ANALYSIS

ECONOMY AND FINANCE

THE IMPLEMENTATION OF THE NATIONAL RECOVERY AND RE-SILIENCE PLAN

Gianfranco Viesti
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Its implementation is already under way and entails important substantive and organizational (to meet European deadlines) choices.

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The Italian National Recovery and Resilience Plan (PNRR) is a determining factor for the nation's future and, to some extent, for the future of the European Union itself. For many years Italy has been experiencing extremely modest growth rates, below the European average, and at the same time high public debt levels, resulting from budgetary imbalances in the 1970s and 1980s. Both have worsened during the Covid-19 pandemic. The country experienced a deep recession in 2020, worse than the EU average, and the action taken to contain the pandemic has significantly exacerbated the state of Italy's public finances. Resolute revitalisation of the economy is thus indispensable.

1 THE ITALIAN PNRR

This revitalisation should be guaranteed by the actions detailed in the PNRR. It is a large-scale plan, as I analysed in greater detail in an earlier contribution, much bigger than those of many other European countries, amounting to around 235 billion euros (€) up to 2026 (the German plan involves less than €30 billion). The huge size of the plan is bound up with the criteria used to divide up the Next Generation EU initiative funds, which recognise both Italy's challenging economic situation (for example, high unemployment) and the impact of Covid-19. Next Generation EU has made €68.9 billion in contributions and €122.6 billion in loans available to Italy. In contrast to the other large European countries Italy decided to take immediate advantage of the whole loan sum. This was an extremely important decision guaranteeing the country very low interest loans up to 2026 but also committing it to swift and simultaneous implementation of a vast raft of measures, unlike France, where the government opted for a parallel national plan, not subject to European timeframes and rules.

Some €13.5 billion worth of REACT-EU funds were also funnelled into the PNRR, as well as €30 billion from national budgetary resources. It should be remembered, however, that a portion (more than €60 billion) of the plan's €235 billion is not for new investments, but to fund projects for which national budgetary resources had already been set aside, thus reducing the impact of debt on Italian public finances.

The PNRR covers practically all public investment spheres. It is split up into six Missions and 16 Components, encompassing a total of 235 action trajectories.

Each Mission contains multiple goals; the figure that follows shows what the government views as the most significant of them.

Two-thirds of the resources have been set aside for public investments, one-fifth for investment incentives and one-seventh for current public spending. In particular, PNRR measures translating into physical action amount to €108.2 billion, a much higher figure both in absolute terms and relative to the total (49 per cent) than in Spain (32 per cent), France (21 per cent) and Germany (20–25 per cent). This is appropriate and understandable given the extremely significant public investment in infrastructure and building work in the 2000s, especially by local authorities, but the extremely long time-frames for public work in Italy make this a critical issue worthy of attention all the same.

