The Recovery and Resilience Facility: Boosting Investment in Social Infrastructure in Europe?
Francesco Corti
Alessandro Liscai
Tomas Ruiz
francesco.corti@ceps.eu
alessandro.liscai@ceps.eu
tomas.ruiz@ceps.eu

Italian Labour Law e-Journal
Special Issue 1, Vol. 15 (2022)
NextGeneration EU in Action: Impact on Social and Labour Policies
ISSN 1561-8048
https://doi.org/10.6092/issn.1561-8048/15706

The Recovery and Resilience Facility: boosting investment in social infrastructure in Europe?

Francesco Corti* - Alessandro Liscai+
Tomas Ruizα

1. Introduction. 2. Additionality of EU spending and the role of the Recovery and Resilience Facility. 3. Case selection and methodological approach. 4. The RRF as a springboard for social investments? 5. Conclusions.

Abstract

Moving away from the austerity conditionality approach towards a new expansionary investment–led growth strategy, the Recovery and Resilient Facility represents a break with what went before and is an innovative instrument to support public investment in Europe. In particular, by placing the objectives of upward social convergence and implementation of the European Pillar of Social Rights at its core, the RRF is expected to help boost investment in social infrastructure in the EU after a decade of underinvestment. Zooming in on a sample of six countries (Austria, Belgium, Germany, Italy, Portugal and Spain), this article investigates the extent to which the social investments included in the plans are truly additional. It finds that the RRF has indeed fasted-forward the implementation of investments in social infrastructure, which would have otherwise been remained merely on paper, especially in those countries with limited fiscal capacity (Italy, Spain, Portugal but also Belgium). By contrast, in countries such as Germany and Austria, RRF social spending is used largely to replace already planned or budgeted investments. Even in the former group, however, the article shows that around one-third of the social spending is allocated to already planned or ongoing projects.

Keywords: Recovery and Resilience Facility, Social Europe, Public investment, Additionality, Social infrastructure.

* Advisor to the Belgian Minister of Social Affairs and Health, associate research fellow at CEPS and adjunct professor at the University of Milan.
+ Associate research assistant at CEPS and ASTRID.
α Research assistant at CEPS.

1. Introduction.

The mantra accompanying the deployment of NextGenerationEU (NGEU) funds is that Europe needs a huge increase in public investment to be able to succeed in the green and digital transitions, while guaranteeing a socially inclusive recovery from the Covid-19 crisis. The funds provided by the Recovery and Resilience Facility (RRF) – the largest of the seven programmes financed under NGEU – should support this investment push, enabling Member States to recover from the pandemic, but they are also supposed to 'generate European added value'.

While additionality of public expenditure channelled through EU funding is a long-debated issue related to the effectiveness of EU cohesion policy (see next section), the launch of the RRF breathed new life into the debate. Indeed, while it is true that the level of resources made available is considerable by any metric (for example, as a percentage of GDP), the amounts are even more considerable when one looks at the final purpose of the RRF grants and loans, namely financing additional public investments.

Article 5(1) of Regulation (EU) 2021/241, indeed, specifies that 'financial support from the Facility shall not, unless for duly justified cases, substitute recurring national budgetary expenditure and shall respect the principle of additionality of the Union funding'. In other words, RRF funds should in principle be used to finance public capital expenditure and not current spending, and they should be additional to the support provided under other EU programmes and instruments. If we apply these provisions strictly, assuming a 100 per cent absorption rate and full additionality, annual public investments for Bulgaria, Portugal and Croatia could be expected to increase over the next six years by approximately 60 per cent per annum. For other countries, such as Italy, Spain and Poland, investment would increase between a minimum of 20 and a maximum of 46 per cent.

After a decade of underinvestment across Europe, it comes as no surprise that the RRF has been welcomed as a positive novelty to relaunch public investments in the EU.[1] As observed elsewhere, net capital investment – investments net of consumption of existing capital – has been close to zero in the EU over the past few years, meaning that the stock of public capital has not increased.[2] While this has largely negatively affected southern Member States, with net investment in Italy and Spain turning negative after the Great Recession, the trend has not been positive in countries benefitting, in principle, from larger fiscal spaces. Since 2009, gross public investments in Germany have never exceeded 2.5 per cent of GDP, and net investments have been consistently below 0.5 per cent of GDP.

[1] Alcidi C., Gros D., Corti F., *Who will really benefit from the Next Generation EU funds?*, CEPS, Brussels, 2020, https://www.ceps.eu/ceps-publications/who-will-really-benefit-from-the-next-generation-eu-funds/

[2] Corti F., Alcidi C., Gros D., Liscai A., Shamsfakhr F., *A qualified treatment for green and social investments within a revised EU fiscal framework*, *CEPS Research Report,* No. 2, May 2022, https://www.ceps.eu/ceps-publications/a-qualified-treatment-for-green-and-social-investments-within-a-revised-eu-fiscal-framework/

Social infrastructure investments have been particularly negatively affected by the Great Recession, especially in the countries more heavily hit by the crisis.[3] In 2018, a report on *Investing in Social Infrastructure in Europe* was published by the High-Level Task Force, which attempted for the first time to quantify social investment needs in the EU by 2030.[4] Overall, the authors identify the minimum gap in social infrastructure investment at around 142 billion euros per year, and around 1.5 trillion euros over the period from 2018 to 2030.

Against this backdrop, understanding the impact of the RRF on the relaunch of social public investment in EU is of crucial importance. The contributions of this special issue provide a detailed and rich analysis of the content of the social investments financed through the RRF. The aim of this article is to understand the extent to which such investments are truly additional and thus contribute to boost investment in social infrastructure in Europe.

