https://iness.sk/sites/default/files/documents/pdf/other/2021/ngeu-why_we_should_be_concerned_about_the_recovery_plan.pdf

300 E. Frantová (2022), ‘Ako sa líšia eurofondy od plánu obnovy a možno jeden projekt financovať oboma?’, SME, 10 March, <https://index.sme.sk/c/22849384/eurofondy-plan-obnovy-rozdiele-projekty-financovanie.html>

'Every plan must respond to the realities of the country. However, for years, the Commission has been doing what is known as the European Semester, that is an assessment of what is being done well in each country and what needs to be changed. When the recovery plan was drawn up, it was said that the basis should consist of the recommendations of the European Semester. This is what has happened in the case of Slovakia. It may be said that Slovakia has met the Commission's expectations. It has even exceeded the parameters relating to the green criteria'.³⁰¹

Despite formally having a good start, the NRRP and its implementation face a number of problems. These include political haggling, lobby pressures, questionable or outright unrealistic time frames for implementation, inability to envision systemic changes, and manpower deficiencies.

2. The NRRP.

The final version of the NRRP introduces five priorities: quality education; efficient public administration and digitalisation; science, research, and innovation; green economy; and better health. With EUR 2.3 billion allocated, the green economy element is by far the biggest portion of the EUR 6.575 billion package³⁰² (see Table 1).

³⁰¹ R. Kačmár (2022), 'Miko z Európskej komisie: Priestor na korupciu a mrhanie pri fonde obnovy je veľmi malý', *Denník N*, 14 January, <https://e.dennikn.sk/2678517/miko-z-europskej-komisie-slovensky-plan-obnovy-je-dobry-ale-peniaze-musime-cerpat-styrikrat-rychlejsie/>

³⁰² Ministry Of Finance Of The Slovak Republic (2021), 'Innovative economy, Modern administration and healthy country', *Ministry Of Finance Of The Slovak Republic*, April, https://www.planobnovy.sk/site/assets/files/1019/rrp_summary.pdf

Table 1. Five target areas of the Slovak NRRP

Area	Component	Resources	Total
Green economy	Renewable energy sources and energy infrastructure	EUR 232 m	EUR 2,301 m
	Building renovation	EUR 741 m	
	Sustainable transport	EUR 801 m	
	Decarbonisation of industry	EUR 368 m	
	Climate change adaptation	EUR 159 m	
Education	Availability, development and quality of inclusive education	EUR 210 m	EUR 892 m
	Education for the twenty-first century	EUR 469 m	

Source: Ministry of Finance of the Slovak Republic (2021), 'Innovative economy, modern administration and healthy country', Ministry of Finance of the Slovak Republic, April, https://www.planobnovy.sk/site/assets/files/1019/rrp_summary.pdf

The first draft of the NRRP was introduced on 4 October 2020; it was recommended by the European Commission on 21 June 2021 and accepted on 13 July 2021. The swift first phase was rather surprising, since the government was experiencing some turbulence during this period. Prime Minister Igor Matovič resigned in April 2021, having spent only a year in office, and swapped places with Minister of Finance Eduard Heger. While the resignation was not connected with the NRRP (but rather with the Russian Sputnik V vaccine controversy³⁰³), it included a broader government and bureaucracy shake-up, including a new Minister of Health, and was a culmination of numerous tensions in the

³⁰³ S. Morkowitz (2021), 'Slovakia's experiment with Sputnik vaccine ends with a whimper', *Politico*, 1 July, <https://www.politico.eu/article/slovakia-experiment-sputnik-coronavirus-vaccine-ends/>

colourful four-party coalition that had been ruling since March 2020.