Figure 1
Distribution of PNRR funds by sector

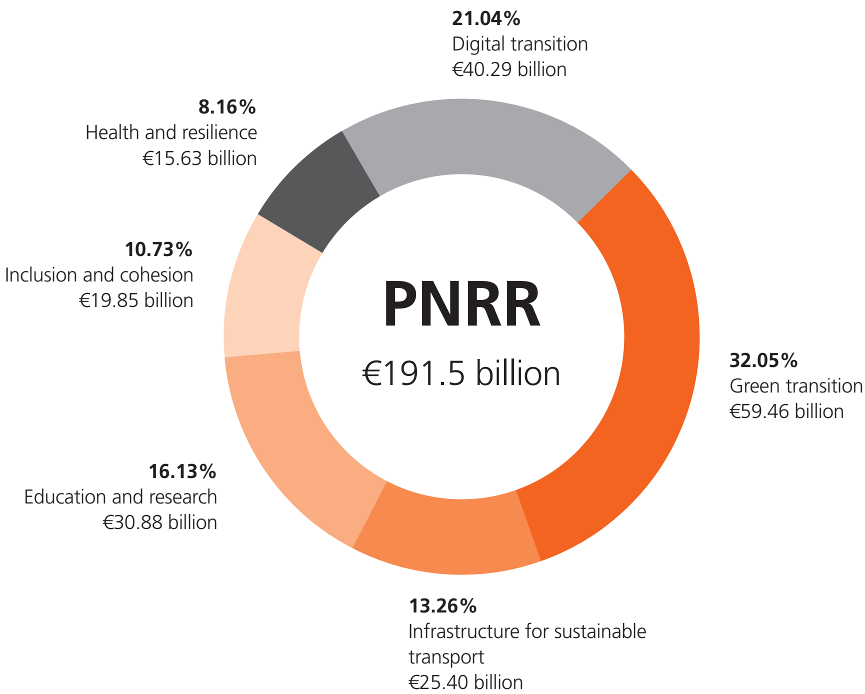


Figure 2
The main sectors of the PNRR and their objectives.

DIGITAL TRANSITION: Fostering and supporting the country's digital transformation and manufacturing system innovation and investing in two key Italian economic sectors: tourism and culture.

EDUCATION AND RESEARCH: Strengthening the education system, digital skills and STEM subjects, research and technology transfer.

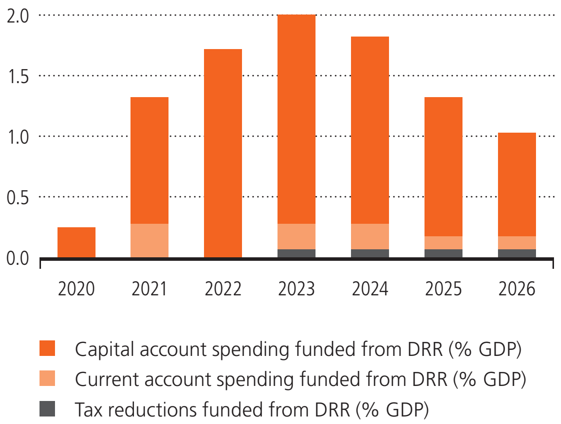
GREEN TRANSITION: Improving the sustainability and resilience of the economic system, ensuring equitable and inclusive transition.

INCLUSION AND COHESION: Facilitating labour market participation, including via education, reinforcing active labour market policies and fostering social inclusion.

INFRASTRUCTURE FOR SUSTAINABLE TRANSPORT: rational modern sustainable infrastructure development extended to the whole country.

HEALTH AND RESILIENCE: Strengthening disease prevention and health services across Italy, modernising and digitalising the health system and guaranteeing equitable access to treatment.

Figure 3
Spending increases and income reductions funded with Recovery and Resilience Plan funds (as a percentage of GDP)



Source: DEF 2021, elaboration Intesa San Paolo.

The plan's spending will, as Figure 3 shows, focus in particular on the years 2023–2025.

The investments are accompanied by an extremely ambitious reform agenda. In total, 63 reforms are planned (divided up into ›horizontal‹ reforms, that is, those related to the whole national system, such as justice reforms, ›enabling‹ reforms functional to the implementation of the PNRR, such as straightforward public tenders, and ›sectoral‹ reforms on specific themes). The Draghi government has stressed the reform agenda particularly on the grounds that it has the potential to lead to significant national modernisation. The planned time-frame is very short, in accordance with the deadlines agreed with the European Commission, which we will look at shortly. On one hand, this may lead to a positive speeding up of their implementation, but on the other, it may shorten the political debate and reduce parliament's capacity to scrutinise reforms in depth.

