Belgian Financial Forum

Making Sense of the EU's National Recovery and Resilience Facility (RRF): Boosting Strategic Investments to Foster Recovery and Transition[1]

Thomas Dermine
Secretary of State for
Resilience & Recovery

Pierre-Emmanuel Noël
Head of Unit
European Investment Bank

Pierre Vanheuverzwijn
Adviser Cabinet of
Secretary of State Dermine

ABSTRACT

This paper builds upon a presentation of the state-of-play of the National Recovery and Resilience Plan ("NRRP") of Belgium delivered by Secretary of State Dermine at the National Bank of Belgium on 29 June 2023[2]. It also covers more widely the topic of the financing of strategic investments in Belgium and Europe, including beyond the term of the Resilience and Recovery Facility ("RRF") at the end of 2026.

Introduction

As many of us will recall, in 2020 the EU launched the NextGenerationEU initiative, sometimes referred to as Europe's "Hamiltonian moment", as a EUR 800bn temporary initiative to support the economic recovery from the coronavirus pandemic and build a greener, more digital and more resilient future. The centrepiece of NextGenerationEU is the RRF, an instrument that offers grants (up to EUR 338bn) and (optional and repayable) loans (up to EUR 385bn) to EU Member States[3] in

[1] The views presented in this paper are personal to author Pierre-Emmanuel Noël (currently on secondment with the Belgian government for the Belgian Presidency of the EU) and may not be attributed to EIB.
The EIB annually publishes an Investment Report providing a comprehensive overview of the developments and drivers of investment and its finance in the EU. It is available online: "Investment Report - Resilience and Renewal in Europe 2022-2023", https://www.eib.org/en/publications/online/all/investment-report-2022-2023

[2] The Plan is available via the following link: https://dermine.belgium.be/sites/default/files/articles/FR%20-%20Plan%20national%20pour%20la%20reprise%20et%20la%20re%CC%81silience.pdf.
The annex to the draft Country Implementing Decision of the EU Council of Belgium's Plan can be accessed via https://data.consilium.europa.eu/doc/document/ST-10161-2021-ADD-1/en/pdf

[3] Through the Facility, the Commission raises funds by borrowing on the capital markets, issuing bonds on behalf of the EU; these funds are then made available to the Member States as grants or loans.

support of pre-identified eligible investments. RRF has subsequently been complemented by REPowerEU, a programme to accelerate the EU's green transition and reduce its reliance on Russian gas.

In total, Belgium will receive EUR 4,523,383,959 in grants under RRF and an extra EUR 510,566,276 in grants under REPowerEU[4], subject to milestones and targets pertaining to reforms[5] and eligible investments, pre-agreed between Belgium and the European Commission. Belgium will also borrow a total of EUR 264,200,000 from the EU as loan under RRF.

This contribution will focus on the notion of "strategic investments", in particular in the infrastructure sector (climate, energy, mobility, digital, health and education, and so on), and analyse the impact that such investments can have on Belgium's economy. It will also present the design and implementation of RRF in Belgium and some lessons learned. Finally, it will explore how strategic investments might be dealt with at EU level in the future beyond RRF's expiry in 2026.

1. Public Investment in Strategic Infrastructure

- Defining Strategic Infrastructure

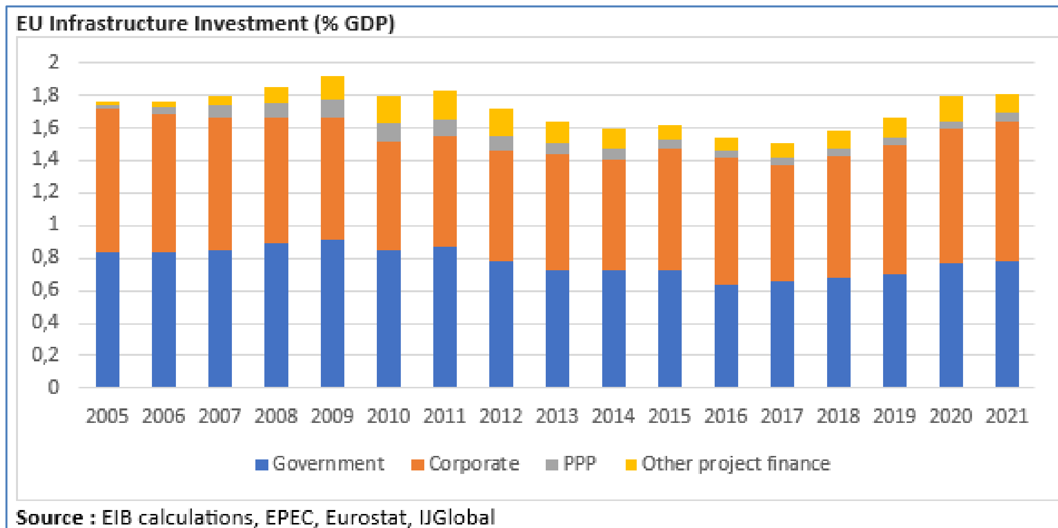
  There is no universal definition of "strategic investment" or (in a narrower sense) "strategic infrastructure", and even the notion of "public investment" can sometimes be controversial. For this contribution we will define public investment as capital expenditure (in public accounting terminology: "gross fixed capital formation" – "GFCF") relating to physical projects that entail an element of general interest, from railways, roads and bridges or renewable energy/energy efficiency in public buildings to utilities network (energy, water, broadband and so on, whether public or "private-regulated") or "human capital" infrastructure (schools, hospitals). For the purposes of this paper, we will consider strategic infrastructure as public sector investment in any general interest infrastructure provided that it takes the form of GFCF.