The remainder of the paper proceeds as follows. Section 2 briefly reviews the debate on additionality of EU spending and more recent literature on the (social dimension of the) RRF. Section 3 illustrates our case selection and methodology for measuring the additionality of public investments. Section 4 presents and discusses the results. Section 5 concludes.

2. Additionality of EU spending and the role of the Recovery and Resilience Facility.

Within the EU funds framework, additionality refers to the fact that the appropriations of the European Structural and Investment Funds in the regions targeted shall not replace public or equivalent expenditure by the Member States but complement them, thus requiring Member States to contribute in order to receive the funds.[5] This principle has been the object of an extensive debate by the European Commission, central governments, local authorities and the research community since the establishment of regional policy. Scholars have discussed the actual use of EU funds to cover expenditure that had already been incurred, instead of complementing national efforts.[6] One of the most memorable comments on the European Regional Development Fund was provided by Fritz Scharpf, who dismissed it as an insignificant programme, reflecting national priorities.[7] Since then, various reforms have

[3] Bouget D., Frazer H., Marlier E., Sabato S., Vanhercke B., *Social Investment in Europe: A study of national policies*, Luxembourg, Publications Office of the European Union, 2015, https://www.ose.be/publication/social-investment-europe-study-national-policies ; Vandenbroucke F., Vanhercke B., *A European Social Union: 10 Tough Nuts to Crack*, in *Friend of Europe (2014)*, 2014. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2989494

[4] Fransen L., del Bufalo G., Reviglio E., *Boosting Investment in Social Infrastructure in Europe,* Report of the High-Level Task on Investing in Social Infrastructure in Europe, Discussion Paper 074, 2018: https://ec.europa.eu/info/sites/default/files/economy-finance/dp074_en.pdf

[5] Del Bo C., Florio M., Sirtori E., Vignetti S., *Additionality and regional development: Are EU Structural Funds complements or substitutes of national public finance?,* CSIL Working Paper No. 01/2011, CSIL, Milan, 2011, https://www.researchgate.net/publication/254431151_Additionality_and_Regional_Development_Are_EU_Structural_Funds_Complements_or_Substitutes_of_National_Public_Finance, 7.

[6] McAleavey P., *European Regional Development Fund Expenditure in the UK: From Additionality to ›Subtractionality‹*, in *The ERDF and additionality in the UK,* Vol. w, No. 3, 249–253: https://journals.sagepub.com/doi/10.1177/096977649500200305

[7] Scharpf F.W., *The Joint-Decision Trap: Lessons from German federalism and European Integration*, in *Public Administration*, 66, 3, 1988, 239-278, https://onlinelibrary.wiley.com/doi/10.1111/j.1467-9299.1988.tb00694.x

been adopted to avoid substitution effects and increase EU funding additionality. Initially, Regulation 214/1979 gave the Commission primary responsibility for EU fund management, which was previously in the hands of Member States, to promote an effective regional and cohesion policy. Regulation 2052/1988 was the first legislative text that institutionalised and formalised the principle of additionality, intending to prevent the Structural Funds from being used by national governments in place of their own investments and to seek maximum impact from Community interventions. To this end, a general rule was established in Article 9 of Regulation 2082/93,[8] according to which the level of spending had to be at least equal to the amount of average annual expenditure in real terms accomplished in the previous programming period. Further reforms were adopted in the years to come to simplify the geographical level of control and facilitate compliance with the additionality principle, as well as to introduce sanction mechanisms in the event of non-compliance with the principle of additionality.[9] Nevertheless, concerns remain about the actual functioning of this principle. The Commission's Fifth Cohesion Report remarked that there was a need to review how the additionality principle was verified and that 'a reform of the system is needed to make it more reliable, transparent and straightforward'.[10] Various scholars have provided evidence of the crowding-out effect of national public investments by EU structural funds and highlighted the lack of an acceleration effect of the EU funds on public investment across the Member States.[11] This is true for both Central and Eastern European Member States[12] and Southern European countries.[13] Not all scholars share this view, however. Some authors found that inflows from cohesion funds actually result in additional public expenditure and that,

[8] Art 9 (1) (2) 'To achieve a genuine economic impact, the Structural Funds and the FIFG appropriations allocated in each Member State to each of the objectives under Article 1 of Regulation (EEC) No 2052/88 may not replace public expenditure on structural or comparable expenditure undertaken by the Member State in the whole of the territory eligible under an objective. For this purpose, in establishing and implementing the Community support frameworks, the Commission and the Member State concerned shall ensure that the Member State maintains, in the whole of the territory concerned, its public structural or comparable expenditure at least at the same level as in the previous programming period, taking into account, however, the macroeconomic circumstances in which the funding takes place, as well as a number of specific economic circumstances, namely privatizations, an unusual level of public structural expenditure undertaken in the previous programming period and business cycles in the national economy.'

[9] *See* Kaiser Moreiras J.L., *La política regional europea 2007-2013: principales novedades con respecto a 2000–2006,* in *Presupuesto y Gasto Público*, 52, 2008), 129-142, https://www.fondoseuropeos.hacienda.gob.es/sitios/dgfc/es-ES/Documents/52_Kaiser.pdf

[10] European Commission, *Investing in Europe's future,* Fifth report on economic, social and territorial cohesion, Publication Office of the European Union, Luxembourg, 2010: https://ec.europa.eu/regional_policy/en/information/publications/reports/2010/fifth-report-on-economic-social-and-territorial-cohesion-investing-in-europe-s-future

[11] OECD, *OECD Economic Surveys: Euro Area 2016*, OECD Publishing, Paris, 2016, https://www.oecd-ilibrary.org/sites/eco_surveys-euz-2016-en/index.html?itemId=/content/publication/eco_surveys-euz-2016-en ; Mohl P., *Empirical Evidence on the Macroeconomics Effects of EU Cohesion Policy,* Springer Gabler, Wiesbaden, 2016, https://link.springer.com/book/10.1007/978-3-658-13852-3#about