2 THE ORGANISATIONAL MODEL

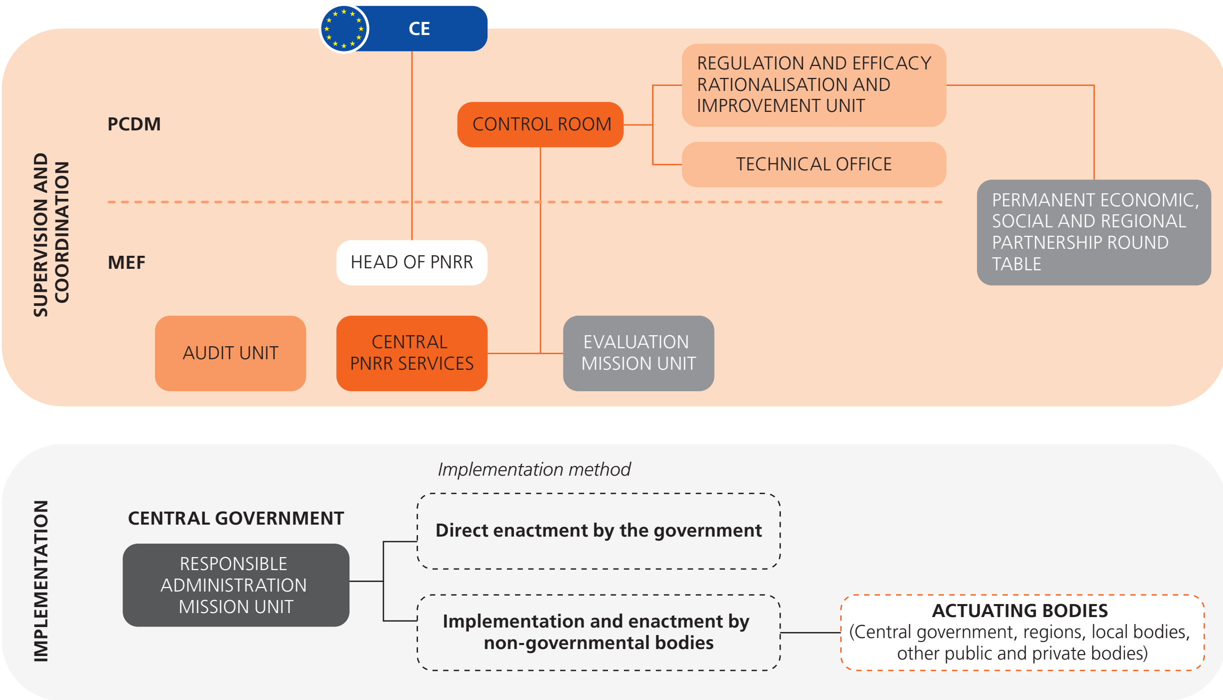
The PNRR organisational model, set out in DL 77/21, is hierarchical, focusing on national governments and the prime minister in particular. It is illustrated below.

A control room set up at the Prime Minister's Office has played a central role in: (i) elaborating trajectories and guidelines for the PNRR; (ii) monitoring implementation progress; (iii) examining problem areas reported by ministries; (iv) monitoring measures requiring legal amendments; (v) notifying parliament of progress in a six monthly report; (vi) notifying and cooperating with the Permanent Round Table (see below); (vii) fostering coordination between the various levels of government; (viii) potentially activating substitute powers in the event of implementation delays. It is made up of the Prime Minister, the Minister for the Economy and other ministers on a rotating basis. It has a Technical Office and a Legislation Improvement Office.

The Central PNRR Service at the Ministry of the Economy and Finance (MEF) is split up into six offices (including implementation, monitoring and accounting). It is dependent on the control room and maintains relations with the EU Commission. Its task is to coordinate the implementation process as a whole, liaising with all the bodies involved. There is also an auditing unit dealing with inspections and an evaluation unit whose task is to check that indicators, milestones and goals are being respected and achieved. The Permanent Round Table for Economic, Social and Community Partnership (social stakeholders and decentralised authorities) is the place for debate, consultation and decision-making, but its role thus far has been modest.