  Infrastructure investment in the EU was characterised by a sharp decline after the global financial crisis. The graph below illustrates the evolution of infrastructure finance (utilities, transports, communications, health and education) in the EU. It shows that: (i) since 2018, the trend has become positive again, (ii) both government and corporate/utilities infrastructure investment show a clear upward trend, and (iii) infrastructure financing through special purpose vehicles (typical of project finance and public-private partnership arrangements) still remains less popular than it once was.

---

[4] The amount earmarked for RepowerEU includes EUR 281,716,188 in new subsidies from the frontloaded issuance of ETS certificates, and a transfer of EUR EUR 228,850,088 subsidies from the Brexit adjustment reserve.

[5] These reforms must respond the country-specific recommendations issued by the Council under the pre-existing European Semester framework of economic and social policy coordination.



Source : EIB calculations, EPEC, Eurostat, IJGlobal

- The economic case for investing in strategic infrastructure

  Investing in infrastructure to support long-term, sustainable growth is not a novel idea.[6] If the early 2000 witnessed a focus on ICT and web-based technologies and services by public authorities to meet the digital ambitions of the Lisbon Agenda while fiscal consolidation was already looming in some member states (such as Belgium) that tended to sacrifice infrastructure investment, the financial crisis of 2009-10 led the OECD[7] and others to reevaluate the need for investing heavily in infrastructure while even the world's chief fiscal vigilante IMF[8] noted that "(t)he stock of public capital, which reflects to a large extent the availability of infrastructure, has declined significantly as a share of output over the past three decades across advanced, emerging market, and developing economies", a topic that our own National Bank also analysed in detail.[9] Unfortunately these encouragements mostly fell on deaf ears. The Economist recently noted that Germany's current economic slow-down partly had to do with "an obsession with fiscal prudence (that) led to too little public investment" and that "too often infrastructure has suffered as the government has made a fetish of its balanced-budget rules"[10].

[6] Evidence shows that public investment in infrastructure can significantly contribute to economic growth and improve other development outcomes, including those of the Sustainable Development Goals. See Chapter in the IMF's "Well Spent: How Strong Infrastructure Governance Can End Waste in Public Investment". https://www.elibrary.imf.org/display/book/9781513511818/ch002.xml

[7] See "Lifting Investment for Higher Sustainable Growth", OECD's Economic Outlook 2015/1, from p. 211: https://read.oecd-ilibrary.org/economics/oecd-economic-outlook-volume-2015-issue-1/lifting-investment-for-higher-sustainable-growth_eco_outlook-v2015-1-46-en#page54

[8] See IMF's World Economic Outlook October 2014: https://www.imf.org/en/Publications/WEO/Issues/2016/12/31/Legacies-Clouds-Uncertainties

[9] In 2017, the Belgian National Bank also analyzed the topic and notably the « macroeconomic multiplier effect » of public investment : see : www.nbb.be/doc/ts/publications/other/Report_public_investments_fr.pdf

