

## Post-Event Summary

# EU Recovery and Resilience Facility (RRF) *National Recovery and Resilience Plans & Digital Uptake*

Held on March 31<sup>st</sup> 2022

The PromethEUs network organised a private, virtual event, under the coordination of IOBE – Foundation for Economic and Industrial Research (Greece), to set up a discussion and exchange policy ideas on current debates revolving around the EU Recovery and Resilience Facility (RRF). Stakeholders included representatives from the public administration, government, academia, private companies, industry associations, and think tanks from four Southern European countries -namely Italy, Portugal, Spain and Greece. The goal of this event was dual: first, initiate a discussion with stakeholders from Southern Europe; second, provide feedback on the advancements being done in the Policy Paper the PromethEUs network is undertaking. To this end, this event was held under Chatham House rules.

The critical point in the context of digital transformation is its interaction with the public sphere and the markets. In this light, the discussion elaborated on the digital transformation in Southern Europe, focusing on the role and impact of the National Recovery and Resilience Plans and the business sector's role.

### **Digital Transformation in Southern Europe: The role and impact of the National Recovery and Resilience Plans (NRRP)**

The Recovery and Resilience Plans (RRPs) of Southern Europe focusing on Portugal, Italy, Spain and Greece were mainly discussed in this panel. The majority of reforms in the context of RRP are observed in Spain. All four countries will receive significant funds for investment under the RRF. Italy has the highest absolute value, but Greece has the highest relative one concerning the share of the GDP. The EU sets a minimum rate with respect to digital transition, and all four countries are above that minimum.

Beginning with Portugal, the main obstacles to growth include low qualifications (of workers and business owners) and productivity in combination with high public and private debt levels. Portugal also lags on the integration of digital technology. Portugal's connectivity is at a good level, and therefore investments in broadband do not play a role in the Plan. The digital transition could bring solutions to overcome those obstacles with the supporting role of RRP, helping firms to be more efficient and improving the workforce skills. The Plan focuses on enhancing the public and financial administration and the justice system. Regarding the business sector, it proposes workforce training and process digitalisation but the change in business models proposed is at a low level. The proposed reforms in Portugal include the digital transition of businesses, digital education and the majority of them refer to the digitalisation of the public sector.

Regarding the implementation of the National RRP, the governance structure is divided into four levels. The government at the highest level deals with strategic and political coordination. The actual implementation of the Plan is directed by a task force, "Recuperar Portugal", which monitors the entire implementation.

A National Monitoring Committee (CNA) accompanies the PRR at a national level, and comments on "Recuperar Portugal" reports. Finally, an audit and control committee deals with the financial aspects and the actual implementation.

The Italian Plan includes six missions, the first is on digitisation, innovation, competitiveness, and culture, but basically, every other mission includes digital projects. The educational research and the health missions include several digital projects, but the main focus is on the first mission. The first mission is divided into three components: the security of the digitisation, innovation and security of the public administration, digitisation, innovation and competitiveness in the production system, and the third is on tourism and culture. Digital projects in the other missions are related to the smart grid, battery production, national parks digitisation, and railway network upgrade. Also, digital projects are planned in the educational area, such as capacity building and infrastructure and funding relevant research. The mission of inclusion and cohesion also includes digital reforms.

Italy's digital performance in terms of human capital and connectivity is relatively low. However, compared to other countries, the score is superior regarding integrating digital technology. The investments and reforms try to tackle these areas of weakness, focusing on digital skills and connectivity. Similarly, significant resources are allocated to business digitalisation, especially to SMEs. The Italian RRP include important measures with respect to the digital public sector. The Plan is quite ambitious both in financial terms and reforms such as the Plan of cloud migration and the national digital data platform. There is also a lot of focus on cyber security. Key issues regarding the Italian Plan are that some of the measures appear to be quite generic, the fragmentation of the enforcement, the scarcity of digital competencies - a considerable obstacle for executing the measures and the quite complex institutional Italian framework. For the Plan to succeed, it is necessary to tackle the procedural bottlenecks, especially in the investments regarding upgrading the country's telecommunications network.

In Spain, the RRP aims to modernise several dimensions from an economic perspective. Spain has not requested, up to now, any loans; the budget is based on grants. The country aims to develop 212 measures, including investments and reforms. The digital transformation pillar is the second largest one. Spain's digital score is good, but some weaknesses need to be addressed. In the case of human capital, the country performs well in SMEs with basic ICT skills, but Spain is behind in higher and advanced levels of ICT skills. In the dimension of business digital integration, the level is low, similarly to the digitalisation of critical sectors in a competitive way. Also, the Plan aims to revamp several areas of the science and innovation framework of R&D.

