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Building 'Next Generation' after the pandemic: The implementation and implications of the EU Covid Recovery Plan

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Introduction

The European Union's (EU) management of the Covid-19 pandemic, and the creation of the 'Next Generation EU' (NGEU) recovery plan in particular, have triggered enormous interest in the academic and policy communities. In 2021, the EU adopted the final legal acts of the recovery plan; member states drafted and submitted national recovery and resilience plans (RRPs); and the European Commission began borrowing and paying out the first funds. NGEU carries major implications for the EU's governance system, the future of its finances, and the relations between the Union and its member states.

This article analyses the implementation of the EU recovery plan from late 2020 on. It describes the legal foundations, economic rationale and political controversies around the recovery and resilience facility (RRF), which is the centrepiece of NGEU. Doing so, the article assesses both the formal changes and the informal practices in the EU's governance system. It builds on primary EU and national documents, press and think-tank reports and several interviews and background talks with senior EU officials and civil servants from national administrations.

The article proceeds as follows: The first section assesses the background and foundations of the recovery plan, tracing its main purposes and the controversies involved. The second section scrutinizes the complex process of drafting, approving and implementing the national RRPs as well as the Commission's borrowing operations. The third section puts these findings into a broader perspective: What impact is NGEU likely to have on member states and the Union's recovery from the pandemic? What are the opportunities, as well as the challenges, for the years to come? A brief concluding section considers a few implications for European integration theorizing and European Union politics. Overall, we find a mix of path-dependence drawing from established procedures, together with some innovative tools and practices. While EU institutions have created concrete guidelines and benchmarks for the national RRPs, the realization and success of NGEU ultimately will depend on the political will and 'ownership' on the part of the member states.

Adoption and Governance of the Recovery and Resilience Facility

In July 2020, the European Council agreed on a strong and common EU fiscal response to the social and economic damage caused by the Covid-19 pandemic (European Council, 2020; Krotz & Schramm, 2022). In addition to the EU's next multiannual financial framework (MFF) for 2021–2027, which had to be adopted by December 2020, the heads of state or government endorsed the NGEU recovery package. The MFF and NGEU are linked in the sense that the increased 'own resources' ceiling for the MFF, which enables the European Commission to borrow (see below), is temporary and can only be used for the economic recovery from the pandemic. However, some key objectives of the NGEU clearly predate the Covid-19 crisis, suggesting that national leaders sought to implement longer-term EU priorities.

At the heart of NGEU is the RRF. In current prices, the RRF comprises €723.8 of the €806.9 billion total NGEU, with the remaining portion allocated to a number of smaller EU programmes with more specific remits. The EU's two legislators – the Council and the European Parliament (EP) – then further negotiated and transformed the European Council conclusions into legal acts (De Witte, 2021). During these follow-up negotiations, another difficult European Council meeting took place in December 2020. It found a compromise on the text of the Regulation establishing a general rule-of-law conditionality for the use of EU funds (Regulation 2020/2092; Baraggia & Bonelli, 2022). This compromise removed Hungary and Poland's threat to veto the recovery package, paving the way for the formal adoption of the MFF and the various elements of NGEU. Although some larger member states may have undertaken more ambitious plans or mobilized similar fiscal resources, the EU's common response remains remarkable when compared to previous instances of economic crisis management – especially given that NGEU supplements already existing national measures and other EU-level action like the suspension of deficit rules. Moreover, for some smaller and poorer member states, the new EU funds can make an economic impact, potentially raising their GDP by several percentage points.

Some of the legal instruments thus were adopted in the final days of 2020, whereas others had to wait for the early months of 2021. The MFF was adopted on 17 December 2020 (Council Regulation 2020a/2093) and was accompanied, as usual, by an Interinstitutional Agreement on its implementation (Interinstitutional Agreement of 16 December, 2020). The European Union Recovery Instrument, a short document containing the overall financial assistance envelope of the NGEU, was adopted on 14 December 2020 (Council Regulation 2020b/2094), as was the new Own Resources Decision (ORD; Council Decision 2020/2053). However, the ORD could not enter into force until 1 June 2021, as it had to be approved first by the national parliaments of all 27 member states.