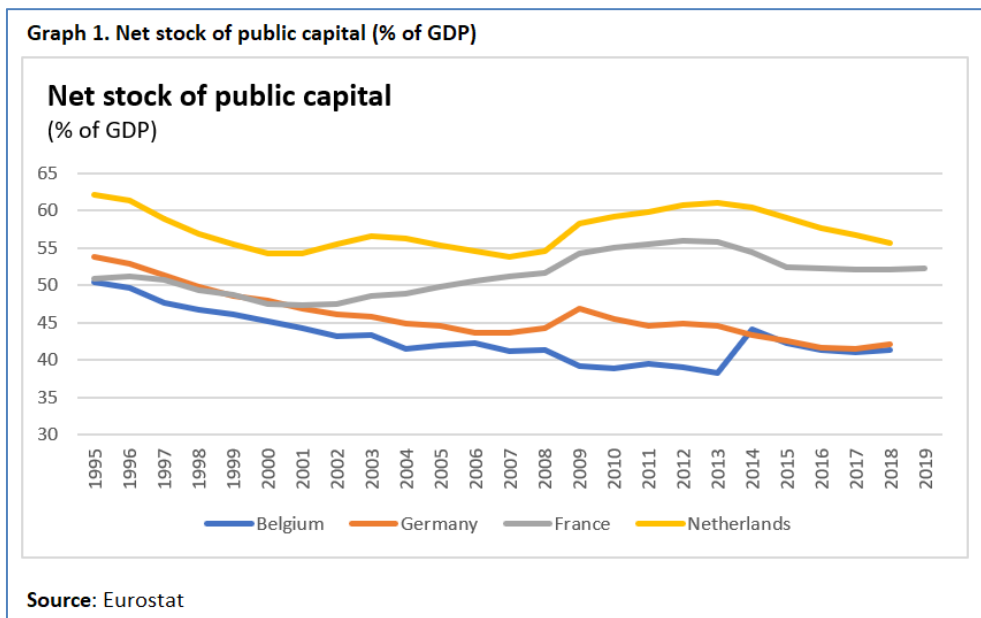
[10] The Economist, « Sick man once more? », August 19, 2024.

Today, raising capital spending substantially should therefore be a policy priority, not only for addressing the challenges of the “dual transition” but also to bring about economic benefits in terms of growth and employment. It also sits well with the EU’s strategic autonomy agenda and the push to relocate key industries on the EU territory.

- State of play of Public Investment in Infrastructure in Belgium

Except for so-called cohesion countries, evidence suggests that public investment, captured by the percentage of GFCF in GDP, saw a gradual decline in advanced EU economies from about 4.5% in 1970 to less than 2.5% in 2013[11]. In Belgium, net investment, which determines the evolution of the capital stock, has remained virtually zero in recent years. As a result of this persistent weakness in investment, the general government sector's capital stock is also lower than in most neighbouring countries (see Graph 1 below).

Graph 1. Net stock of public capital (% of GDP)



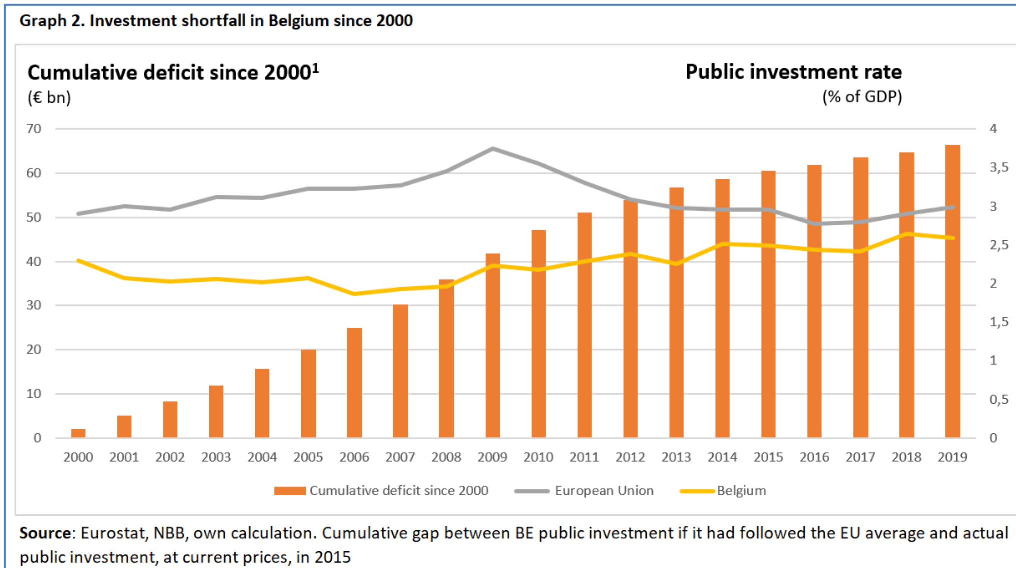
Source: Eurostat

This continual lack of investment can be approximated to have resulted in Belgium’s investment shortfall nearing EUR 70bn over a span of twenty years compared to the European average (see Graph 2 below).

