

Considerations on RRF and ReactEU in Italy

Gaetano Armao

*Vice-President and Minister for the Economy of the Sicilian Region
Member of the European Committee of the Regions (EPP)*

Thanks to the Vice-President of the EPP Group in the European Parliament, Siegfried Muresan, for his presentation on the status of the European Recovery and Resilience Facility, and thanks to our group leader and chairman of the Coronavirus Response Task Force, now in its fourth meeting, Olgierd Geblewicz, who gives us the opportunity to offer the EPP proposals and ideas on how to combat the dramatic economic crisis caused by the pandemic in Europe.

The 2021 Economic and Financial Document just approved by the Italian Council of Ministers appears, like last year's, to be characterised by emergency profiles. Although the three-year projection has been recovered, important documents such as the Annual Report on interventions in underutilised areas and on cohesion policies are absent. The tax credit for investments in southern Italy has been extended, while in the area of labour there are forms of decontribution to favour employment in disadvantaged areas, for new hirings of young people and women.

It should be emphasised that the strategy chosen is appropriately that of linking the policy document with the National Recovery and Resilience Plan that the Government is about to present and which, together with a series of minor financial interventions, offers the dimension of impressive measures to support the economy through investment and innovation.

One issue, however, should be highlighted. The document being examined by the joint committees completely overlooks the insularity condition that certainly concerns the large islands (Sicily and Sardinia), but also the system of smaller islands spread along both sides of the country.

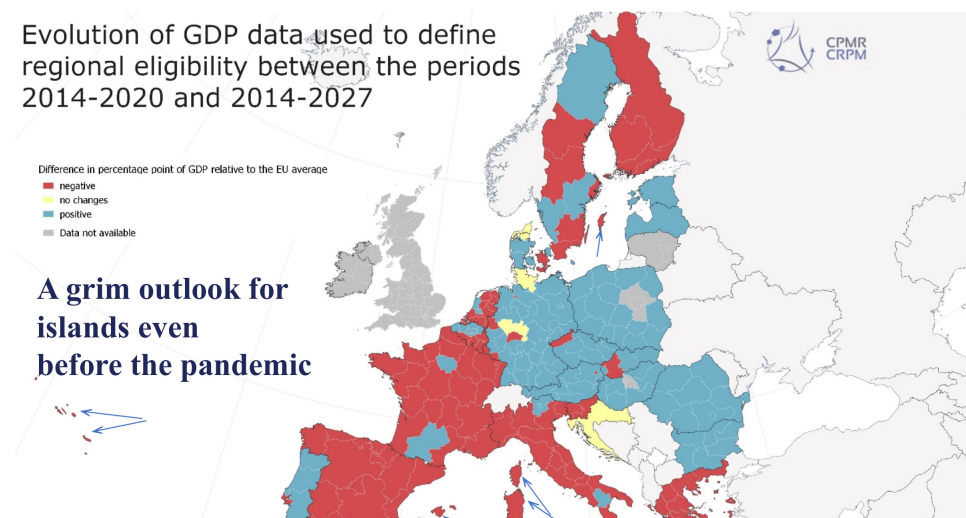
Italy is now the European country with the highest number of island citizens, for

Evolution of GDP data used to define regional eligibility between the periods 2014-2020 and 2014-2027

Difference in percentage point of GDP relative to the EU average

- negative
- no changes
- positive
- Data not available

A grim outlook for islands even before the pandemic



whom the conditions set out in Article 174 TFEU are met, but who find no recognition in terms of equalisation with respect to the costs incurred due to their island status.

