Recovery and Resilience Plan and the principle of Cohesion: the opportunity for southern Italy

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The *EU Recovery and Resilience Facility (RRF)* is an extraordinary chance to bridge the gap between different levels of development and to promote convergence and competitiveness for all citizens in the European Union in the light of the principle of Cohesion[1], as a fundamental value of the European Union and a key objective for all its policies and investment. Even more so after the COVID-19 crisis that has shown that solidarity, responsibility and cohesion are needed now more than ever to ensure that no one and no region is left behind[2].

As the emergency risks deepening disparities between and within Member States, the lack of a coordinated and timely EU action will increase the gaps between more and less developed communities. Member States, regions, cities and municipalities are today on the frontline of the COVID-19 crisis and the EU 2021-2027 budget and the post-pandemic recovery plan must help them protect citizens, support local economies, make local communities resilient to crises while creating sustainable future.

In Italy the*National Recovery and Resilience Plan (PNRR-NextGenerationEU)* is the last chance to overcome the North-South of Italy'scountry divide. It is Europe's approach, but it does not appear to be adequately considered in the proposal approved by the Italian Government on January 12 last January and that, in the light of some remarks made by the Regions of Southern Italy, should be reviewed.

This is the direction taken by the first initiatives of Draghi Government together with the determinations made by the last ECOFIN, which will also take into account the new methods of calculating the resources to be allocated on a 2018 basis that should lead to a significant increase in resources in favour of Italy.

The European Council adopted the Regulations establishing the *Recovery and Resilience Facility,* which forms the foundation of the EU Recovery Plan and makes available €672.5 billion in grants and loans for public investment and reforms in the 27 Member States to help them address the impact of the COVID-19 pandemic, promote green and digital transitions and build resilient and inclusive societies[3].

This proposals for Southern Italy Regions growth are now updated with EU regulations nn. 240 and 241 of the European Parliament and of the Council of 10 February 2021 on the *Recovery and Resilience Facility (RRF)*, just published (18 February), which indicate the measures and the mechanism help of national authorities to implement institutional, administrative and structural reforms that are sustainable and strengthen resilience while enhancing economic, social and territorial cohesion and support public administration in the preparation of sustainable and resilient investments.[4]. In this context, as we know, the European Parliament will play a key role in the implementation of the *RRF:* a '*dialogue'* has been established, allowing the Parliament to invite the Commission up to every two months to discuss matters concerning the implementation of the *RRF*[5].

It's a problem that concerns Italy, but in general all European countries in which there is a marked internal gap on the economic, social and territorial level in breach of the European regional policy,funded through the Structural and Cohesion Funds, one of the most important global resource redistribution experiments on a continental scale[6], that has the aim of reducing the disparities between EU Member States and regions by combating centrifugal forces and helping to develop an area of free movement of goods and services in implementation of the cohesion principle (art. 174 TFUE).

1) Introduction.

As is well known, the main *Next Generation EU (NGEU)* programs are the *Recovery and Resilience Facility (RRF)* and the *React EU Progra*m, whose funding lines are being used with the *National Recovery and Resilience Plan under review (NRRP)* and other smaller measures.

The document approved by the Italian government on last January adds to the resources available for NGEU purposes in the national budget those of the new *Multiannual Financial Framework (MFF 21-27)*, which raises at about € 310 billion the amount of European funds made available to Italy, of which € 210.5 billion (involving shares of the *NGEU* package for about € 1 billion, not considered in the *PNRR*) arising from the devices attributable to the *Next Generation EU*and about € 99 billion arising from the *MFF2021-27*.

These resources are much more massive than those that Italy received with the *Marshall Plan* in the four-year period 1948-1952 and that were at the basis of the recovery and the so-called economic boom of the 1960s. It is an unrepeatable opportunity on which there can be neither uncertainties, as those recorded so far, nor - even worse -

unjustified prejudices towards the South of Italy and its potential for growth and to push the recovery of the country.

As part of the process of drawing up its *National Recovery Plan,* the Italian Government first developed a proposal of *Guidelines* for the definition of the National Recovery and Resilience Plan, submitted to the national parliament for examination, with the aim of starting the informal dialogue with the Commission as early as last October. These Guidelines establish that the NRP should have been drawn up by gathering the proposals formulated by the Administrations, territorial bodies and potential co-investors while selecting them according to objective criteria that would allow the achievement of the fundamental missions and ensure equal treatment of all the proposals presented.