[12] Halász A., *Additionality of EU Funds in Central and Eastern European Countries – Recent Developments*, 2018, http://www.cohesify.eu/2018/01/23/additionality-of-eu-funds/

[13] Del Bo C., Sirtori E., *Additionality and regional public finance – Evidence from Italy*, in *Environment and Planning C: Government and Policy*, 36, 2015, 855-878, https://journals.sagepub.com/doi/pdf/10.1177/0263774X15614682

consequently, the cohesion policy funds tend to increase the net amount of public structural/development expenditure in recipient countries.[14]

The interest in the impact of public investment continued with the launch of the Recovery and Resilience Facility. Various studies have been published that try to quantify the economic – and employment – impact of the new recovery and resilience plans. The first to use its stylised simulations on the impact of the NGEU package on real GDP levels was the European Commission, as early as May 2020. Then, each Member State ran its own QUEST simulations on the macroeconomic impact of their national recovery and resilience plans on GDP and employment. The European Central Bank published an occasional paper in 2021 assessing the macroeconomic impact on the euro area of different uses of NGEU, assuming all resources were used for productive public investment.[15] In the meantime, various economists have contributed to the debate with independent simulations on the macroeconomic effects of the RRF. For instance, Watzka and Watt[16] use the macroeconomic multi-country model NiGEM to analyse the facility's macroeconomic effects.

A common underlying assumption of all these studies is that the RRF will be used to support new national public investment,[17] namely, that 100 per cent of the grants to Member States are additional and come on top of national planned spending. As illustrated above, the assumption of full additionality, although highly desirable, is highly challenging. Based on past data, increases in public investment that substantially exceed 10–20 per cent per annum are rare.[18] Over the past four years before the pandemic (2016–2019) EU27 general government gross fixed capital formation increased by 20 per cent. Put differently, before the pandemic, countries on average increased their gross investments by a maximum of 20 per cent compared with the previous year. With the RRF they are supposed to increase the amount of gross investment by twice or three times more per year, which seems to be unlikely, not least because of the low absorption capacity of EU funds by those countries that are the main beneficiaries of the RRF, especially Southern Member States.

In a previous work,[19] we suggested a macro approach to measuring additionality, which investigates the relationship between the increase in public investments and the size of the RRF envelope. The results of our macro-analysis showed a lack of correlation between the

[14] Šlander S., Wostner P., *Additionality of European Cohesion Policy,* in *European Review,* 26, 4, 2018, 721–737, https://www.cambridge.org/core/journals/european-review/article/abs/additionality-of-european-cohesion-policy/67E9F9728F48229FA76724546368C06D

[15] Bańkowski K., Ferdinandusse M., Hauptmeier S., Jacquinot P., Valenta V., *The macroeconomic impact of the Next Generation EU instrument on the euro area,* ECB Occasional Paper Series, No 255, January 2021, https://www.ecb.europa.eu/pub/pdf/scpops/ecb.op255~9391447a99.en.pdf

[16] Watzka S., Watt A., *The macroeconomic effects of EU recovery and resilience facility: A preliminary assessment*, IMK Policy Brief, No. 98, 2020, https://www.econstor.eu/bitstream/10419/237913/1/p-imk-pb-098-2020.pdf

[17] Some models consider also cases of RRF financing current spending or replacing or repaying existing sovereign debt.

[18] Alcidi C., Gros D., Corti F., *Who will really benefit from the Next Generation EU funds?*, CEPS, Brussels, 2020, https://www.ceps.eu/ceps-publications/who-will-really-benefit-from-the-next-generation-eu-funds/

[19] Corti F., Gros D., Liscai A., Ruiz T., Kiss-Gálfalvi T., Gstrein D., Herold E., Dolls M., Fuest C., *The European added value of the Recovery and Resilience Facility- An assessment of the Austrian, Belgian and German plans*, study commissioned by the ECON committee, April 2022, https://www.europarl.europa.eu/RegData/etudes/STUD/2022/699513/IPOL_STU(2022)699513_EN.pdf

size of the RRF (as a share of both GDP and total investment) and the acceleration in investments as measured by the differences between the 2021 and 2019 forecasts of public investments. Based on our estimations, some of the countries receiving relatively large RRF allocations, such as Portugal, Croatia or Italy, would accelerate the rate of their public investments compared with the 2019 baseline. However, we found no acceleration in investments discernible in other countries, for instance Poland or Cyprus, which also benefit from considerable RRF injections. The analysis showed that the relative size of RRF allocations explains only a small percentage (13–17 per cent, depending on the exact variables used) of the variation in the acceleration of investments compared with the pre-crisis forecast of public investment spending.

To answer our research question, however, namely to what extent does the RRF contribute to the relaunch of social public investments, the results of our previous macro-analysis are not enough. While it gave a first aggregate indication that RRF grants are at least partly used by EU Member States to replace national investment spending, a micro approach is needed to understand which types of investment are additional, and in which countries. Recent work by Bokhorst and Corti[20] and Corti and Vesan,[21] which zoom in specifically on the social dimension of the RRF, find that the provision of fresh financial resources, conditional on implementation of the country-specific recommendations in the European Semester (including the social ones), represents an important input for the adoption and implementation of welfare initiatives. Such initiatives would probably have remained on paper without RRF support, especially for those countries with limited fiscal capacity. The authors find in particular that, especially in Southern and Eastern Member States, notably Italy, Spain and Croatia – but also Belgium – the RRF was used by national governments to implement investments that had lingered in a drawer for a long time but had never been translated into policy, because financial resources were lacking. By contrast, in countries such as Austria, Germany and the Netherlands, the RRF was perceived almost as an administrative burden (given the new and complex eligibility criteria and reporting requirements). Two reasons have been identified to explain why the RRF is an opportunity to implement social investments and reforms: the size of the financial envelope and the pre-crisis level of vulnerabilities, reflected in the country-specific recommendations. The two are interlinked: a bigger financial envelope corresponds to a higher vulnerability to the extent that the allocation key for the RRF is based on pre-Covid GDP and unemployment,[22] and higher social vulnerabilities are in principle reflected in the higher number of social country-specific recommendations (CSRs) each Member State has to abide by in preparing the RRF plan.