Spain's RRP consists of 10 level policies, 20 programs and 30 components, of which seven are connected to the digital pillar, and three of them are almost entirely devoted to digital transformation. Those intend to digitalise the public administration, the industry and SMEs and the transformation of tourism and other strategic sectors. The promotion of science and innovation frameworks and the strengthening of the national health system are also planned. Other four level policies also touch on the digital pillar; these are urban and rural agendas and the modernisation of agriculture. The National Plan on digital skills is one of the most promising ones. Still, caution is needed if it aims to digitalise teachers' skills in ICT, but investment or reforms to transform towards the total system are limited.

In the Spain RRP, the digital dimension appears on many levels, but it is noticed that the allocation of the budget might bear some concerns. Out of 30 components, only eight are given a 40 % or more resources for the digital transformation. Essential components for the industrial objectives of Spain receive between 10% and 40% for their digital transformation, meaning a limited level of resources. The National RRP devotes more resources and mechanisms to investments instead of reforms. Though, in the context of digital transition, the opposite could be preferable because investments may be more impactful in the short term, but it will be up to reforms to transform the economy structure in the long run. There is excessive weight on SMEs, but in Spain's case, SMEs have a deficient level of integrating digital technologies into their businesses and products. A new mechanism has been created called PERTEs (Strategic projects for the economic recovery and transformation), which gathers large companies and other businesses to work together toward a common plan for specific topics. So far, there are six of them, and the three of them are directly linked to the digital issue. Another two concerns are the decentralised implementation through different political-administrative levels and the provision of ex-post impact assessment mechanisms.

In Greece, 58% of the total financial envelope consists of grants and 42% is envisaged to be channelled through loans. It comprises 175 measures divided across 18 components 38% relate to reforms, and 62% relate to investments. The estimated economic impact of those investments is expected to exceed 60 billion euros over six years. The structure consists of four pillars, and the second pillar is entirely on digital transformation projects. The third pillar includes elements related to education labour markets, including digital skills. Finally, three of the 18 components directly relate to the digital transition, including reforms and investments. Greece lags in terms of overall digital performance even though it improved in the last years, primarily due to the pandemic. Thus, RRP brings an essential opportunity to contribute to the economy's digitalisation. RRP aims to modernise the vocational education training scheme and upgrade digital skills through projects and reforms. The Plan involves connectivity investments of about 321.6 million. Moreover, the integration of digital technology by the private sector is slow, but RRP allocates a portion of its budget to improve SMEs' digital transformation. In digital public services, Greece ranked second last in the EU, and that's the area where the largest share of the digital budget of the National RRP is allocated.

In monitoring the implementation of the operational agreements, 331 milestones and targets have been defined using a mix of both quantitative and qualitative criteria. In terms of implementation, Greece has also asked for its first disbursement, receiving the pre-financing instalment in August of last year. Now, the country has received preliminary approval for the first instalment. Digital investments projects that have been already activated for implementation until the first quarter of 2022 correspond to 14.3% of total approved investments, below the 20% target. The main challenges for the Greek RRP enforcement are to strike an appropriate balance between the number, scope and range of investments and reforms, the degree of ambition - realism of targets set and their degree of granularity. It is necessary to balance investments to improve infrastructure and measures to enhance digital skills. So far, the Greek RRP seems to more focus on infrastructure. Also, it is crucial to set up and implement a systematic impact assessment mechanism for the grants branch of the RRP and take into account both short-term and long-term effects. Weak coordination between local and central administrations can impede grants' absorption rates. Implementing the loans branch of the Greek RRP remains challenging given the poor quality of commercial banks' assets side and the demand for loans.

## Digital transformation: The business sector as a catalyst for digital growth

The four countries represent similar characteristics, such as the fragmentation issue and the skills and competencies, which is a second big issue. The third issue is the capability to integrate the technology into businesses which is truly important for Italy. Most southern companies rapidly changed in the last two years because of the pandemic, which also altered the customers' expectations. In the Italian Plan, all the digital investment has to be customer-centred, bringing new value to the future economy, especially in the health and the tourism sectors. It is necessary to fully capture the value of the platform economy in Italy since the platform model is the one that can accelerate the evolution of the digital economy in the Southern European countries bringing economies of scope and scale on skills tackling the economy's fragmentation.