The *Conference of Regions and Autonomous Provinces*(the body that aggregates and represent the Italian regions) has collected the contributions of the various regions, but these proposals have remained unanswered. To date, in fact, no kind of confrontation has developed, apart from some preliminary discussions with the Steering Committee set up by the Regions, while the document approved by the Government is already being examined by Parliament.

It is known that in all EU documents on the *Next GenerationEU* program, the priority is social and territorial cohesion, with constant and reinforced reference to art. 174 *TFEU*. Finally, these priority objectives are indicated in the guidelines for the *Recovery and Resilience Plans* of the member states of the EU Commission drawn up pursuant to art. 175, third paragraph, *TFEU*.

However, there is no reference to these priority objectives in the Italian government's document approved in January, except in terms of a generic reference to the Southern regions in the various missions of which the program is composed. And this in the complete obliteration from the Regions, especially those from the South, which have not had the opportunity to produce any contribution in terms of processing to the text of the Government.

From a constitutional point of view, this method appears not only in contrast with the clear indications by the EU Commission, and the Treaties themselves, which identify multi-level planning as the correct approach to the elaboration of national plans, but also with domestic law in the simple assumption that the planning of economic development is not the exclusive competence of the State (and even less of the State government), but postulates coordination, including the immanent administrative competencies of the regions and municipalities, which will certainly benefit the implementation of allocation decisions[7].In this perspective, as pointed out by the Italian Constitutional Court, there is the need for a systematic reading of the constitutional text, such as to weld the division of legislative powers defined by art. 117, III c.,of the Italian Constitution[8] with the principle of subsidiarity in art. 118 Cost. in the more general context of loyal cooperation that must inspire the relationships between the different levels of government[9].

As specified last October 12 at the European Committee of the Regions by the President of the Commission Ursula von der Leyen during her speech at the opening of the EU Regions Week: "*Regions and cities will be at the heart of the Next Generation EU, of which the Recovery Fund is the main pillar. This strategy will be successful only if local authorities are fully involved and are able to seize these opportunities, because the future of our territories is at stake and to be successful we must all act together and because the identification and implementation of the necessary interventions for digitisation and green new deal are largely within the competence and responsibility of local authorities*".

It therefore appears necessary that the numbers are consistent with the objectives to be achieved, i.e., that the resources allocated to the South of Italy correspond to a total amount that is adequate to launch a season of development bridging the gap with the areas of the country with better conditions of per capita income, employment and industrial development.

Principles of partnership, multilevel governance and the place-based approach, together with the involvement of social and economic partners in the design and implementation of *Cohesion Policy,* are decisive, not only to delivering the objectives of Cohesion, but also to enable development of national recovery and resilience plans; local and regional authorities are best placed to assess the investment needs at territorial level and need to be fully associated with decisions on [re]programming investment under *REACT-EU* and the implementation of the *Recovery and Resilience Facility*. The simplification of Cohesion Policy alongside the *Next Generation EU*programwill be decisive for the recovery effort without leading to more centralisation.

2) The quantitative configuration of *Next Generation program*in Italy.

The overall *Next Generation Italy* program is composed, with regard to European resources, of three specific containers: the *NRP* for € 210 billion;the *React EU* for € 12.5 billion;the *Just Transition Fund* for €1.5 billion. The total thus reaches €224 billion.

Coming to examine the clearly prevailing container, i.e. the *National Recovery and Resilience Plan (PNRR)*, it should be immediately pointed out that the €210 billion, according to the government's proposal, should be divided into three parts: 1. - € 68.9 billion are non-repayable EU grants; 2. - € 87,5 billion are EU loans that are expected to be used as a substitute for national resources to finance interventions that are already in place, i.e. already financed with national resources; 3. - € 53,5 billion are EU loans used as additional resources to finance new interventions that are not to date financed by other national or European resources.

It follows that subtracting from the total of € 210 billion the € 87.5 billion destined to finance interventions already in existence, an initial reduction in the resources effectively destined for new interventions is derived. The result of this reduction (210 - 87.5) reveals that the resources available for new initiatives amount to € 122.5 billion.Of this € 122.5 billion for new interventions, € 68.9 billion represent the amount of grant resources that can be used for new interventions; while the remaining € 53.5 billion

(122.5-68.9 = 53.6) represent loan resources (to be repaid to the EU) that can be used for new interventions.