Eduard Heger stated in November 2021:

*'When we were creating the recovery plan, we came across areas that had been 'dormant' for a long time. That is why we have also decided that education and health would be the two national priorities. However, it is important to say that the recovery plan has certain given priorities from the point of view of the European Community. Therefore, we can say that the recovery plan is historically the largest environmental programme of the EU and of Slovakia.'*³⁰⁴

He added, 'For us, the national priorities were health and education, because we want our children to be ready for the Slovak labour market and not to go abroad because they have to go, but only if they want to go'.³⁰⁵

Indeed, healthcare has been a widely discussed component of the NRRP, and this quote established the general envisioning of the NGEU by the Slovak government, as well as the general public. While internationally it is communicated as 'post-pandemic', 'green', and 'digital', in Slovakia it has been viewed as a match that can finally light a fire under reforms that have been dragging on for the past two decades without much success – reforms involving healthcare, education, and the judicial system. More specifically, the conditionality of the NRRP ('no reforms, no money') is supposed to ensure that even the painful and politically unpopular reforms will pass.

Very soon, it became obvious that this logic is not flawless. In late 2021, hospital reform underwent a very turbulent political process in the government. This reform was conditional for a EUR 800 million tranche from the NRRP. Finally, it received a positive vote in Parliament with a very narrow margin (76 out of 146 members), with one coalition party

³⁰⁴ TASR (2021a), 'Heger zdôraznil, že plán obnovy a boj s pandémiou sú dve zásadné priority jeho vlády a úsilia', *Teraz.sk*, 11 November, <https://www.teraz.sk/ekonomika/heger-narodnymi-prioritami-planu-obn/589874-clanok.html>

³⁰⁵ TASR (2021a), 'Heger zdôraznil, že plán obnovy a boj s pandémiou sú dve zásadné priority jeho vlády a úsilia'

abstaining. However, some important implementation details (especially the eligibility of non-state-owned hospitals to receive support) remain open, and some concerned stakeholders (including doctor and patient organisations) maintain that the healthcare-related part of the NRRP remains discriminatory, favouring mainly state institutions (and especially hospitals) in the competitive environment.³⁰⁶

Another close call was university reform (changing the way in which university administrators are elected). This was related to a EUR 200 million payment package from the NRRP. In this case, there was very strong public feeling in opposition to the reform, resulting in students' protests.³⁰⁷ The reform finally passed after almost a year of deliberations.

In the spring of 2022, judicial reform resulted in a stalemate. The coalition parties could not agree on the final version of the 'court map' – the number and location of regional courts, with parties defending court seats in 'their' strong regions. Unlike the hospital reform, this was still stalled as of April 2022, thus endangering a EUR 458 million tranche from the NRRP,³⁰⁸ when only 67 members of Parliament voted for the reform during the February parliamentary session, with one coalition party (the same one) again abstaining. Some commentators considered this a big step back. According to sociologist Michal Vašečka, 'Even the vision of money from Brussels, which will not be received without some reforms, cannot unite the ruling coalition anymore. This has never been seen before, but unfortunately it is all quite understandable'.³⁰⁹

Some long-awaited reforms passed, but in watered-down versions. One major example is the fiscal spending limits.³¹⁰ These have been

³⁰⁶ M. Pišoja (2021), 'Názor: Plán obnovy. Ale len pre tých správnych ľudí a nemocnice', SVLS, 20 April, <https://svls.sk/nazor-plan-obnovy-ale-len-pre-tych-spravnych-ludi-a-nemocnice/>

³⁰⁷ CU Comenius University External Relations Office (2021), 'Thousands of students and teachers march for free universities', *Comenius University News*, 16 November, https://uniba.sk/en/comenius-university-news/news-detail/back_to_page/univerzita-komenskeho/article/za-slobodne-univerzity-pochodovali-tisicky-studentov-a-ucitelov/

³⁰⁸ SITA (2022), 'Bez reformy súdnej mapy zrejme prideme o pol miliardy, peniaze sa nedajú presúvať', *SME*, 21 February, <https://index.sme.sk/c/22845680/bez-reformy-sudnej-mapy-zrejme-prideme-o-pol-miliardy-peniaze-sa-nedaju-presuvat.html>