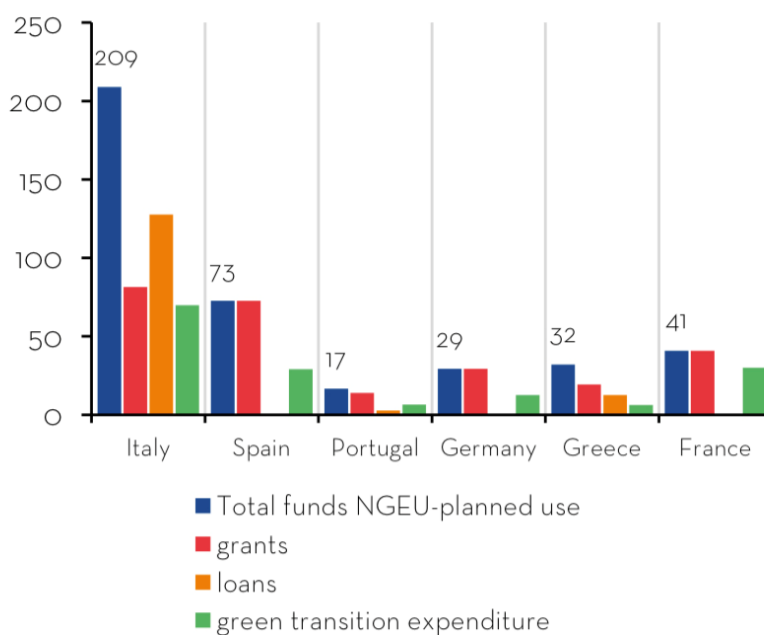
It should also be noted that the Document includes among the related bills the one on "Provisions for the implementation of differentiated autonomy pursuant to Article 116, third paragraph, of the Constitution", which reopens the issue of differentiated regionalism, obviously starting from the consolidated debate on the subject that combines the overturning of the constitutional dictate, both as regards autonomy, and as regards the essential levels of services and service objectives, according to the approach outlined by the draft framework law prepared by the Ministry of the Regions in 2019.

As regards the implementation of financial measures to counter the pandemic and its effects, it should be noted that the European REACT-EU programme allocates to Italy additional resources to cohesion policy for the years 2021-23, amounting to 13.5 billion out of 47.5, which will be added to the Recovery and Resilience Facility (RRF), constituting the main axes of the Next Generation EU (NGEU) measures, from which the presentation, shortly, of the National Recovery and Resilience Plan (NRP) and to which the next financing agenda of the structural sources 2021-2027 will be added.

In terms of the financial scale, the intensity of the investment, the range of instruments and the breadth of the objectives, this is the last chance to overcome the North-South divide.

Our country is not only the recipient of the largest share of the European budget, but is also among the first to have communicated to the European

Chart 4 - NGEU Funds planned in the national programs drafts - Billion €



Source: National Recovery and Resilience Plans.

Commission the schedule for using the funds, after a fruitful discussion with European Commissioner Ferreira.

It is not superfluous to point out that being the European country that obtains the largest allocation of the extraordinary measures launched by the European Union to tackle the economic crisis caused by the COVID-19 pandemic, as well as an increase in the allocation for the Structural Funds 21-27, is not, as some have suggested, the result of the dexterity or negotiating skills of past governments.

This is, unfortunately, the direct consequence of the dramatic North-South economic and social divide that still grips our country, the only one, according to the OECD, among the advanced countries that still suffers from what has been aptly defined, and should be reiterated just one month before the celebration of the 160th anniversary of the Unification of Italy, as 'the greatest failure of the unitary state'.

In the light of European law, it should be recalled that the methodology for calculating the maximum financial contribution (i.e. the non-reimbursable financial support) per Member State under the Facility must take into account the following elements: population; inverse of GDP per capita; average unemployment rate over the last 5 years compared to the EU average (2015-2019), and in order to avoid an excessive concentration of resources, a weighting is applied: B) the inverse of GDP per capita is limited to 150% of the EU average C) In order to take into account the greater stability of the labour markets of the more affluent Member States, the deviation from the EU average of their unemployment rate has been limited to 75%.

It is therefore to the parameters chosen by the EU that the significant allocation of resources for Italy should be anchored, and it is consequently to these that we must conform for the internal distribution of investments in the NRP, while having to take into account: the circumstance that a distinction must be made between funds for grants and those for financing; the choices made by the previous government that now weigh on the margins of manoeuvre.

In the columns of the *Corriere della Sera* in 1972, Pasquale Saraceno hypothesised that "*the gap between North and South will only be closed in 2020*".

Unfortunately, the great meridionalist certainly did not imagine that that year would be the *annus horribilis* of the explosion of a pandemic at the end of ten years in which the ancient territorial divide of the economic-social divide and the Italian labour market has become even more accentuated - as the Bank of Italy has shown - well beyond the level of employment in which Italy has accentuated the traditional

European record of territorial differences in employment, which is not only increasingly scarce in the South, but also increasingly less intense in terms of hours worked, increasingly less stable and increasingly less qualified.

It has been specified that the objective of closing the social and territorial gaps in the South is pursued by allocating about two thirds of the total REACT EU funding to the area, giving priority to effectively feasible interventions and avoiding a transformation of this incentive measure "into a book of dreams, perhaps fascinating but impossible to carry out".

