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# **The Italian recovery and resilience plan: How to take advantage of an extraordinary opportunity**

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## **THE ITALIAN RECOVERY AND RESILIENCE PLAN: HOW TO TAKE ADVANTAGE OF AN EXTRAORDINARY OPPORTUNITY<sup>1</sup>**

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In the post-pandemic period, the success of "Next generation - EU" (NG-EU) is crucial for initiating a convergence and a gradual process of fiscal unification between member states of the European Union (EU). The likelihood of this success depends, above all, on Italy's ability to use the NG-EU funds massively allocated to its credit (roughly 209 billion euro, of which around 82 billion is transfers and 127 billion is loans) to reverse the decline caused by a crystallized set of 'bottlenecks'. The Recovery and Resilience Facility (RRF) program is endowed with more than 90% of the total NG-EU funds. The construction of Italy's National Recovery and Resilience Plan (NRRP), which conditions access to the RRF resources (about 196 billion euro for Italy), therefore plays a decisive role in determining the future of the EU and, in particular, Italy's European destiny and the consequent prosperity of its future generations.

This paper highlights the five elements of the Italian Recovery and Resilience Plan (hereinafter referred to as IRRP) that are essential to ensure its efficiency and effectiveness. The first element consists in setting ambitious objectives which must be based on a few projects focused on the combination of reforms and investments (see Section 1). The second element underlines that the objectives and projects must respond to clear priorities and lead to a unitary strategy; this requires the involvement of intermediate institutions and bodies, but must then be translated into centralized forms of coordination (see Section 2). The third element shows that another essential condition for the selection of a few projects capable of implementing unitary priorities and strategies consists in the break between emergency expenses and reforms and investments for medium-long term development and resilience (see Section 3). The fourth element highlights that, in order to select a few projects suitable to satisfy the characteristics listed above, appropriate governance is required; and this governance calls for a distinction (although not a rigid separation) between the time of strategic choices and the phases of detailed definition and execution of the individual projects (see Section 4). The fifth element emphasizes the importance of the execution phase (see Section 5).

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## 1. Why select only a few projects

The IRRP must constitute a breakthrough element (game changer) in the inertia which has characterized the last twenty-five years of Italy's economic and social life and which has found emblematic representation in the stagnation of the various forms of productivity and in the low level of activity of the working-age population. This long-established situation has blocked GDP growth, strengthened widespread rent-seeking positions, torn the country's social fabric causing the impoverishment of a growing part of the population, and has been accompanied by an increasingly rapid economic decline and institutional degradation. The IRRP and the consequent access to the RRF can reverse Italy's involution only if they combine, in a coherent strategic plan based on clear priorities, projects characterized by efficient investments (including expenditure on education, training and research) and by effective reforms.

The degree of efficiency and effectiveness of investment and reform projects must be measured in terms of a double set of variables. On the one hand, there are the cornerstones that underlie the program of the European Commission led by Ursula von der Leyen: ecological transition and digital innovation. NG-EU incorporates these cornerstones, so much so that the Guidelines for the NRRPs require each EU member state to use at least 37% of the funds allocated to it in 'green' projects and at least 20% in innovative digitalization projects. For the IRRP these are priorities of particular importance, as they underline that Italy's positions of relative strength in the ecological transition (for example, in sustainable energy and in the 'circular' economy) can only be consolidated if they are combined with a recovery of the serious lags accumulated in digital innovation. On the other hand, there is the set of variables identified by the 'Specific Recommendations' which are addressed annually by the European Commission to each member state as part of the European Semester. In the case of Italy, the Commission has long stigmatized the presence of 'bottlenecks' that hinder growth; in this regard, the "Recommendations" of 2019 are emblematic. As already mentioned (see Messori 2020; Buti-Messori 2020a), the 'bottlenecks' affect multiple areas: the inefficiencies of the Public Administration, the slowness of justice, the overly small size of firms, the low quality of labor supply and demand, the related deficiencies in education and training, the weak competition in many service sectors, the excessive bank-centricity, and so on.