In the meantime, the RRF, the main spending programme of NGEU, was formally adopted in February 2021 via a co-decision procedure (Regulation 2021/241). The other EU programmes benefitting from an NGEU allocation were all adopted according to the same procedure in the weeks and months after the final deal of December 2020. Following the political guidelines established by the European Council in July 2020, the ORD entrusts the Commission with borrowing on the capital markets. While RRF funds will be spent by 2026, the debt will have to repaid more gradually, between now and 2058, depending on the duration of the various loan operations. The text of the ORD also states that the member states will be ultimately liable for the repayment of the common EU debt according to their contributions to the EU budget – but only if the EU is unable to repay the loans from its own budget. There are several options to ensure repayment: First, the EU can introduce additional 'own resources', such as the proceeds of taxes on financial transactions and digital services. Second, the EU budget could see cuts in spending.

Third, member states could increase their contributions to the EU budget – which is the default option referred to in the ORD. In fact, there is also a fourth option, whereby the EU would borrow again upon maturation of the NGEU debt, thereby somehow perpetuating that debt.

The RRF Regulation foresees an almost equal share of loans and non-refundable payments (grants). More concretely, member states could apply for up to €385.8 billion in loans and up to €338 billion in grants. The novel element of the RRF, of course, is the grant component, which represents a significant change from previous instances of EU financial and economic crisis management. Not surprisingly, all member states applied for the full amount of their allocated grants, while member states with favourable access to the capital markets decided to forgo the NGEU loans altogether, or at least take up less than their allocated share. In the end, only seven countries, so far, have requested loans from the RRF, namely Cyprus, Greece, Italy, Poland, Portugal, Romania and Slovenia – some of them requesting a smaller amount than what was allocated. The RRF is a redistributive instrument in that poorer member states, and those hit hardest by the pandemic, profit the most. In absolute numbers, Italy and Spain receive the most funds; relative to their GDP, Greece, Romania and Croatia are the largest beneficiaries.

To have access to the funds, member states had to draft national RRPs presenting their use of the money and their individual policy priorities whilst also complying with the common European policy priorities as laid down in the RRF Regulation. Thus, in line with the EU's longer-term objectives and strategic interests, member states must spend at least 37 per cent of the funds for climate protection and energy efficiency (green transition) and at least another 20 per cent on the digital transition. The remaining 43 per cent can be spent on other kinds of projects, as long as they fall within the scope of one of the six 'pillars' listed in Art. 3 of the Regulation and contribute to one of the very broad objectives listed in Art. 4. These spending targets suggest that the RRF is more about (mid- and long-term) economic resilience-building than about the (short-term) recovery from the Covid-19 pandemic. In fact, the EU established a huge – though temporary – spending programme to pursue certain newly prominent policy objectives, such as climate change mitigation and digital transition, in addition to the 'normal' framework of the MFF.

One of the key controversies during the negotiation of NGEU concerned the need to subject the RRF disbursements to conditionality. Conditionality must be distinguished from the normal earmarking of the use of EU funds for the specific purposes defined by the relevant instrument. The conduct prescribed by conditionality clauses pursues an additional policy objective that goes beyond the primary purpose of spending (Vita, 2017, p. 122). The new rule of law conditionality applies to the RRF as much as to the 'ordinary' EU funding instruments. Furthermore, the text of the Regulation empowers the Commission to assess the national plans based upon whether they effectively contribute to the objectives of the RRF, but also on whether they are 'expected to contribute to effectively addressing all or a significant subset of challenges identified in the relevant country-specific recommendations' (Regulation 2021/241, Art. 19(3)(b)).

Despite the various European steering mechanisms, the RRF retains a basic bottom-up approach aiming for national ownership. This not only recognizes that implementation ultimately depends on national or even sub-national administrations and resources, but also seeks to increase the legitimacy of the planned investments and reforms 'on the ground'. Moreover, the RRF is a performance-based instrument in that for continued funding, member states must fulfil 'milestones and targets' (cf. Regulation 2021/241, Art. 2), to which they previously had agreed together with the Commission. After a pre-financing of 13 per cent of their allocated sums, member states can ask, on a six-month basis, for further disbursements of the total amount. Thus, despite the required compatibility of national spending with certain EU priorities, NGEU strongly deviates from previous instruments and programmes – like the European Stability Mechanism or the 'Troika' – because conditionality (other than for rule of law aspects) is much weaker, member states had a strong say in the development of 'their' RRP, and EU institutions have been rather soft in the assessments of the plans.