While the size of the financial envelope, as well as the pre-Covid social vulnerabilities and related CSRs might explain the overall importance of the social measures in the RRF plans,

[20] Bokhorst D., Corti F., *Governing Europe's Recovery and Resilience Facility: Between Discipline and Discretion*, in *Government and Opposition* (forthcoming).
[21] Corti F., Vesan P., *From austerity-conditionality to a social inclusive post pandemic recovery: Social Europe after Next Generation EU*, in *Social Policy & Administration* (forthcoming).
[22] Armingeon K., de la Porte C., Heins E., Sacchi S., *Voices from the past: economic and political vulnerabilities in the making of Next Generation EU*, in *Comparative European Politics,* 20, 2022, 144-165, https://link.springer.com/article/10.1057/s41295-022-00277-6

this is in principle not enough to explain why we might expect countries to include – or not – new social investments. By contrast, a factor that might explain the use of the RRF funding to increase social public investment is the pre-Covid-19 level of capital expenditure. Countries underinvesting before the pandemic are expected to use the financial resources of the RRF to cope with the social investment gap, while countries that have at least maintained the stock of existing capital are expected to be less incentivised (unless for political reasons) to use the RRF resources for social investments.

3. Case selection and methodological approach.

For the purpose of this article, we focus on six countries – Austria, Belgium, Germany, Italy, Portugal and Spain – reflecting the different scales of RRF received (relative to GDP). Spain, Italy and Portugal indeed received an envelope equal to, respectively, 5.8 per cent (69.5 billion euros), 4.1 per cent (68.9 billion euros) and 6.58 per cent (16.61 billion euros) of national GDP, while Germany, Belgium and Austria received, respectively, 0.8 per cent (25.6 billion euros), 1.3 per cent (5.9 billion euros) and 0.9 per cent (3.5 billion euros) of national GDP. Moreover, the six countries entered the crisis with different degrees of social vulnerability and accordingly received different social CSRs. Looking at the Social Scoreboard published in the 2020 Country Reports, Austria, Belgium, Germany and Portugal did not show any 'critical situations' in employment and social fields, but only a limited set of indicators 'to watch' (three indicators for Belgium, Austria and Portugal and one for Germany). By contrast, Italy showed a 'critical situation' in eight indicators and two indicators were classified as 'to watch', while Spain showed a 'critical situation' for three indicators and a trend 'to watch' for three. In terms of recommendations, Italy and Spain both received five social CSRs, Portugal received four social CSRs, Belgium, and Austria three social CSRs and Germany only one social CSR.

Finally, and most importantly, these countries entered the Covid-19 crisis with different levels and trends of social public investment. Table 1 provides an illustration of the public investment trends from 2010 to 2019 on education (from early childcare to tertiary education). With the exceptions of Austria and Belgium, we first notice that all Member States decreased the level of gross investments in education between 2010 and 2019. While in Germany this decline was marginal, the fall in public investment was huge in Italy and Spain (investments in education were halved) and even more in Portugal, where the level decreased by around six times. The scenario looks even gloomier if we look at the trend of net investments. As shown below, with the notable exception of Belgium, net investment in education has been close to zero in Germany and Austria over recent years, meaning that the stock of public capital has not increased. The situation in Italy, Spain and Portugal was even worse, where the negative net investment signals a clear underinvestment path, that is, the cuts directly undermined the maintenance of the existing capital stock of educational infrastructures.

Table 1 Net and gross public investment in education (% of GDP at market prices)

	Variable	2010	2011	2012	2013	2014	2015	2016	2047	2018	2019
DE	Gross investment	0.40%	0.39%	0.32%	0.34%	0.31%	0.28%	0.28%	0.28%	0.30%	0.34%
	Capital consumption	0.32%	0.30%	0.30%	0.30%	0.29%	0.28%	0.27%	0.26%	0.25%	0.25%
	Net investment	0.09%	0.08%	0.01%	0.04%	0.02%	0.00%	0.01%	0.02%	0.05%	0.09%
ES	Gross investment	0.27%	0.21%	0.16%	0.15%	0.14%	0.15%	0.13%	0.14%	0.14%	0.15%
	Capital consumption	0.21%	0.22%	0.22%	0.22%	0.22%	0.20%	0.19%	0.18%	0.17%	0.17%
	Net investment	0.06%	**-0.01%**	**-0.06%**	**-0.07%**	**-0.08%**	**-0.06%**	**-0.07%**	**-0.04%**	**-0.03%**	**-0.02%**
IT	Gross investment	0.19%	0.18%	0.16%	0.16%	0.15%	0.15%	0.12%	0.12%	0.12%	0.12%
	Capital consumption	0.18%	0.17%	0.18%	0.18%	0.17%	0.17%	0.16%	0.16%	0.15%	0.15%
	Net investment	0.01%	0.01%	**-0.02%**	**-0.01%**	**-0.03%**	**-0.02%**	**-0.04%**	**-0.04%**	**-0.04%**	**-0.03%**
AT	Gross investment	0.20%	0.19%	0.22%	0.25%	0.22%	0.24%	0.24%	0.28%	0.29%	0.31%
	Capital consumption	0.20%	0.19%	0.19%	0.19%	0.19%	0.18%	0.18%	0.18%	0.17%	0.17%
	Net investment	0.00%	0.00%	0.03%	0.06%	0.03%	0.06%	0.07%	0.11%	0.12%	0.13%
BE	Gross investment	0.29%	0.34%	0.36%	0.34%	0.40%	0.48%	0.43%	0.34%	0.35%	0.32%
	Capital consumption	0.18%	0.18%	0.19%	0.19%	0.19%	0.20%	0.21%	0.21%	0.21%	0.21%
	Net investment	0.11%	0.16%	0.17%	0.14%	0.21%	0.28%	0.23%	0.13%	0.14%	0.11%
PT	Gross investment	0.76%	0.51%	0.39%	0.21%	0.19%	0.24%	0.12%	0.14%	0.13%	0.14%
	Capital consumption	0.33%	0.36%	0.39%	0.38%	0.37%	0.34%	0.32%	0.30%	0.28%	0.26%
	Net investment	0.43%	0.15%	0.00%	**-0.17%**	**-0.17%**	**-0.10%**	**-0.21%**	**-0.16%**	**-0.15%**	**-0.12%**