The projects which must be included in the IRRP must provide an answer to this double set of variables. However, it is evident that the spectrum of intervention areas, defined by the intersections in the ideal 'double-way table' thus constructed, is too extensive to be comprehensively addressed through the RRF. A strict selection is therefore needed that will set only a few priorities. The projects included in each NRRP must in fact be able to allocate all the planned financial resources by 2023 and to complete the consequent reforms and investments by 2026. On the other hand, these are extremely demanding projects because they aim to build the basis for long-term sustainable development (from an economic, social and environmental point of view); and, precisely because of some of the country's 'bottlenecks', Italy has difficulty in carrying out complex projects with tight deadlines. That is why the efficiency and effectiveness of the IRRP requires the selection of a limited number of major projects: no more than a

dozen, each of which is divided into a set of reforms and investments (including expenditure on research and education).

## 2. Why select projects centrally

The need to select a dozen major projects, to be specified in detail with regard to the follow-up of the progress and the timing and costs relative to the implementation of the reforms and investments that are a constituent part of each of these projects, makes the definition of a strategy and the related priorities even more difficult and - at the same time - more binding.

If it is called upon to act as a game changer in Italy's inertia, the IRRP must mobilize the intermediate institutions and bodies that enjoy privileged access to information with respect to the consolidated 'bottlenecks' and rent-seeking positions nested in the vital points of the national socio-economic system. In particular, it is a question of collecting the requirements and outlines for projects put forward both by the ministries and by the regional and local bodies competent in the relevant matters and by the representatives of the main economic and social actors. However, such a process raises two serious problems: first of all, it leads, by definition, to a dispersion of the decentralized proposals along a multiplicity of lines that tend to be disconnected when not mutually incompatible; moreover, it risks acting as a vehicle for the consolidation, rather than for the dismantling, of those particular interests that create the often cited 'bottlenecks' and strengthen rent-seeking positions. Therefore, the mobilization of intermediate institutions and bodies must be channeled, *ex ante*, through the determination of a well-defined strategic perimeter; and the decentralized proposals possibly selected must enter this perimeter. The task of defining the strategic perimeter should be assigned to those institutions which have the responsibility of representing and pursuing collective interests; and in a democracy, such as the Italian one, these institutions are the Parliament and - above all - the government.

The tasks of the representatives of the popular will, however, cannot be limited to the definition of a preliminary strategic perimeter. First of all, by also making use of the stimuli offered by the requirements and project outlines of the intermediate institutions and bodies, the Italian government must transform the strategic perimeter into a mandatory strategy that generates few priorities capable of acting as a selective criterion for the identification of a dozen major projects, to be defined in their general content. These projects could be the implementation of initiatives that were already part of the government's medium-long term program, the result of proposals drawn up by the intermediate institutions or bodies, the combination of governmental objectives and the requests from the 'bottom'. The crucial point is that each of the dozen projects selected by the Italian government and defined in its general content gives an effective response to one or more of the intersections of that 'double-way table' deriving from the strategic axis of the Commission (ecological transition and digital innovation) and the 'Specific Recommendations' for Italy.

These considerations lead to my first conclusion: a centralized and unitary strategy is needed that will select a few large strategic projects capable of characterizing the IRRP; even if only defined in their general content, these projects must be based on reforms and investments capable of producing innovative and long-term changes in the Italian economy and society.

### **3. Why the projects must have a long-term perspective**

To satisfy the last condition, it is necessary that the large Italian strategic projects mark a discontinuity with respect to the emergency interventions that characterized 2020. The IRRP cannot be used to offer incentives to all companies in difficulty, to extend state guarantees on loans and tax exemptions, to strengthen temporary social safety nets, to ensure general support for the population with low or no income, and to provide undifferentiated subsidies to all productive activities in disadvantaged territorial areas. These interventions, which - at least in principle, if not in their actual execution - are justified by the two pandemic waves that hit Italy between March and June 2020 and from September until today (beginning of January 2021) and which must be partly disbursed also in the future, should not be confused with the interventions aimed at removing Italy's 'bottlenecks' for at least two reasons. The first is that the funds allocated by the RRF on the basis of the NRRP finance projects that must be concluded by 2026 and not permanent public expenditure. The second reason is that these funds must be used not for current expenses (except those for research and education or training, which are thus accounted for) but to make investments, unless current expenses are an essential instrument for the implementation of strategic reforms.