Originally, member states were asked to submit their national RRPs by 30 April 2021, but most member states needed more time; one of them (the Netherlands) will not submit its RRP until sometime in 2022. After submission, the Commission has eight weeks to assess the RRP. It does so based on concrete guidelines and a complex scoreboard, 'in close cooperation with the Member State concerned' (Regulation 2021/241, Art. 19). Following its assessment, the Commission proposes a Council implementing decision, which must be taken within four weeks. For the disbursement of the financial contributions, the Commission assesses the satisfactory fulfilment of the relevant milestones and targets, again followed by a Council implementing decision. Here, however, the Commission must also consider the opinion of the Economic and Financial Committee, an EU advisory body set up to promote policy coordination among the member states (Regulation 2021/241, Art. 24).

Other EU institutions and procedures also warrant mention. To enable compromise on the initial recovery package, some national governments insisted on an 'emergency clause': If one or more governments raise concerns about another country's fulfilment of the milestones and targets, it can request the President of the European Council to place the matter on the agenda of the next European Council, pausing the further disbursement of financial contributions 'until the next European Council has exhaustively discussed the matter' (Regulation 2021/241, Recital 52). Such a step would represent an escalation in the implementation of the recovery package and almost certainly lead to clashes between EU institutions. In view of the broad coordination and involvement of the various actors so far, triggering the emergency break, for the time being, seems an unlikely scenario. After having played a minor role in the creation phase of NGEU, the EP, during the negotiations with the Council in autumn 2020, fought for a stronger inclusion in the governance system. The RRF Regulation (Art. 26) has granted the EP a 'recovery and resilience dialogue', according to which the Commission can be called every two months to report the state of play of the RRF and the national RRPs to the relevant parliamentary committee.

Implementing the RRF in 2021: Legal Rules and Institutional Practices

Institutional practices might deviate from, or complement, the rules and procedures set out by the RRF Regulation. To be sure, we do not expect or claim any direct contradictions between the legal provisions of the RRF and the institutional practices that followed its adoption; instead, our aim is to highlight how the various actors attempted to launch the large new recovery package and how they seek to adjust to recent developments. This section thus illustrates the implementation of NGEU and the drafting of the national recovery and resilience plans, primarily drawing from our interviews and background conversations with EU and national officials.[1] We also relate our findings to theoretical perspectives on inter-institutional dynamics and the relations between the EU and its member states.

As stated above, the RRF Regulation expected member states to submit their RRPs by the end of April 2021. In practice, dialogue and cooperation between the Commission and the member states had already begun in late summer 2020, following the seminal agreement of the July European Council. Some member states then presented initial RRPs by the end of 2020. According to several sources closely involved in the process, the decisive negotiations between the Commission and most member states on the details of the RRPs unfolded between January and April 2021. Both the Commission and national administrations were interested in the RRPs passing the official assessment, allowing financial contributions to start flowing as soon as possible. Another sign of this close collaboration was that several member states officially asked for 'technical support' from the Commission when calculating the costs and feasibility of planned investments and reforms.

On the part of the Commission, the 'Recover' taskforce was charged with the implementation of NGEU and the dialogue with the member states. Recover is situated in the Secretariat-General and thus reports directly to the Commission President, Ursula von der Leyen. Several interviewees stressed that the implementation of NGEU has been made *Chefsache*, that is a matter for the Commission President and her cabinet. This might not be surprising at first glance, given the amount of money involved and the political importance of the recovery package. At the same time, the von der Leyen Commission thus tied its reputation and possibly its fate to the success of NGEU. In any case, the centralization and direct responsibility of the Secretariat-General for the future of NGEU resembles the working methods of nation-states, where the prime minister's office or the chancellery – rather than individual ministries – usually addresses policies of major importance.