For objectives to be achieved by 2023, the *REACT-EU* has already identified the 30% reduction in social security contributions to be paid by companies operating in the South for the whole of 2021, but as appropriately envisaged, the decontribution will have to be extended to 2029 to fully deploy its incentive effects on employment in the South, bonuses to companies for hiring young people, bonuses for hiring women and the new skills fund, plans to recover water resources in the South through targeted interventions on networks, the increase of the guarantee fund for SMEs in the South, the focus of investments for schools and training, the financing of the National Innovation Fund for new businesses in the environmental sector and Smart Grid and the energy efficiency of public buildings.

Allocating 8.5 to the South out of the 13.5 of the *REACT EU* is a first important result, which must become a paradigm for the configuration of the PNRR, where the indicated threshold of 40% of the "*South Chapter*", which goes well beyond the threshold of 34% outlined by the legislator for ordinary investments and which was incompatible with the bases outlined at European level for the Next Generation EU (NGEU), is another important goal.

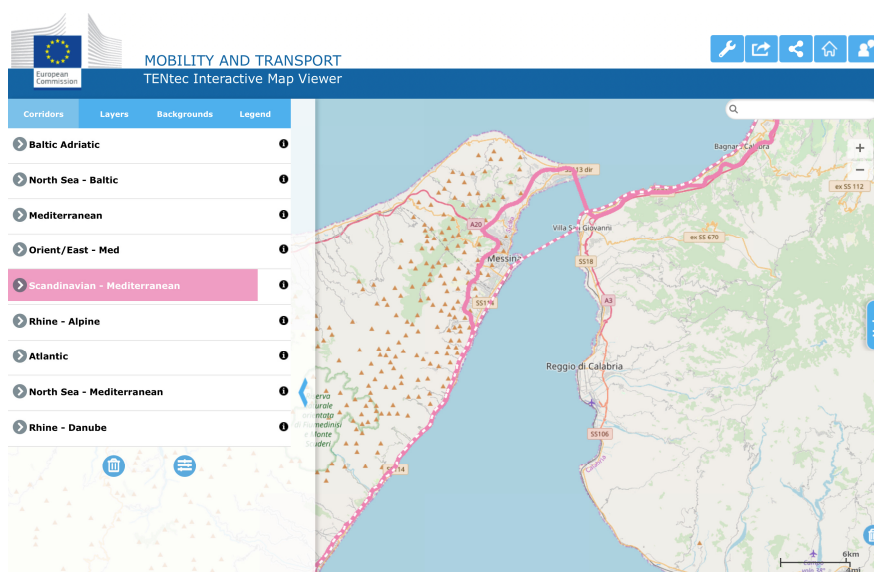
Hence the effort that is being made to push beyond 40% the incidence of resources allocated to the South of the total resources of which the Next Generation EU programme is composed (non-repayable fund, loan to replace interventions already financed with national funds, loan to finance new interventions, *REACT EU*, Just Transition Fund), net of additional national funding from the funds of the Development and Cohesion Fund, as announced at the State-Regions Conference and appreciated by the Regions, and in particular by my Sicily.

This is a first important result, but as pointed out, we can and must aim to increase the stock of resources earmarked for reversing a trend, which has dramatically consolidated over the last ten years, of worsening the gap that risks

becoming an abyss of inequalities and disparities incompatible with the Italian and European constitutional order.

In this context, it is necessary to reiterate the absolute necessity, repeatedly stressed by the Conference of Regions, for the Messina Bridge to be included in the National Recovery Plan. Indeed, this is a project that not only enables the Scandinavian-Mediterranean Corridor to be completed, but also projects Europe towards the Mediterranean and enables Sicily to reduce the costs of its insularity, which currently amount to EUR 6.5 billion a year, essentially the cost of building the infrastructure.

In the documents so far drawn up by the Italian government, it has so far been ignored pending the outcome of the work of a ministerial commission, but the bridge over the Straits of Messina, a project strongly supported by Sicily and Calabria, is



requested by all Italian regions. As one of the most important European infrastructures, in line with the requirements of the green new deal because of its positive influence on the environment, the bridge would not only be a project ready for construction but above all an essential step towards completing the Scandinavian-Mediterranean European corridor¹, as can be seen below from the site considered by the European Commission as one of the new infrastructures to be built.

¹ The Scandinavian-Mediterranean Corridor is a crucial north-south axis for the European economy. The corridor stretches from Finland and Sweden in the north to the island of Malta in the south, and includes Denmark, northern, central and southern Germany, the industrial heart of northern Italy and the ports of southern Italy. See https://ec.europa.eu/transport/themes/infrastructure/scandinavian-mediterranean_en