³⁰⁹ Denník N (2022), 'Vládnu koalíciu už nevie spojiť ani vídina peňazí z Bruselu (udalosti týždňa)', *Denník N*, 18 February, <https://dennikn.sk/2727146/vladnu-koaliciu-uz-nevie-spoj-it-ani-vidina-penazi-z-bruselu-udalosti-tyzdna/>

³¹⁰ M. Onuferova (2022), 'Poslanci schválili výdavkové limity, prvé dva roky sa budú testovať. Výdavky na obranu pre vojnu na Ukrajine by sa do nich nerátali', *Denník N*, 16 March, <https://e.dennikn.sk/2769420/poslanci-schvalili-vydavk->

discussed for years, if not decades, but had to wait for the NRRP before they could be forced through the political resistance. However, they were accepted not as a constitutional law (which would make them much stronger and less prone to future changes), as was expected, but rather as a standard law, and for the first two years the limits are running in a test mode, meaning that the current government is virtually free to ignore them. These examples show that many of the planned reforms are politically painful and do not have a clear path forward.

Some sectors seemed to be completely left out of the NRRP. This perception has been especially strong among farmers and agricultural organisations. Emil Macho, the chairman of Slovak Agriculture and Food Chamber, the strongest lobbying organisation for the agricultural sector, called the NRRP 'ridicule in the eyes of Slovak farmers and food producers'.³¹¹ They considered the NRRP's creation to have been non-transparent and non-participative, completely ignoring their demands and suggestions. This criticism contributed to the removal of Minister of Agriculture Ján Mičovský in May 2021. The most striking (agricultural) omission in the NRRP is the topic of land consolidation³¹². Extremely fragmented land ownership is one of the most painful problems in the agricultural sector, generating chaos in the relationships between owners and tenants, and complicating the work of municipalities, farmers, and government agencies.

Besides the political barriers to some reforms and some stakeholders' dissatisfaction with the NRRP, there has been one larger problem with it: implementation capacity. In the past, there have been large amounts of money available from structural funds, but Slovakia has practically never been able to use them within a given time frame. Drawdown often accelerates at the end of the funding period, opening up room for inappropriate usage. Sometimes this was because of straightforward corruption, but more often it was to do with hastily prepared and im-

ove-limity-prve-dva-roky-sa-budu-testovat-vydavky-na-obranu-pre-vojnu-na-ukrajine-by-sa-do-nich-neratali

311 SITA (2021), 'Nula z plánu obnovy. Agropotravinári kritizujú Mičovského', *SME*, 28 April, <https://index.sme.sk/c/22647941/nula-z-planu-obnovy-agropotravinari-su-rozcarovani-kritizuju-micovskeho.html>

312 M. Budzák (2022), 'Komentár: Čo znamená Plán obnovy bez pozemkových úprav?', *Agrobiznis*, <http://www.agrobiznis.sk/aktualne/5978-komentar-o-znamena-plan-obnovy-bez-pozemkovych-uprav>

plemented projects. Their added value was therefore well below general expectations. This should not happen in the case of the NRRP, but there is a risk that Slovakia will not be able to mobilise implementation capacity quickly enough.

Slovakia still has EU funds left from the previous period, in addition to new EU funds and the NRRP. In March 2022, there was EUR 7 billion still left to spend before the end of 2023³¹³. If one calculates how much money is to be spent in Slovakia in a year, one will find that the public administration has to be four times quicker spending the money than in the quickest previous period. This is hardly conceivable. The question is whether Slovakia can do it. The implementation of the measures will require dozens – if not hundreds – of analytical, legislative, and administrative experts, which public administration in the country has had great difficulty attracting.

Therefore, one can argue that the main problem with the NRRP is its sheer size and the relatively short period (and even shorter preparatory period) available in which to implement it.

3. The digital...

Digital and green components are supposed to be at the core of the NRRP in each member country. Looking strictly at the Slovak NRRP budget, with EUR 3.4 billion out of EUR 6.6 billion allocated to the green (sustainable) and digital components (and with all other components having green and digital conditionalities), this task seems to be formally fulfilled.