In addition to the Secretariat-General, two other Directorate-Generals (DGs) are closely involved in the process. First, since the RRF is largely an economic instrument, DG Ecfin (Economic and Financial Affairs) provides economic forecasts and country-specific expertise, building on its experiences from the European Semester and the country-specific recommendations. National administrations thus had two points of contact when drafting their RRPs, namely the Secretariat-General and DG Ecfin. Second, but to a lesser extent, DG Reform (Structural Reform Support) provides technical expertise on the drafting and implementation of the RRPs. While not in charge of monitoring the national plans, DG Reform only gets involved when explicitly requested by member states. Interviewees from all Commission units admitted and deplored the considerable workload due to insufficient staff and time pressure. The final RRPs can easily exceed several thousand pages – for example, Italy's numbers 2,487.

The first 12 national plans were positively assessed by the Commission in June 2021 and formally approved by the Council on 13 July. At that meeting, the Council approved

[1]In order to obtain relevant information, the interviewees were guaranteed strict confidentiality. They include European Commission and Council officials as well as civil servants from national administrations.

the RRPs of Austria, Belgium, Denmark, France, Germany, Greece, Italy, Latvia, Luxembourg, Portugal, Slovakia and Spain. By the end of 2021, all member states except the Netherlands had submitted their RRPs. As for the plans of Bulgaria, Hungary, Poland and Sweden, the Commission required major changes. Sweden's RRP was approved by the Commission on 29 March 2022 (ten months after its submission) and Bulgaria's on 7 April 2022 (almost six months after its submission), whereas the plans of Hungary and Poland were still under examination at the end of April 2022. In the latter two cases, serious reservations exist with respect to the rule of law in these two countries. On 1 June 2022, the Commission, following unusual internal controversies and the open opposition of five members of the college of commissioners, gave a positive assessment of the Polish RRP (Bayer, 2022).

Staff shortages and time pressure equally apply for the Council. According to the RRF Regulation, the Council shall, within four weeks and following the assessment by the Commission, approve a national RRP and the disbursement of the financial contributions (cf. Rubio, 2022). In practice, thus, the Council had very little time to discuss and assess RRPs and largely relied on working documents and summaries prepared by the Commission. More importantly, there seems to have been little enthusiasm among member states to seriously engage with each other's plans. Council officials confirmed that there has been a debate on each RRP, but not in much detail. In addition to the traditional reluctance of member states to question, and possibly punish, each other's policies, the nature and repercussions of the pandemic played a major role. Nobody seems to doubt the appropriateness and usefulness of public money to cushion the economic and social damage caused by the Covid-19 crisis.

The Commission was also tasked with raising the funds for the NGEU programme. Once the ORD had entered into force on 1 June 2021, the Commission could almost immediately adopt its 'funding plan', setting out how it intended to assemble the financial means to be disbursed to the member states. The initial bonds, a total of €20 billion, were issued by the Commission on 15 June 2021, followed by six more operations in the remaining months of 2021 for a total of €71 billion. Their maturity varies from five to 30 years. The Commission also launched a number of short-term borrowing operations by means of three- and six-months bills totalling €25 billion. All of the bonds were highly oversubscribed, and the yields were kept very low. In some cases, the bonds even came with negative interest rates (European Commission, 2022a).

The first disbursements were given out in August 2021. Some member states whose RRPs had been approved received pre-financing equivalent to 13 per cent of their total allocation, allowing them to start implementing the plan. After this pre-financing, the follow-up disbursements can be requested by the member states twice a year, provided they can show that they have met the targets and achieved the milestones listed in the national RRP during the period preceding the request. Spain made the first such request on 11 November 2021, following the achievement of the 52 milestones selected for the first period, and the Commission approved the disbursement on 27 December 2021. By the end of 2021, three more member states had made claims for the first follow-up disbursement, and those were all approved in the early months of 2022 (European Commission, 2022b). As of 31 December 2021, the Commission had effectively disbursed €64.3 billion to 20 member states: €46.4 billion in the form of grants, and (only) €18 billion in the form of loans (European Commission, 2022a, p. 3). However, in an attempt to reduce dependence on Russian fossil fuels and to accelerate the EU's green transition, the Commission on 18 May 2022 presented a 'Repower EU Plan'. Therein, the Commission suggested amending the RRF Regulation and using loans from the RRF to finance national and cross-border infrastructure energy projects (European Commission, 2022c).