Source: Author's elaboration.

The same trends can be observed with regard to investment in health care (infrastructure, machinery and equipment, and intellectual property). Again, with the exception of Austria, all the other countries significantly cut investments in health care before the pandemic. Most importantly, net investment in Spain, Italy and Portugal after the Great Recession quickly turned negative and then close to zero.

Table 2 Net and gross public investment in health care (% of GDP at market prices)

	Variable	2010	2011	2012	2013	2014	2015	2016	2047	2018	2019
ES	Gross investment	0.34%	0.30%	0.24%	0.22%	0.22%	0.21%	0.20%	0.21%	0.22%	0.22%
	Capital consumption	0.21%	0.21%	0.23%	0.23%	0.23%	0.22%	0.21%	0.20%	0.19%	0.19%
	Net investment	0.13%	0.09%	0.01%	-0.01%	-0.01%	0.00%	-0.01%	0.01%	0.02%	0.03%
IT	Gross investment	0.32%	0.26%	0.23%	0.24%	0.22%	0.22%	0.18%	0.19%	0.17%	0.18%
	Capital consumption	0.22%	0.22%	0.23%	0.23%	0.23%	0.22%	0.22%	0.21%	0.20%	0.20%
	Net investment	0.10%	0.04%	0.01%	0.01%	**-0.01%**	**0.00%**	**-0.03%**	**-0.02%**	**-0.04%**	**-0.02%**
AT	Gross investment	0.58%	0.56%	0.57%	0.58%	0.58%	0.59%	0.54%	0.58%	0.56%	0.52%
	Capital consumption	0.40%	0.39%	0.39%	0.39%	0.39%	0.39%	0.38%	0.38%	0.37%	0.37%
	Net investment	0.17%	0.16%	0.18%	0.19%	0.19%	0.20%	0.16%	0.21%	0.19%	0.16%
PT	Gross investment	0.39%	0.34%	0.23%	0.19%	0.18%	0.20%	0.17%	0.16%	0.21%	0.20%
	Capital consumption	0.20%	0.22%	0.23%	0.23%	0.22%	0.21%	0.20%	0.19%	0.18%	0.18%
	Net investment	0.18%	0.12%	0.00%	**-0.04%**	**-0.05%**	**-0.02%**	**-0.04%**	**-0.04%**	0.02%	0.03%

Note: Data for Belgium and Germany not available.
Source: Author's elaboration.

To measure the micro-additionality of RRF investments, we proceeded as follows. First, building on an original dataset constructed within the framework of the recently launched CEPS RRF Monitor project,[23] we identified all the social investment measures contained in the plans, including the allocated RRF budget and the target policy areas based on the RRF Social Expenditure methodology. The latter is defined in the Commission Delegated Regulation (EU) 2021/2105 of 28 September 2021, which identifies four social expenditure categories (Employment and Skills, Education and Childcare, Health and Long-term Care, and Social Policies) and nine social expenditure policy areas. As a second step, once we had identified the 'social measures', in line with Corti et al.,[24] we checked whether each investment had already been planned before July 2020,[25] when the Council agreed on the NGEU, or

[23] See https://rrfmonitor-ceps.eu/homepage
[24] Corti F., Gros D., Liscai A., Ruiz T., Kiss-Gálfalvi T., Gstrein D., Herold E., Dolls M., Fuest C., *The European added value of the Recovery and Resilience Facility- An assessment of the Austrian, Belgian and German plans*, study commissioned by the ECON committee, April 2022:
https://www.europarl.europa.eu/RegData/etudes/STUD/2022/699513/IPOL_STU(2022)699513_EN.pdf
[25] According to the RRF Regulation, any measure that did not exist before 1 February 2020 is eligible for RRF funding. Therefore, even though the plans were submitted in May 2021, Member States could have included

whether it is a continuation/extension of an already existing project. To this end, Stability and Growth Programmes 2020 were consulted, as well as an additional set of documents, summarised in Table 3.

Table 3 List of sources used to assess the additionality of investment measures in RRF plans

Country	**Documents consulted**
Germany	Stability Programme and National Reform Programme 2020 Konjunkturprogramm 2020 Webpages of responsible ministries and the federal government and the Federal Gazette Masterplan Ladeinfrastruktur der Bundesregierung 2019
Austria	Stability Programme and National Reform Programme 2020 Budget for 2020 Konjunkturprogramm 2020
Belgium	Stability Programme 2020 and National Reform Programme 2020 Federal and state budget 2019 and 2020
Spain	Stability Programme 2020 and National Reform Programme 2020 Presupuestos Generales del Estado 2019; Informe Económico y Financiero 2019
Italy	Stability Programme and National Reform Programme 2020 Italian government website 'Italia Domani", database *Quadro finanziario del PNRR*
Portugal	Stability Programme 2020 and National Reform Programme 2020 Relatório Orcamento Do Estado 2020

Source: Authors' elaboration.