Digitalisation, especially e-governance, has been a major problem in Slovakia. Since 2007, the public sector has spent well over EUR 1 billion to digitise its services, with embarrassing results.³¹⁴ Slovakia ranked

³¹³ M. Koreň (2022), 'Eurofondy na pomoc utečencom sa budú hľadať ťažšie ako počas pandémie', 4 March, *Euractiv*, <https://euractiv.sk/section/ekonomika-a-euro/news/eurofondy-na-pomoc-utečencom-sa-budu-hladat-tazsie-ako-pocas-pandemie/>

³¹⁴ J. Piováři (2020), 'Slovensko dalo miliardu a nemá nič. Estónsko je líder za 300 miliónov', *Finweb*, 15 December, <https://finweb.hnonline.sk/ekonomika/2265519-slovensko-dalo-miliardu-a-nema-nic-estonsko-je-lid-er-za-300-milionov>

22nd among EU countries in the Digital Economy and Society Index (DESI) 2021.³¹⁵ Procurement of information technology (IT) services by public officials has long been considered prone to considerable corruption. These suspicions came to a head in 2021, when a number of high officials (including the chief of the Financial Administration of the Slovak Republic) were jailed for tampering with the procurement of IT services.

The dismal state of digitalisation in Slovakia catalysed the emergence of grassroots organisations (forming under the umbrella of Slovensko.digital) that are trying to offer open-source alternatives in the public space, as well as promoting public discussion about the quality of public IT projects and a vision for e-governance in Slovakia. The main troubles were described by the director of Slovensko.digital Peter Kulich in 2021:

*‘There is a lack of continuous delivery of results in smaller projects. There is a lack of continuous improvement of existing services. At the same time, it should be perceived that the European Union has designated the money, financing a substantial part of eGovernment projects through the operational programme Integrated Infrastructure (OPII), as capital expenditures, and not for the operation of systems’.*³¹⁶

In 2019, the ruling government prepared the Strategy for Digital Transformation of Slovakia 2030.³¹⁷ Despite its impressive title, this document did not meet with universal praise. It was the fourth major strategic document related to the country’s digitalisation plan, with the previous three having achieved very little. Experts criticised the duplication of existing initiatives and a lack of communication, while the strategy was

³¹⁵ R. Geist (2021), ‘V digitalizácii je Slovensko na chvoste EÚ. Rozdiel voči európskemu priemeru narastá’, *Euractiv*, 19 November, <https://euractiv.sk/section/digitalizacia/news/v-digitalizacii-je-slovensko-na-chvoste-eu-rozdiel-voci-europskemu-priemeru-narasta/>

³¹⁶ M. Miškerik (2021), ‘Digitalizácia štátnej správy trpi na nesprávne priority’, *Trend*, 27 March, <https://www.trend.sk/trend-archiv/digitalizacia-statnej-spravy-trpi-nespravne-priority>

³¹⁷ Ministry of Investments, Regional Development and Informatization of the Slovak Republic (2018), ‘Stratégia digitálnej transformácie Slovenska 2030’, *Ministry of Investments, Regional Development and Informatization of the Slovak Republic*, <https://www.mirri.gov.sk/wp-content/uploads/2019/06/Strategia-digitalnej-transformacie-Slovenska-2030.pdf>

missing the important elements of healthcare and transport digitalisation (which were supposed to be delivered separately).³¹⁸ The new government formed in 2020, showed greater openness to expert public opinion regarding e-governance and digitalisation. The existing office of vice-chairman for investment and information was transformed into a new Ministry of Investments, Regional Development, and Information in May 2020. Despite the vocal support for higher transparency and open communication, the final version of the digital component of the NRRP attracted further criticism.