This means that incentives to firms can be a part, although not a predominant one, of the large projects of the IRRP only if they allow technical-organizational changes for innovations in strategic activities (especially those with low environmental impact) or if they activate size changes of efficient but overly small firms, which thus become ready to imitate the leading innovators. Similarly, incentives to the financial sector must be limited to the development of those non-bank financial services that crucially support the innovative and ecological reorganization of firms. Furthermore, the major projects of the IRRP are not compatible with the still desirable permanent welfare interventions to reduce unemployment and its social impact; they can support the incomes of various types of workers only on the basis of specific training programs that raise the participation rate and upgrade the quality of the labor supply, so as to align it with the better composition of labor demand induced by the ecological and innovative reorganizations of production processes. Finally, territorial rebalancing interventions can also be part of the large IRRP projects only if they are aimed at strengthening the educational offer and supporting innovative and ecological activities.

These considerations are also important with regard to the use of some of the loans given to Italy by the RRF for financing initiatives already included in the national budget ('substitution') rather than for financing 'additional' interventions. Such a choice, probably common in other member states, is dictated by the understandable need to keep the public deficit under control and not to further burden the already excessive Italian public debt/GDP ratio (which will exceed 160% in the near future). Given that

the best solution would be to 'cut' the ineffective expenditures of the ordinary Italian public budget and to compensate for these cuts with a totally 'additional' use of the IRRP projects, the 'substitutive' use should meet at least two conditions. The first is that the substitutive part of the large projects does not replace ordinary current expenses but, at most, investments already financed or planned in the public budget. The second condition is that these investments be selected and redesigned so as to be homogeneous with the priorities of the IRRP project in which they are inserted.

#### **4. Why governance is crucial**

It has already been clarified that, in their general content, the few major projects of the IRRP must be selected by the government, as the expression of the representatives of the popular will, in accordance with well-defined strategic priorities. However, each of these projects must also be described in its operational details and articulated in its various stages of implementation. This requires an analytical effort involving high technical skills. The government cannot perform this task directly. It is therefore necessary to entrust both the specification of individual projects and the responsibility for their proper implementation to a small dedicated group of experts. It follows that the appropriate and effective governance for the preparation and implementation of the IRRP must be based on two organizational forms that are distinct, even if they are linked by multiple interactions.

In accordance with what has been decided at European level, the first organizational form consists of a 'steering committee' within the government; and, as emerges from the experience of various EU countries, the coordination of this 'steering committee' must be entrusted to specific Ministries competent in the matter (typical example: the Ministry of Economy) or to the Presidency of the Council of Ministers according to the peculiar national political-institutional equilibria. In Italy, the tasks of the 'steering committee' consist - in the first instance - in setting the strategies and priorities and in defining the general content of the major IRRP projects.

The second organizational form (the technical structure) has the task of translating the priorities and the general definition of the projects into a detailed set of reforms and investments that specify the contents of each project and define the various stages to be carried out on schedule. The technical structure must attach, to each project, an estimate and time frame of the costs. It must be coordinated by a small group of experts, designated and appointed by the highest Italian institutional office. To make each of the dozen major projects operational, the coordinators must be able to count on an equivalent number of small teams made up of members of the Public Administration and of external researchers. As will also emerge from the analysis in the next section, combining members of the Public Administration and external researchers poses sensitive issues. In fact, it is a question of achieving a difficult balance that should involve the administrative machine for the definition and implementation of the various reforms and investments and, at the same time, avoid inefficiencies and impediments to the Public Administration. To achieve this result, it is necessary to select the members of the Public Administration who have the adequate skills and who are less conditioned by political-institutional

constraints. In any case, the 'internal' and 'external' members of the corresponding teams must also be appointed through procedures that guarantee full legitimacy.

Once drawn up in detail, each project must flow into the overall plan. To become the draft IRRP, this plan must be approved by the 'steering committee', which has - in particular - the task of earmarking the allocation of funds for each project in accordance with the costs foreseen by the experts and the overall resources available. Once defined, the draft IRRP must be submitted to the vote of the government and the Parliament and, if approved, must be sent to the Commission to be examined and transmitted to the Council of the EU.