A further challenge for EU institutions, and for the success of NGEU, concerns the heterogeneity of the national RRPs. Despite complex guidelines and criteria for the drafting and implementation of the RRPs, the national plans vary considerably in their scope, ambition and detail. On average, the plans of the largest recipients (per GDP) – such as Italy, Spain and Greece – are most ambitious. Due to the large amounts of money involved, the Commission in these cases had considerable means to demand structural changes, for instance in countries' labour markets and tax systems. By contrast, for most northern member states, where the financial contributions represent only a small part of their overall public expenditure, there were fewer incentives for far-reaching RRP. The Commission thus had to find the right balance between country-specific needs and priorities, and the comparability and cohesiveness of the RRPs.

Given the lack of resources and time at the EU level, the drafting and implementation of the RRPs to a large extent depend on national authorities. At the same time, this has been a conscious decision, as the RRF Regulation, too, mentions the importance of 'national ownership' multiple times. Here, we see a clear deviation from previous instances of EU crisis management and economic policy-making. Whereas economic adjustment programs from the time of the eurozone crisis followed a top-down approach and entailed elements of conditionality and coercion, the insufficient implementation of the country-specific recommendations in the context of the European Semester usually originates from a lack of national ownership (cf. D'Erman & Verdun, 2022). NGEU might thus pave the way for a new mode of EU policy-making.

Opportunities and Challenges Ahead

NGEU has been, and continues to be, a remarkable response of the EU to the economic and social damage and the political challenges caused by the Covid-19 pandemic (Wessels et al., 2022). In 2020, member states reacted quickly to provide a common fiscal response to the crisis. In 2021, the EU institutions, most notably via the RRF Regulation, put the respective provisions into reality and made the RRF operational. Importantly, and in stark contrast to financial crisis management in the past, the recovery plan respects and works within the boundaries of the EU's legal order (cf. De Witte, 2021). Member states thus implement their national RRPs in close cooperation with the EU's main institutions.

The process so far has evolved smoothly, and both EU officials and national civil servants appear confident of further development. Yet, some reservations and uncertainties exist. For one, several think tanks and experts criticized the lack of ambition in both the national RRPs and in the Commission's assessment of the plans. On paper, member states fulfil or even exceed the benchmarks of 37 and 20 per cent, respectively, for green and digital spending. However, analysts have raised doubts about the practical efficiency and feasibility of these figures (e.g., Darvas, 2022). Another aspect relates to the reform component, where member states at times have backed away from more ambitious changes: While *investments* such as the purchase of electronic vehicles are fairly straightforward, *reforms* of national labour markets and judicial systems are much more difficult and politically controversial.

The biggest concern, however, is how and to what extent member states will be able to absorb their allocated funds. Especially for those countries hit hardest by the pandemic and those with weak administrations, channelling the newly available public money into concrete projects poses significant challenges. National administrations, together with the EU institutions, will have to ensure a high quality of spending. Commission and Council officials admit that there is no blueprint for delivering on the milestones and targets and that they are 'learning on the job'.

NGEU, and the RRF in particular, are instruments with clear purposes and a fixed time horizon. However, as the geopolitical and economic situation is changing, not least related to Russia's war in Ukraine, some adaptations in the spending priorities might materialize. Similarly, some milestones and targets listed in the national RRPs might prove unfeasible. The RRF Regulation (Art. 21) provides for the possibility of adjusting the RRPs 'because of objective circumstances'. Moreover, some member states that so far have not asked for their loan component under the RRF might do so in the near future to cope with rising energy prices and to soften the economic ramifications stemming from the EU's sanctions against Russia. Here, the EU will have to find the right balance between sticking to the original timetable and securing a smooth implementation of agreed-upon investments and reforms, on the one hand, and being flexible towards the latest developments and changes that might become necessary in the national RRPs, on the other.

Another key factor in this discussion about future fiscal governance is whether the EU will be able to address the uncertainty concerning the repayment of the massive NGEU debts it is now taking on. As mentioned above, one way to facilitate this repayment (and possibly even a reiteration of an NGEU-like programme in the future) is the creation of additional financial resources for the EU budget. In this respect, the ORD of December 2020 provides for national contributions amounting to €0.80 per kilo of unrecycled plastic packaging waste generated in the country concerned, with a lump sum reduction for the poorer member states (Reichert et al., 2021). This is a new own resource, but not an additional one, as these national contributions will automatically reduce the 'rest' category of GNI-based contributions to the EU budget. However, point 8 of the ORD's preamble recalls the commitment of the July 2020 European Council to consider the introduction of additional, and more consequential, own resources, namely a carbon border adjustment mechanism, a digital levy, an extended emissions trading system and a financial transaction tax.