One of the problems is that e-governance and cybersecurity reforms and activities are mainly focused on central government and the NRRP neglects lower levels – such as municipalities and schools. There is also a potential problem with the absorption capacity of the recovery funds because the money is arriving at a time when substantial resources from traditional EU funds are still being implemented. In addition, Slovensko.digital pointed out a lack of connection with the academic environment – something that would allow the creation of a system that could bring a long-term and sustainable solution to current problems, which are primarily caused by insufficient professional capacity. This is a significant problem in the field of cybersecurity, which is why the NRRP should support activities such as the introduction of specialised curricula in secondary and higher education institutions and the promotion of research and cooperation between schools and the private sector. The NRRP does not set an ambition for making advanced technologies available to business entities: ‘The business entities could contribute to the effective use of these technologies, in the so-called unoccupied time. Such a concept would ensure a synergistic effect from the investment made, allowing easier access to advanced technologies by business entities and thus promoting innovation and value-added digitalisation’.³¹⁹

318 L. Yar (2019), ‘Ďalšia slovenská digitálna stratégia nereflektuje existujúce dokumenty a mimovládne projekty, tvrdia kritici’, *Euractiv*, 13 May, <https://euractiv.sk/section/digitalizacia/news/dalsia-slovenska-digitalna-strategia-nereflektuje-existujuce-dokumenty-a-mimovladne-projekty-tvrdia-kritici/>

319 TASR (2021b), ‘Seniorom nemáme dávať tablety, tvrdí Slovensko.Digital. Navrhujú alternatívne riešenie’, *Fontech Startitup*, 3 May, <https://fontech.startitup.sk/spravy/seniorom-nemame-davat-tablety-tvrdi-slovensko-digital-navrhuj-alternativne-riesenie/>

Another scrutinised component was the plan to give tablets worth EUR 70 million to seniors. Giving away hardware like this without knowing the needs of end users and without any clear goals in mind is a great example of how to waste funds. The ministry later added that the tablets would be given to seniors only if they participated in public IT skills lessons.³²⁰

The digital component of the NRRP is facing its old nemesis – an inability to remodel the existing administrative structure of dozens of separate public databases, controlled by various entities and governed by a multitude of laws. The responsible government representatives seem to be aware of this obstacle. The state deputy at the Ministry said in November 2021:

‘The biggest problem so far, why we have not been so successful with digitalisation, is that we wanted to do everything at once. We have been drawing an ideal paperless scenario on all the services that exist in the state. Even to cut down a tree, which is a request that a person will use maybe once in a lifetime, if at all’.³²¹

With no digitalisation priorities set, many crucial services are still waiting for digitalisation. The NRRP should make a difference, since it aims to computerise 16 priority life situations. The plan is set to mature in 2026, but with ambitions to complete it within this parliamentary term, that is by 2024.

4. ... and the ‘green’.

When it comes to the future of the Slovak economy – and especially Slovak industry – the green component of the NRRP is viewed as the most important. The Slovak economy relies more on industry, includ-

³²⁰ TASR (2022), ‘Tablety pre seniorov od štátu budú odmenou za to, že sa nechajú vyškoliť’, ZIVE, 9 January, <https://zive.aktuality.sk/clanok/p7nrdtx/tablety-pre-seniorov-od-statu-budu-odmenou-za-to-ze-sa-nechaju-vyskolit/>

³²¹ R. Juriš (2021), ‘Ján Hrgaš: Nechcem generovať nové digitalizačné vízie. Prioritou je poskytovať proaktívne služby’, *Financial Report*, 22 November, <https://www.finreport.sk/lidri/jan-hrgas-nehcem-generovat-nove-digitalizacne-vizie-prioritou-je-poskytovat-proaktivne-sluzby/>

ing heavy industry (especially steelmaking, aluminium, but also chemical, rubber, cement), than the average EU country.³²²

While the power industry is largely decarbonised (thanks to a very high share of nuclear and hydro), the remaining industrial sectors viewed the goals of the green deal as a vital threat to their existence without substantial transformational support – and the NRRP is supposed to provide such support. However, the decarbonisation of industry is only the third largest subcomponent in the green component of the Plan, with EUR 368 million allocated. The two largest components – sustainable transport and building refurbishment – have more than EUR 1.5 billion allocated to them.