---

[11] See Barbiero, F., and Z. Darvas (2014) “In sickness and in health: protecting and supporting public investment in Europe”, *Bruegel Policy Contribution*, Issue 2014/2.

Graph 2. Investment shortfall in Belgium since 2000

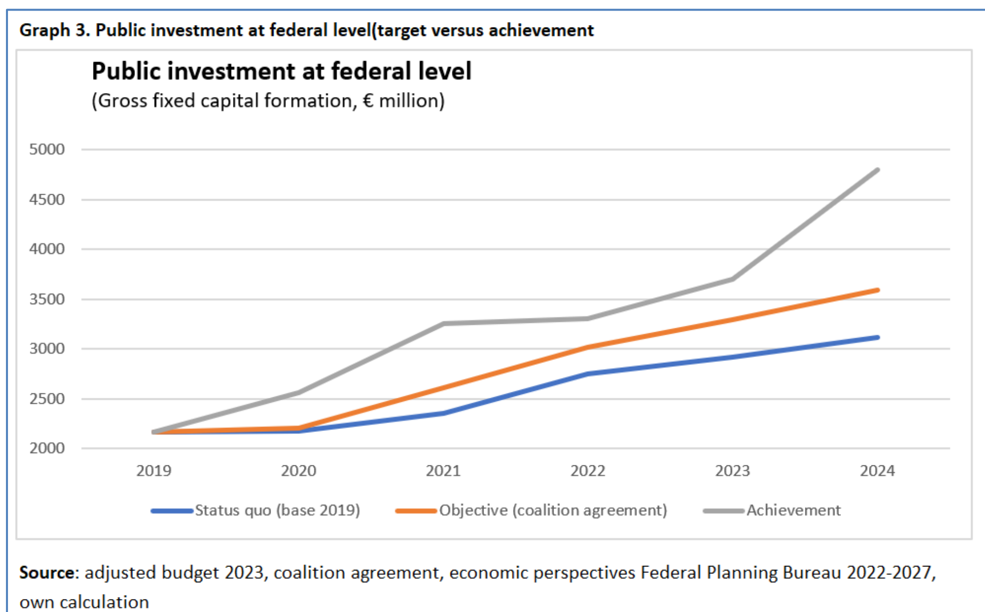


Source: Eurostat, NBB, own calculation. Cumulative gap between BE public investment if it had followed the EU average and actual public investment, at current prices, in 2015

However, through the implementation of post-crisis recovery initiatives, Belgium is currently striving to break away from this historical trend. The federal government's agreement of September 2019 targets a public investment rate of 4% of GDP in 2030, from which an intermediate rate of 3.5% in 2024 can be deduced.

The federal government is doing more than its fair share of this target, investing almost a quarter of the national objective in 2024, whereas it accounted for only 17.9% of public investment in Belgium in 2019 (see Graph 3 below).

Graph 3. Public investment at federal level(target versus achievement



Source: adjusted budget 2023, coalition agreement, economic perspectives Federal Planning Bureau 2022-2027, own calculation

- Approach towards Public Investment in the EU before the pandemic

  Faced with the alarming fall in public investment in the wake of the financial crisis, and mounting criticism that blind consolidation was harmful to growth, the EU reacted on the proposal of the former EC President Juncker by launching an “Investment Plan for Europe”, which consisted mainly in the establishment of a “European Fund for Strategic Investments” (EFSI). The scope of EFSI was broad: public sector infrastructure, energy, research and innovation, broadband and education, and so on. It was structured as an EU credit guarantee from the Union’s budget for an amount of EUR 16bn to back a new portfolio of lending and investment by the European Investment Bank (EIB) specifically targeting eligible EFSI projects and aiming at leveraging co-financing by the private sector so as to reach a total effective investment spending of EUR 315bn. The investment period of EFSI lasted until 2020. It was expected that by then, the EU economy would have recovered its stamina[12].