In the Interinstitutional Agreement on budgetary discipline concluded in December 2020 (Interinstitutional Agreement of 16 December, 2020), the EP managed to include a 'roadmap towards the introduction […] of new own resources that are sufficient to cover the repayment of the European Union recovery instrument'. As interinstitutional agreements are binding on the institutions that make them, the Parliament could now claim that the Commission had a legal duty to come forward with proposals for the creation of those new resources, and the Council a duty to consider them. However, the actual creation of the new own resources will still require a unanimous decision of the Council, and the existence of the roadmap cannot force individual member states to approve the creation of a specific new resource.

The Commission came forward with proposals for new own resources on 22 December 2021, that is, almost exactly one year after the Interinstitutional Agreement had been announced (European Commission, 2021). Therein, it proposed that 25 per cent of the revenues generated by the EU emissions trading scheme, as well as 75 per cent of the revenues generated by a carbon border adjustment mechanism and 15 per cent of the proceeds of the taxes to be imposed on large multinational enterprises – under a mechanism for reallocation of their profits which is currently being negotiated in the framework of the Organisation for Economic Co-operation and Development (OECD) – should become an own resource for the EU budget, rather than accrue to the budgets of the member states. The Commission estimates the total new revenue for the EU stemming from the three new resources at between €12 and 13.5 billion annually, which would not entirely cover the annual repayments due by the EU under its NGEU debts but could nevertheless make an important contribution to those repayments.

Implications for European Integration Theorizing and European Union Politics

The implementation of NGEU suggests a reassessment of theoretical perspectives on EU fiscal politics and European integration more broadly. It also carries important implications for EU policy-making. To grasp the complex new governance structures surrounding the recovery plan, scholars suggested the term 'coordinative Europeanization' (Ladi & Wolff, 2021): While 'Europeanization' captures the close involvement of member states in EU policy-making, 'coordinative' implies – other than more coercive and top-down forms of Europeanization – the need for consultation between member states as well as between the EU and national arenas to develop and implement feasible policy solutions. Similarly, one might invoke a 'fusion' of tasks and responsibilities (Wessels, 2016, pp. 8–20; 248–250), which holds true both for the vertical dimension and the relations between the EU and its member states, as well as for the horizontal dimension and the interaction of various EU-level actors.

What these terms have in common is that they go beyond classical theories of European integration, which usually analyse policy outcomes and EU crisis management in terms of 'more' or 'less' integration following the shift of policy competences from the national to the EU level, or vice versa. Thus, according to the two perspectives noted above, the creation and implementation of the recovery package indeed leads to 'more' Europe; this, however, does not take the form of a clear strengthening of supranational actors but rather of joint tasks and procedures and the pressure to succeed, or fail, together.

As voices are getting louder to turn NGEU into a permanent instrument or, alternatively, adopt another NGEU to cope with the costs of climate change mitigation and adaptation, Russia's war against Ukraine and the rising energy prices, the fate of the recovery plan will be important for the EU to become more 'sovereign' and develop towards a fiscal and political union. Rising energy prices and the war against Ukraine also illustrate an important trade-off in the RRF's governance structure: Its bottom-up approach and national ownership secure the broad involvement of domestic actors and increase the legitimacy and, supposedly, efficiency of the aimed-for investments and reforms. At the same time, the national plans necessarily fall short of a broader European perspective. Apart from a few measures in some RRPs, there is little ambition for transnational projects.

This trade-off must be kept in mind in the discussions on whether NGEU will really be a one-time instrument or rather pave the way for more permanent measures of EU borrowing. In legal terms, due to its clear time horizon and its coupling to the EU budget, NGEU is a targeted instrument to deal with the Covid-19 crisis. Politically, however, the experiences and successes (or failures) of NGEU might serve as a blueprint for further and more permanent EU funding schemes.

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