Furthermore, it is necessary to emphasise the importance of the mobile infrastructure since more than 50% of every GB consumed in Europe today is on mobile devices. Thus, every aspect of digitisation must have a mobile-first implementation strategy regarding the government, enterprises, and all services related to consumers. Another critical point is that Europe lags significantly compared to other world areas in key digital aspects. In 2022 China is the number one digital market in terms of consumers, and the USA is the first in terms of enterprises. The response of the EU to this challenge is essential. 5G is a distinct new characteristic versus other generations of mobile communications precisely because it is a platform to implement technology evolution across all sectors of the economy, first and foremost a technology platform to evolve the telecom networks. It offers scalability, security and cost-effectiveness compared to other technologies. Through the RRF and government policies, policy and financing do not consistently support narrowband IoT platforms. As a result, a lot of funds will be fragmented around technologies that do not show the narrowband IoT characteristics; thus, there is a risk to disperse funds around Europe, especially in the Southern part, on technologies that will not be necessarily as effective.

From the Greek perspective, it is an excellent opportunity to focus on financing investment in SMEs through the RRF. However, the amount of funding allocated to SMEs in Greece is relatively small and insufficient to put SMEs on the cloud and IoT platforms. Thus, it is necessary for the relevant funding to be increased. Also, SMEs financing through the banks contains uncertainty because the banking system considers the debt perspective to approve a loan instead of the business perspective. Therefore, there is a possibility that focusing on the debt side will not be adequate in terms of speed of allocation and effectiveness of funds. The rest RRF of Greece is a great financing opportunity to digitally upgrade the Greek market, enabling the move to new technologies across the economy. It is important to speed up the approval of the digital initiatives in the broadband spectrum to create momentum.

The C16 component of Portugal's RRF focuses on the digital transition of enterprises. It comprises 13 different measures that follow three main areas a) the digital empowerment of enterprises through the boost of digital qualifications of workers, b) the digital transition of companies helping them accelerate their digital transition process, and c) the catalysts for the digital transformation of companies such as digital innovation apps. A network of partners implements all these measures. The first area of the enterprise initiative has two projects: a Platform and a large-scale digital skill program that will help 800,000 workers with their digital training and a digital technology training program targeting 200,000 workers. In the second area, the projects that will be implemented encourage the digitisation of 50 commercial districts, the digital acceleration and the development of digital support services for internationalisation services. Also, strengthening the national

Start-UP entrepreneurship structure, the entrepreneurship ecosystem in terms of incubators and accelerators, creating a national Test Bed network, and providing several vouchers are planned. For the third area, a network of digital innovation hubs is planned together with the dematerialisation invoices and the certification Seals of firms' digital processes in four different areas like cyber security, privacy usability and sustainability.

The level of readiness of business sectors to participate in RRP might be small due to a lack of digital maturity and present low administrative capacity to participate in complex application processes. Problems and potential obstacles to be addressed are the complex administrative structures and requirements that cause measures to take an enormous effort and time to be implemented. Also, the lack of state aid procedures for the RRP measures and issues on the administrative capacity are key concerns. Another difficulty is the monitoring of KPIs versus the cost of checking.

There is a new mechanism for public-private collaboration in Spain, the "Mecanismo de Recuperación y Resiliencia". It was created specifically to drive large investments of the RRP that are transformative for the economy, and up to now, nine projects have been approved. It was designed to combine budgets of different government areas under one series of strategic objectives. One of them deals in a great part with digitalisation and artificial intelligence. The companies that wish to conduct projects with this pool of resources have to provide information and investments regarding the digitisation of their activity and how they intend to encourage the digitalisation of SMEs associated with them. The Spanish Plan was the first to be approved and the first to request a disbursement. Still, the actual financing of firms is not yet in full operation due to complicated processes.

In the initial three months of the year, there is an acceleration on the part of the government regarding the approval of the strategic projects and in the call for grants and, in particular, calls for grants directed to firms. Also, large calls for grants directed to companies with significant investments in electric mobility or the areas of hydrogen are a strategic priority. Innovation in creating projects by the private sector is a positive externality of the Plan. Another project in execution is the digital toolkit, one of the specific programs dealing with digitalisation. It will be a challenge to implement because it targets very small firms. Digitalisation goes way beyond the digital toolkit in Spain; it's a cross-cutting component of almost every project and every call for proposals. Nevertheless, for 2022, the country's disbursement should flow without trouble.

The challenges and success factors in Spain's Plan are unleashing new ways of working for the public administration and the private sector. Challenges on the firms' side include adopting new technologies and the new requirements that firms might not be familiar with them. Similarly, the public sector could find it challenging to monitor the progress of Plan's grants and face other obstacles due to capacity issues. Accelerating the disbursement of the funds might bear another challenge.