In absence of more precise information on the interventions taken into consideration, it is not possible, at the moment, to determine, with reference to the resources by way of loan destined to finance interventions already in existence, what is the distribution between interventions foreseen in the Centre-North and interventions in the South. Therefore, at the moment, these resources (a good € 87.5 billion) cannot yet be considered for the purposes of the overall allocation of resources between the Centre-North and the South.

It should also be pointed out that among the criteria identified by the European Commission in its guidelines for the transparent and fair evaluation of proposals for recovery and resilience plans submitted by member states, referred to in the legislation cited in n. 2.4, expressly provides that: "*The Recovery and Resilience Plan is able to contribute effectively to enhancing the growth potential, job creation and social and economic resilience of the Member State, mitigate the social and economic impact of the crisis and contribute to improving economic, social and territorial cohesion*" (see Annex II, to the Regulation establishing a facility for recovery and resilience).

3) On the substance of the allocation.

Therefore, only the resources to be allocated to new operations should be considered here:a) grants; b) repayment loans; c) those covered by smaller programs like *React EU* and *Just Transition Fund.*In the perspective 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 scheme, must take into account the following elements: *1*) *population;2) inverse of per capita GDP; 3) average unemployment rate over the last 5 years compared to the EU average (2015-19).*

To avoid an excessive concentration of resources, a weighting is carried out:A) *the inverse of GDP per capita is limited to 150% of the EU average;* B) *the deviation from the EU average of the individual country's unemployment rate is limited to 150% of the EU average.* C) *to take into account the greater stability of the labor markets of the more affluent Member States (whose GNI per capita exceeds the EU average), the deviation from the EU average of their unemployment rate is limited to 75%.*

Considering first and foremost the resources for new interventions in the form of subsidies (€ 68.9 billion), which were allocated by the EU on the basis of the above-mentioned criteria, it follows that, transposing them to a national level, 66% of the resources guaranteed as subsidies are allocated to the south while 34% are allocated to the center-north. Translating this proportion into figures, it can be seen that: 66% of 68.9 = 45.45, while 34% of 68.9 = 23.45.

Therefore, in direct application of the criteria outlined by the EU Commission, of the grant resources, the South should be entitled to € 45.45 billion. These criteria are not automatically applicable to the rest of the resources of which the program is composed, namely:

- *React* EU 12,5
- *JustTransitionFund* 1,5
- new loans. 53,5

- substitute loans. 87,5

Total 155,0

In the absence of predetermined criteria (as is the case for non-repayable resources, for the reasons outlined above), a correct weighting must be carried out in order to allow for an appropriate selection of the interventions to be included in the clusters that make up the 6 Missions as described by governmental guidelines[10]. These criteria, when applied correctly, have led to the allocation of substantial financial resources to our country precisely because of the presence of the Italian Mezzogiorno, and it would be paradoxical if these criteria were disregarded during the State allocation process.

4) The role of Southern Italy Regions.

In general and summary terms, it must be possible to consider as fair a general distribution that guarantees the South at least 50% (as the final overall result and not as a share referred to the individual types of financing) of the total resources of which the *Next Generation EU* program 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 financing to be applied to Italian development funds.

A timely start of 2021-27 Cohesion programmes and an extended system of phasing out for 2014-2020 programmes are needed also to respond to the current crisis and to prepare the long-term development strategies; in case of delays, transitional arrangements with additional means must be foreseen to avoid a funding gap between the two programming periods.

While this measure appears indispensable for opening a new phase in european and italian policy towards the South in terms of cohesion and rebalancing, fundamental for seizing an unrepeatable opportunity for economic recovery and growth for the entire country, it constitutes even more of a necessary solution for matching national choices to the aims of the European Union's financing programs, maintaining a linear coherence between the destination of the resources and the reasons that have allowed Italy to become the first beneficiary among the member countries of the Union. It appears clear that the allocation of resources is only the first step of a long journey that must lead to their effective and full use. This is a demanding challenge that the Regions of Southern Italy must be able to take up and win.

Luigi Sturzo,one of the founder of the italian and European People Party affirmed, with an uncommon vision, that only Southern Italy could save Southern Italy. And this must inspire the initiative of the Southern Regions in front of a historical turning point for the united Italy in which the North-South divide continues to be the main failure since its origin, 160 years ago.

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