The government has divided up responsibility for measures and the funds set aside for them among the ministries. The Ministry for Infrastructure and Sustainable Transport (MIMS, minister Enrico Giovannini, technician) and the Ministry for Environmental Transition (MITE, minister Roberto Cingolani, technician) play a key role with budgets of €40 billion and €35 billion, respectively.

Figure 4
The PNRR organisational model



With Law 108/2021 the government promulgated a first package of legislation (regulations on substitute powers, overcoming dissent in implementation procedures, special procedures for large-scale work, environmental simplification) and recruited experts for central PNRR support services.

Information provision and transparency on this raft of measures and on implementation in general is modest. The government has set up a portal on the plan but it contains only a small part of the implementation procedures and a very limited amount of data in open form, such as data monitoring. Various institutions and associations have taken on the task of setting up monitoring bodies but to date with no appreciable results.

3 IMPLEMENTATION OF THE PLAN

Some 527 implementation commitments are specified in the attachment to the Commission's decision approved on 22 June 2021 and definitively adopted by Ecofin on 13 July 2021. Around 213 of these are classified as »milestones« (objectively verifiable qualitative results in the action implementation context) and 314 »goals« (quantitative, concrete, objectively verifiable). The former refer in particular to reform actions and are concentrated in the first years of the plan's implementation (82 per cent prior to 2023), while the second focus mainly on investment implementation and are concentrated in the last three-year period (only 23 per cent within 2023). Some 49 milestones and two goals are to be achieved by the end of 2021. Those relating to June and September have been achieved, while for those fixed for December (including the ultra-important civil and criminal process reforms) an official monitoring process dated 23 September 2021 is available.

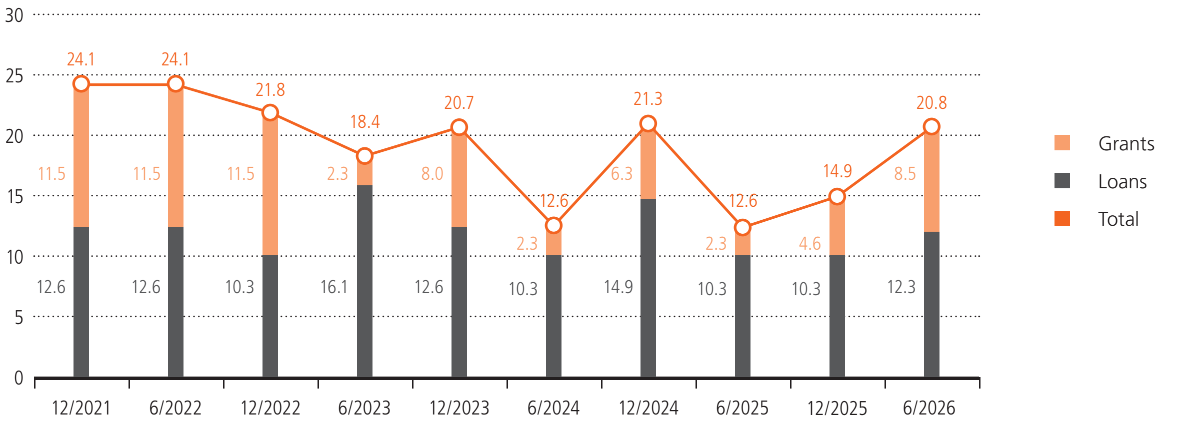
Release of subsequent funding instalments by the European Commission (with the exception of the first €24.9 billion, which was handed over in the summer of 2021) depends on the achievement of the milestones and goals, as per European Regulations. The time frame is presented in Figure 5.

As noted, the government drew up the plan on the basis of very modest parliamentary, regional government, local institution, political party and economic and social stakeholder consultation, partly on the strength of the specific political juncture (a national unity government under technical leadership supported by a huge parliamentary majority). Apparently likely to continue until the natural end of the legislature in 2023, this may foster unity of intention and rapid decision-making. But limited public debate on the plan's far-reaching decisions, many of which will be made explicit in the ensuing plethora of implementation measures, is not only worrying on the democratic front but may also lead to inadequate levels of consensus on major action which will leave its mark on Italy for at least a decade.