For each social investment measure included in the RRF plans, we indicated whether: (i) it is a new project; (ii) it is an expansion or continuation of a pre-existing project; (iii) it corresponds exactly to an already existing running or planned (budgeted) project. We consider only investments in the first and second categories to be 'additional'. As discussed in Corti et al.,[26] the classification of expansion/continuation of pre-existing projects as non-additional is debatable. Certainly, it can be argued that in many cases the continuation of existing investments would have taken place also in the absence of RRF funding. However, this cannot be taken for granted, especially after the pandemic shock. We indeed do not know with certainty whether post-pandemic financial constraints would have hindered Member States in expanding or continuing these pre-existing projects. In this sense, Member States could use the RRF to expand or continue already existing projects, which would not have happened without the RRF funding. For this reason, we consider investments that are a continuation or expansion of pre-existing projects to be additional.

projects in their plans already launched or planned in 2020. This means that any investment budgeted after February 2020 could be included in the 2021 plans and be financed through the RRF, even though it is de facto not new and therefore not additional (it was already budgeted). Even in the event that some Member States decide to budget some public investments in view of the forthcoming EU financing this could not happen before the July agreement on NGEU and the publication of the Commission Guidelines.

[26] *See* nt. (23).

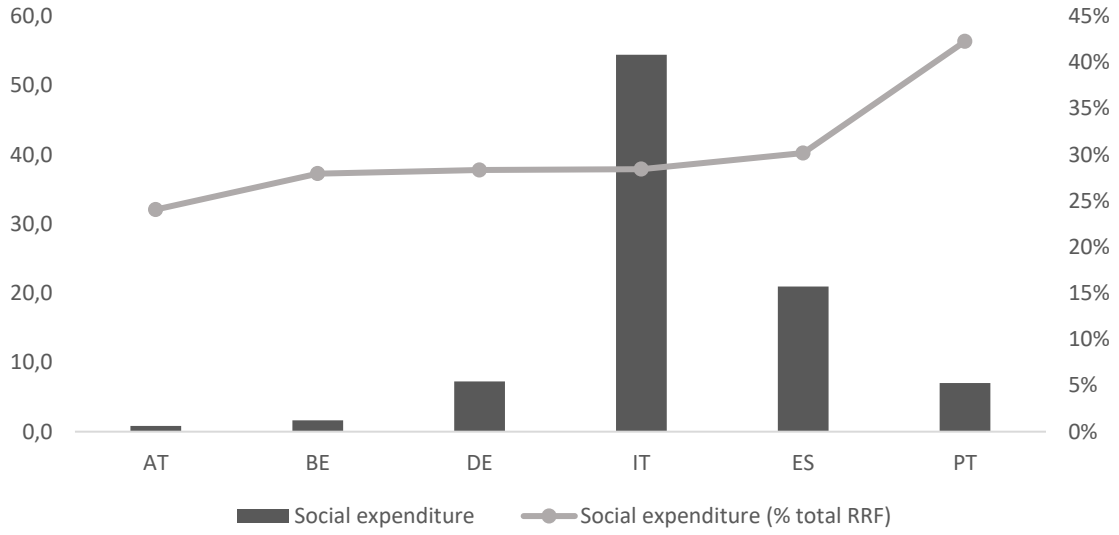
To validate our findings, we rely on seven semi-structured interviews[27] with national public officials in charge of the drafting of the recovery plans at the ministerial level (Ministry of Finance and/or of Social and Labour Affairs). Besides validating our findings, these interviews serve to facilitate their interpretation and provide additional insights on the key challenges faced by the Member States in implementing their RRPs. While our results on the additionality of investments tell a story that ultimately depends on the classification strategy, the ability to draw conclusions from the micro-analysis requires a good understanding of both the rationale and the context behind the investments' choice. Therefore, we use the interviews not only to understand whether interviewees agree with our findings, but also to ask the representatives from the Member States about the process of setting up the governance of their RRP, as well as the selection of investment priorities, and the involvement of additional actors (such as regional and local authorities and social partners).

4. The RRF as a springboard for social investments?

Briefly zooming in on the allocation of the six countries under study, Portugal is the country that allocates the largest share of the RRF envelope to social spending (42 per cent), followed by Spain (30 per cent), Italy and Belgium (28 per cent), then Germany (26 per cent) and finally Austria (24 per cent). In terms of policy areas, the countries show different priorities. The Italian plan focuses (35 per cent of total social spending) largely on general education policies. Particularly significant is the investment in health-care infrastructure (30 per cent) and in urban regeneration and social housing (20 per cent). Spain instead prioritises investments in social infrastructure and housing (33 per cent of the entire social envelope), followed by adult learning (19 per cent) and general education policies (14 per cent). Belgium and Austria also identify three main areas of social spending in their plans, notably general education (33 per cent in Austria and 48 per cent of total social spending in Belgium), adult learning (33 per cent and 19 per cent) and health care in the case of Austria (29 per cent) as opposed to social housing infrastructure in Belgium (16 per cent). Finally, Germany invests the largest share of its social envelope in the digitalisation of health care (70 per cent), while Portugal invests the largest share in social housing and infrastructure (43 per cent), health care (20 per cent) and general, vocational and higher education (20 per cent).

[27] The interviews were conducted within the framework of a study commissioned by Eurofound on *Explaining convergence – the geographical divide and impact of COVID-19*.