  A second reaction was to encourage public investments in the application of the rules of the Stability and Growth Pact (SGP), by incorporating an "investment clause" that allows Member States in recession to deviate from their trajectory albeit under stringent conditions. First, this provision exclusively concerns investments that are co-funded by the European Union. Moreover, its activation is contingent upon the presence of an output gap not exceeding -1.5%. Additionally, the allowance for deviations in the structural deficit is confined to modest and transitory adjustments, amounting to less than 0.5 percentage points, with the constraint that the overall deficit remains below the 3% threshold. In conclusion, the existing investment clause appears to offer limited assistance in addressing the prevailing challenge, namely the imperative to engage in substantial co-investment (in partnership with the private sector) to facilitate the transition towards a more environmentally sustainable economy.

  Against this backdrop, certain observers viewed the pandemic as a pivotal juncture in the way the EU approaches economic crises and public investment. First, instead of enforcing growth-incompatible fiscal consolidation, the rules of the SGP were put on hold by the activation of the general escape clause. Second, and most importantly, the heads of state and government agreed in July 2020 to pool resources to keep the economy afloat and prepare for the future. This resulted in NextGenEU and RRF, with its strong focus on infrastructure investment in climate sustainability and digitalization. This initiative is unparalleled in the EU history, marked by its magnitude and its funding mechanism involving collective borrowing by the 27 Member States through the European Commission in the financial markets. Undoubtedly, the legitimacy of the Union and its leadership is strengthened by this pivotal choice. "Next Generation EU" encapsulates the acknowledgment that a coordinated European strategy constitutes the most effective reaction to systemic crises like the pandemic.

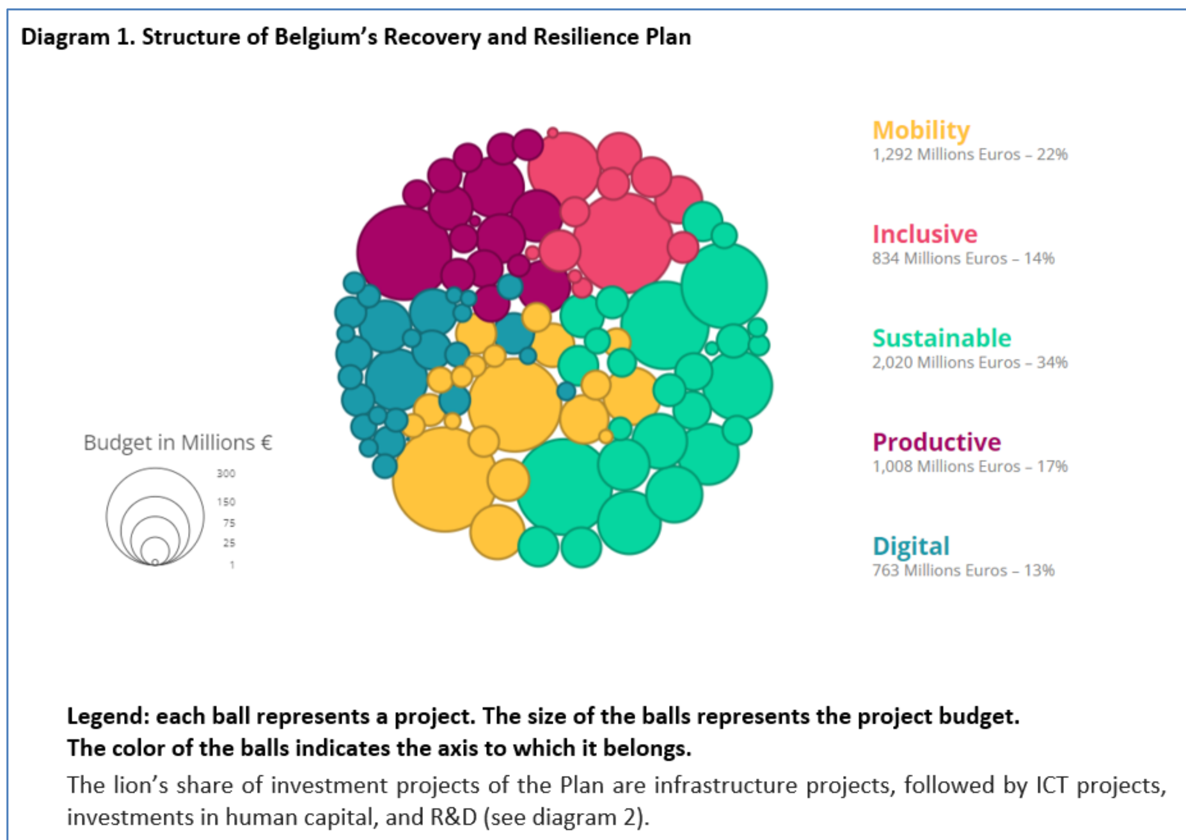
---

[12] Note that, notwithstanding a generally positive impact assessment, the additionality and geographical allocation of EFSI had raised some questions at the time. A comprehensive overview of the macroeconomic impact of EFSI can be found at: https://www.eib.org/attachments/efs/macroeconomic_impact_of_european_fund_for_strategic_investments_en.pdf