There are no surprises in the green component. There is support for renewables and investment into flexibility of the power infrastructure, building refurbishment (mainly focusing on increasing the energy efficiency of private houses and historical buildings) and biodiversity project support. These mainly represent a continuation of existing projects and programmes.

There has also been public criticism of the green component of the NRRP. As explained by the lawyers of the VIA IURIS non-governmental organisation (NGO) in February 2022: 'The recovery plan relies on outdated climate documents, but the government is in no hurry to update them. A climate law that gives departments clear climate rights and responsibilities should change this. It will also define sanctions and enforcement mechanisms if they fail to meet their obligations'.³²³

Many NGOs have argued that the green component focuses mainly on construction and asset purchases and neglects more delicate projects, such as climatic adaptation, biodiversity, and cycle infrastructure. Moreover, low involvement of the third sector and municipal/regional

322 Eurostat (2020), 'Output of economic activities in the EU Member States', *Eurostat*, 28 October, <https://ec.europa.eu/eurostat/web/products-eurostat-news/-/DDN-20201028-1>

323 I. Jenčová (2022), 'Právničky: Na Slovensku nie je možné presadiť silné klimatické politiky bez sankcií', *Euractiv*, 17 February, <https://euractiv.sk/section/klima/interview/pravnicky-na-slovensku-nie-je-mozne-presadit-silne-klimaticke-politiky-bez-sankcii/>

representatives has been highlighted. This resulted in 20 NGOs signing an open letter to the European Commission and Slovak government in January 2021: 'We believe that the recovery plan should not only "pay for buildings, networks and cables", but should also support increasing the resilience of the landscape to the negative impacts of climate change, preserving biodiversity and creating the conditions for sustainable mobility',³²⁴ was the core message.

The digital and the green components, therefore, represent a very different set of challenges. The digital component has ambitious goals, but the track record of the past 15 years demonstrates that money is not enough to turn goals into reality. The public sector is lacking skilled personnel and inter-institutional communication, and has an extremely slow feedback process, which hampers the successful implementation of digital innovation into the public and quasi-public healthcare sectors.

On the other hand, the green component can swallow as much money as can be found. Investment into renewables, power infrastructure, and industrial or building efficiency has virtually no ceiling. To a large extent, the processes are conducted by private companies on mostly private (or at least privately managed) property. Therefore, there is no major challenge in implementation, except material shortages. But the green component is relying mainly on the 'brute force' approach – the replication of existing solutions. There are some minor projects focusing on biodiversity, landscape, forests, and natural parks, but these are completely in the shadow of infrastructure expenditure. That is not a reproach, more just a remark. Obviously, reaching the green deal goals will require an army of photovoltaic panels, batteries, and other hardware. Nevertheless, the plan should be more ambitious, reaching beyond the simple CO₂ target limit.

³²⁴ Ekopolis (2021), 'Výzva na doplnenie priority Zelené Slovensko v Pláne obnovy a odolnosti', *Ekopolis*, 13 January, <https://www.ekopolis.sk/aktuality/vyzva-na-doplnenie-priority-zelene-slovensko-v-plane-obnovy-odolnosti>

5. Conclusion

The initial phase of the NRRP – its creation – went relatively smoothly in Slovakia. However, numerous obstacles are expected along the way in the forthcoming years. The major one became obvious immediately: the political costs of many reforms that are included in the NRRP. The good news is that these obstacles will be solved relatively soon – one way or another. The major reforms have to be put into law relatively soon, or else this whole subcomponent will be derailed.

The remaining obstacles are less obvious, but still challenging. Slovakia has never been great at absorbing EU funds. The gigantic size of the NRRP will fall on the shoulders of the very same bureaucratic infrastructure. This will not be just a Slovak problem. With new developments in the world, especially the Russia–Ukraine war, there will be many excuses for watering down the Commission's requirements for reaching the milestones and goals of NRRPs, opening the gates for spending money more freely.

Wrapped in words such as 'revolution', the Slovak NRRP will materialise as the structural funds did. There will be money spent, tangible new assets across the country, but no revolutionary change in the way that the public sector, society, or the economy works.

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