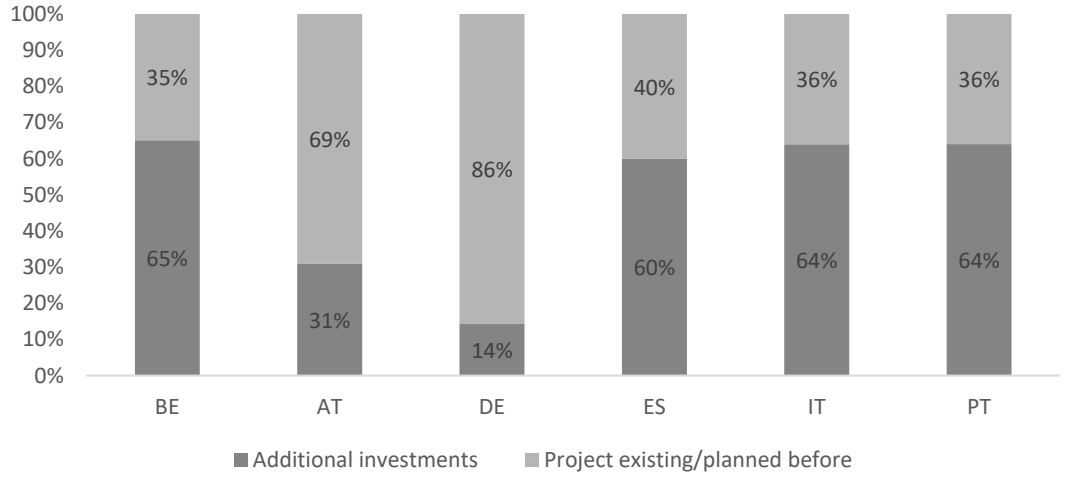
Figure 1 RRF social investment in selected Member States (billion euros (lhs) and percentage of total RRF envelope (rhs))



Source: Authors' elaboration.

Turning to the additionality of the investments channelled through the RRF, the results for Member States differ significantly, suggesting that they have distinct approaches when it comes to social spending in their RRPs. As shown in Figure 2, Italy, Belgium, Portugal and Spain include a higher proportion of new projects, with 64, 65, 64 and 60 per cent of additional investments, respectively. Conversely, Austria includes a minor share of new projects (31 per cent), while Germany practically included only projects that were already budgeted.

Figure 2 Additionality of social investments under the RRF



Source: Authors' elaboration.

In line with our expectations, Germany and Austria do not pay particular attention to RRF financial support and largely use it to compensate for already budgeted projects. Specifically, in the case of Germany, the government launched a Corona stimulus package in June 2020 before developing the RRP, prior to any agreement on NGEU. Some 12 out of the 40 RRF German investment projects were part of this package and are thus not classified as additional. In particular, when it comes to social investments, the German plan allocates 63 per cent of its social RRF envelope (4.6 billion euros) to strengthening the health-care system, and all the three projects financed were already part of the German Konjunkturprogramm. Similarly, the 0.5 billion euro investment in childcare facilities and the 0.72 billion euros in apprenticeship support were already budgeted in the Corona stimulus package. Likewise, two of the most important investment programmes included in the social envelope of the Austrian plan – the education package and the digitalisation of primary schools, amounting together to circa 40 per cent of total social spending – were part of the Austrian stimulus package for post-pandemic recovery approved before the RRF. The fact that both Germany and Austria had stimulus packages already in mid-2020 confirms that these countries could manage the recovery phase with their own resources and indeed this is confirmed in our interviews. In both Germany and Austria the RRF was perceived even as an administrative burden, due to the multiple requirements (DNSH principle, green and digital coefficients), and in both cases interviewees confirmed that they would have financed a large part of the social expenditure nonetheless as they were planned in their Konjunkturprogramm. Our interviews added two additional factors to explain the lack of new projects in the German and Austrian RRF plans. The first is the relatively small RRF funding compared with their GDP or total government social spending, which led to relatively little political interest in their RRPs. Hence, no politicians were pushing for the inclusion of large, new projects. This might also explain the inclusion of existing and smaller-scale projects. At the same time, the short period allowed for drafting the plans was a key factor: the time limit impeded the inclusion of new investment projects. Planning and execution periods, indeed, can take years, and therefore the time constraints forced governments to focus on projects that had already reached a more advanced stage.

In contrast to Austria and Germany, Italy, Portugal and Spain allocate the largest shares of investment to new projects, additional to existing ones. One example is Italy's 3.6 billion euro investment in childcare facilities, based on a legislative decree approved in 2017. The RRF thus provided a window of opportunity to implement investments long in the pipeline. Similarly, Portugal used the opportunity of the RRF to extend its ambitious social housing plan and to strengthen primary health care services and the vocational education system. Both the latter are sectors in which Portugal made consistent cuts after the Great Recession. Likewise, Spain has used the RRF to implement new investments especially in long-term care and health care, as well as in education (notably, upskilling and reskilling programmes). Interviewees from these three countries acknowledged the added value of the RRF support and stated that without it such investments would have been kept on hold. This is a key difference with Austria and Germany, which instead stress that the same projects would have been financed from their federal budgets. As already mentioned, Italy, Portugal and Spain

did not have a fiscal stimulus package for the post pandemic recovery, but by the time the RRF was adopted the response was focused largely on containing the pandemic and absorbing the related shock.