To take one of many examples, in the PNRR and DL 59/21, around €12 billion has been set aside for a new railway line from Salerno to Reggio Calabria, whose effective usefulness (as against reinforcing the existing lines) was debated on 14 October 2021 by the technical heads of the Ministry and RFI, with independent experts and the Minister present.

Figure 5

Funding set aside for Italy in the Recovery and Resilience Fund context (billions of euros)



Note: this division does not take account of the €24.9 billion advance payment made to Italy last August.

Source: PNRR, Intesa San Paolo elaboration.

The PNRR's implementation mechanisms are extremely complex and the plan outline is as follows:

(i) a share of the plan's resources is to be allocated directly by central government to individuals, firms and citizens (as in the Great Transition 4.0 measures for companies and bonuses for building renovation). These can be estimated as accounting for around one-sixth of the available resources;

(ii) a share of the funds has already been handed over to large actuators within the wider public sector or will shortly change hands, as in the ultra-significant case of the funds set aside for railways, almost all of which is going to Rete Ferroviaria Italiana (RFI);

(iii) one share is to be directly managed by central government which will be direct instigators of the measures (this applies to the digitalisation of central government and justice);

(iv) yet another segment of funds has been allocated to the ministries responsible to public actors (regions, local government, local health units) on the basis of dividing up funds and specific identification of action to be taken, generally subject to the approval of the State-Regional Conferences (this is the case with social-health initiatives) and formalised into an Institutional Development Contract;

(v) finally, a significant share of the funds will be subject to competitive tenders issued by central government, with local government or other local public bodies (or public-private partnerships) generally called on to take part. This has applied to the first instalment of funds already assigned to nursery schools (set aside under the 2020 budgetary law but then »incorporated« into the PNRR – spending already allocated on 1 February 2020 is admissible as long as it is consistent with the plan), urban regeneration and water infrastructure. This will also be the case with the research and innovation action covered by the »From Research to Business« component.

According to the Parliamentary Budget Office all this means that the local authorities will be responsible for around €70 billion in new public investment spending, especially in 2023–2026 (excluding the Complementary Funds), a much higher figure than in previous years, although comparable with the pre-austerity years. But in 2010–2019 the local authorities (excluding health care and the special status regions) lost 23 per cent of their staff as a result of a local authority hiring freezes. The average age of these employees is now very high (53) and their educational levels low.

This is the main problem area with PNRR implementation. Italian local authorities are currently experiencing serious difficulties in planning and implementing actions and this is set to continue. The Draghi government has apparently underestimated this issue and has no plans for structural reinforcement of local government (at least to the extent of recovering previous staff levels). DL 80/2021 provided for the recruitment of 1,000 professionals to support regions and local governments, with an additional 2,800 employees to be recruited using Southern Italy cohesion funds (although the first tender provided for only 1,000), but these are clearly entirely inadequate numbers. DL 121/2021 set up the Fondo concorsi progettazione e idee per la coesione territoriale (€123.5 million) to strengthen planning in Southern Italian local governments and internal areas which the 2022 Budgetary Law intends to strengthen.

Once again, the choice of competitive tenders between local governments for the allocation of many PNRR funds raises many question marks. While this may allow what are considered to be the »best« or »worthiest« projects to be selected, it also risks penalising weaker areas and local governments. The central government is thus not taking responsibility for the local rebalancing stressed in its own PNRR, with regional allocation of resources not being determined politically but left to competitive procedures. The limited skills available in many local government bodies may potentially have two important consequences, and they are not positive ones:

(i) the prioritising of projects that can be completed rapidly, whatever their quality and importance, and (ii) concentrating resources on certain – larger – authorities, possibly with more staff capable of activating resources, including planning and/or implementational resources, including in the private and tertiary sectors (and former banking foundations).

ABOUT THE AUTHOR

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