## 5. Why execution is decisive

The definition of governance for the preparation of the IRRP raises many other problems, each of which would require careful analysis. Here I will limit myself to making one last point: the technical structure must also be given responsibility for the implementation of the various IRRP projects and for the monitoring of the expected time schedule and costs of their executions. This responsibility, which is terminated only upon completion of all the projects, is of decisive significance. In fact, after having disbursed an advance equal to approximately 13% of the funds included in the NRRPs approved by the Council of the EU (for Italy, a maximum of about 26 billion euro), subsequent European loans or transfers to each member state are strictly conditional on the actual achievements of the planned intermediate qualitative results (milestones) and quantitative progress (targets) of each project. Therefore, Italy will actually be able to access the RRF funds (the 196 billion euro mentioned at the beginning of the paper) only if it is able to carry out the IRRP projects on time and with the planned costs.

Given the poor reputation gained with the past use of European structural funds and given the well-known difficulty in implementing the reforms decided, Italy needs to oversee the implementation phase of the IRRP projects with extreme care. To carry out this task effectively, the technical structure must establish effective cooperation with the parts of the Public Administration brought - from time to time - into play with the individual projects. This clarifies two aspects already mentioned: why the selection of members of the Public Administration to be included in the technical structure or - to be more precise - in its dozen teams is so important; why it is so important to define an effective balance between 'internal' members and 'external' members of these teams. In this regard, in making their choices, the coordinators of the technical structure should above all evaluate the monitoring and verification functions that their teams will be called upon to perform.

To make these considerations less abstract, it is worth mentioning a possible specific case. It is reasonable to assume that one of the major projects of the IRRP will concern telecommunications networks. It is known that the competences of the Public Administration on the issue are spread out among various Ministries and that reforms and investments in this area involve the competences of independent authorities. Therefore, the Public Administration representatives included in the technical

structure team that deals with the problem under examination must have the adequate role and competence to manage the cooperation between the various components of the Public Administration involved and to avoid cross vetoes; moreover, together with the “external” researchers, they have to interact with independent authorities. This also explains why the procedures for appointing the team members are important. These procedures should discourage rejection moves by the administrative bodies.

## Conclusions

The five elements discussed are essential for setting up and implementing a successful IRRP. They can, of course, be elaborated in very different forms from those described above. The important thing is that the advantages and weaknesses of each of the proposed solutions are carefully evaluated. An underestimation of the problems would, in fact, risk condemning Italy to an inefficient use of the extraordinary opportunity offered by NG-EU and its main RRF program (see in this regard: Buti-Messori 2020b).

For Italy, missing such an opportunity will have particularly serious consequences when the country comes out of the pandemic emergency and - above all - when it manages the consolidation phase of the European recovery. At that stage, if Italy were unable to overcome its 'bottlenecks' also through the extraordinary European aid and follow a path of reform and convergence, the other member states of the EU and the euro area would increase pressure on the ECB and the European Commission to downsize the ultra-expansionary monetary and fiscal policies. Hence, the ECB's massive purchases of government bonds would gradually diminish, the T-LTRO and temporary easing of banking regulation would slow down, the NG-EU would remain a one-off initiative rather than the first step in a process of fiscal union, and the possible new fiscal constraints replacing the 'Stability and Growth Pact' (for example, the so-called 'expenditure rule') would be even more severe for countries with excessive public debt and low growth potential. Italy would accelerate its current decline under the overwhelming burden of a public debt that, at that point, will have become unsustainable. The gloomy Italian picture would be completed by a productive sector squeezed between the lack of innovation and bankruptcy, and by a banking sector oppressed by troubled credits (NPLs) and the excessive holding of government bonds.

All these considerations imply that the challenge the Italian government is called upon to respond to does not permit that European funding be dispersed randomly in order to gain time and overcome the political-institutional deadlines of the coming months. At stake is the future of Italy and the prosperity of its future generations. The challenge therefore requires breakthrough decisions and the pursuit of an innovative long-term strategy of change.



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