Although the largest share of investments is additional in the Italian, Portuguese and Spanish recovery and resilience plans, it remains puzzling why around one-third of social investments replace already planned measures. Based on our interviews, there are at least two reasons, related to the timing of plan implementation and RRF governance. With regard to timing, the countries not only had to prepare the plans in a rush, but they will have to implement the investments quickly, too. As discussed elsewhere[28], the RRF's new performance-based approach links the disbursement of funding to the achievement of strict quantitative objectives and a tight timeline. If this does not happen, the Commission can decide to reject a payment request. Disbursements are on an annual or biannual basis, depending on Member States' disbursement requests agreed with the Commission. In the second case, Member States have to report to the Commission twice a year to receive the disbursement. Accordingly, as stressed by our interviewees, even countries – such as Italy, Portugal and Spain – that need new additional investments, decided to select some projects from among those already planned to be sure to receive the Commission disbursement.

The second factor that influenced this decision is the centralised governance of the RRF, mostly in the hands of finance ministries. This in large part excludes sub-national actors, although the latter remain responsible for implementing social programmes, notably in health care, child care and active labour market policies. As argued by our interviewees, the de facto exclusion of sub-national actors from drafting RRF plans in part also explains the preference for including already planned or ongoing projects, as the responsible ministries could exercise control of implementation and guarantee compliance with the agreed targets and deadlines. In this respect, the non-centralised governance of the RRF is one of the key factors explaining the position of Belgium. In contrast to other countries, Belgium de facto presented three RRF plans, one for each region, which identified its own priorities and proposed the projects. This allowed for a broader consultation, including with the social partners, that made it possible to identify new projects not previously planned. Also in this case, the new projects were already in the drawer of the competent minister, but had not been budgeted for and, as stressed by one of our interviewees, without EU funding they might have remained on hold.

5. Conclusions.

The Recovery and Resilience Facility (RRF) has been welcomed as proof of European solidarity and a concrete manifestation of the EU's commitment to addressing the pandemic

[28] Bokhorst D., Corti F., *Governing Europe's Recovery and Resilience Facility: Between Discipline and Discretion*, in *Government and Opposition* (forthcoming); Corti F., Vesan P., *From austerity-conditionality to a social inclusive post pandemic recovery: Social Europe after Next Generation EU*, in *Social Policy & Administration* (forthcoming).

crisis.[29] Remarkably, the RRF moved away from the Economic Adjustment Programmes' 'austerity-oriented' conditionality, which linked loan disbursement to the implementation of sweeping structural reforms and social spending cuts, and introduced a new expansion-oriented framework, which makes access to grants conditional on the presentation of forward-looking reform and investment plans.[30] The social dimension of the recovery is given particular prominence in the RRF, which explicitly aims at 'contributing to the upward economic and social convergence, restoring and promoting sustainable growth and the integration of the economies of the Union, fostering high quality employment creation' (RRF Regulation, Art. 4).

Against this backdrop, at the beginning of this article, we posed the ambitious question of whether the Recovery and Resilience Facility could act as a springboard to boost investment in social infrastructure in Europe. While the contributions to this Special Issue take a broad look at the investments included in the plans, this article zooms in: by looking in a comparative perspective at six member states it analyses the extent to which the measures included in the plans contribute to relaunching social public investment in the EU. After a decade of underinvestment or net investments close to zero, the expectation was that, especially in countries that suffered from spending cuts imposed under the austerity regime after the Great Recession, the RRF could be used to cope with the social infrastructure gap accumulated over the years.

Our article shows how the RRF has fast-forwarded the implementation of social investments, which would have remained merely on paper, especially in countries with limited fiscal capacity. By contrast, in countries such as Austria and Germany RRF social spending is largely being used to replace already planned or budgeted investment. Even in the former group, however, one-third of social spending is allocated to ongoing projects. This is in part because of the tight timing for preparation and implementation of the plans, as well as a centralised governance that partially excludes sub-national actors, which are largely responsible for the implementation of social policies. As argued by Gros,[31] RRF money is fungible, and Member States can use it either to finance projects already planned or to extend existing ones. Fungibility does not imply that the RRF is worthless, but that its overall macroeconomic benefits cannot be measured by the additionality criterion, but rather by the additional fiscal space it creates for Member States. As Rana and Koch[32] and Dijkstra and Whyte[33] put is: 'Aid does not pay for the item it is accounted for but for the marginal expenditure it makes possible'.

[29] Ferrera M., Miró J., Ronchi S., *Walking the road together? EU polity maintenance during the COVID-19 crisis*, in *West European Politics,* 44, 5–6, 2021, 1329–1352, https://www.tandfonline.com/doi/full/10.1080/01402382.2021.1905328
[30] *See* nt. (23).
[31] Gros D., *Europe and the Covid-19 crisis: The challenges ahead*, CEPS Policy Insights, 11 September 2020, https://www.ceps.eu/wp-content/uploads/2020/09/PI2020-20_Europe-and-the-Covid-19-crisis.pdf
[32] Rana Z., Koch D.J., *Is it time to 'decolonise' the fungibility debate?*, in *Third World Quarterly*, 41, 1, 2020, 42–57, https://www.tandfonline.com/doi/full/10.1080/01436597.2019.1665012
[33] Dijkstra G., White H., *Programme aid and development: Beyond conditionality*. Routledge, London, 2013, https://www.routledge.com/Programme-Aid-and-Development-Beyond-Conditionality/Dijkstra-White/p/book/9780415259880

Acknowledgements: This contribution has been elaborated within the framework of the Horizon2020 research project 'The Future of European Social Citizenship – EusocialCit', funded by the EU (Grant agreement no. 870978). It builds in part also on a study commissioned by the European Parliament (IP/A/ECONED/IC/2021-089) on *The European added value of the Recovery and Resilience Facility*. The authors are extremely thankful to Daniel Gros for inspiration on how to investigate the idea of additionality, and to colleagues David Gstrein, Elena Herold, Mathias Dolls and Tamás Kiss-Gálfalvi.