2. The Resilience and Recovery Plan in Belgium

To benefit from the European subsidies made available under the RRF, Belgium had to submit its national recovery and resilience plan to the European authorities. As soon as the federal government came into office in October 2020, the coordination work started at full speed. Indeed, the Belgian plan reflects the country's federal structure, with measures under the jurisdiction of the Federal State, the Regions and the Communities. The initial plan of Belgium comprised 102 investment projects and 36 reforms, for a total estimated cost of 5,924,952,328 EUR, to be financed with EU grants only[13]. The plan is structured in five main axes, and 16 components (see diagram 1).

Diagram 1. Structure of Belgium's Recovery and Resilience Plan



Legend: each ball represents a project. The size of the balls represents the project budget. The color of the balls indicates the axis to which it belongs.

The lion's share of investment projects of the Plan are infrastructure projects, followed by ICT projects, investments in human capital, and R&D (see diagram 2).

[13] It should be noted that the Belgian RRP was later adjusted following the update of the Belgian subsidy allocation and the allocation of new REPowerEU grants. At the time of writing, this plan has not yet been approved by the Council of the EU. Therefore, reference shall only be made to the initial plan here.

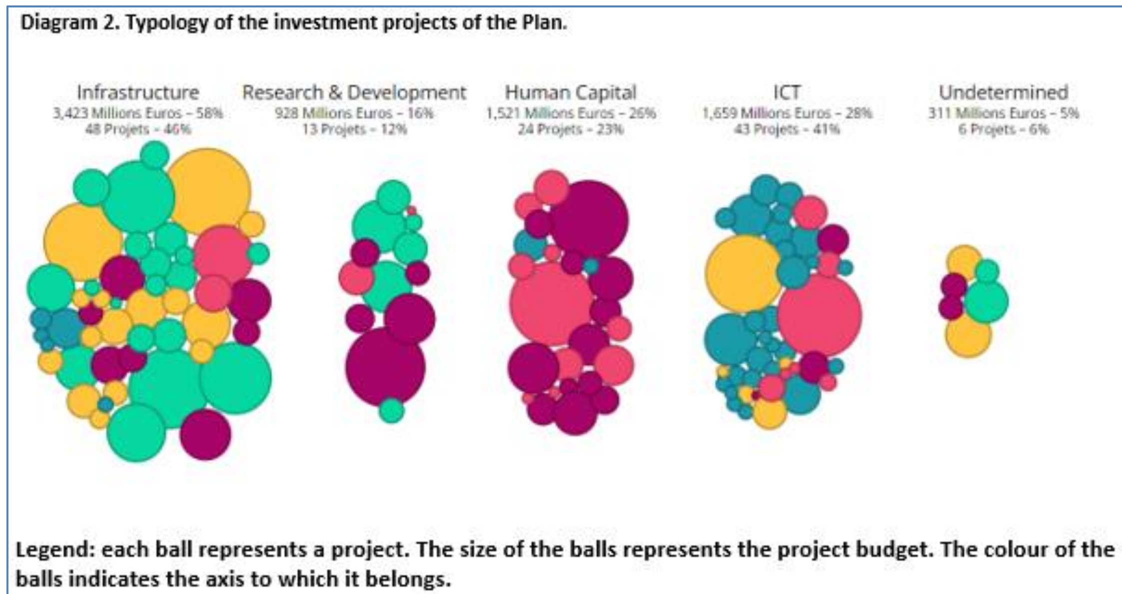


Diagram 2. Typology of the investment projects of the Plan.

Legend: each ball represents a project. The size of the balls represents the project budget. The colour of the balls indicates the axis to which it belongs.

Almost 50% of expenditures of the Belgian Plan will contribute to the transition to a carbon-neutral society[14], with flagship projects such as the development of an energy island, the construction of a backbone for the transport of hydrogen and carbon and a massive renovation programme of public and private buildings. Concurrently, low-carbon mobility is being promoted through the construction of cycling and pedestrian infrastructures, the enhancement of railway systems, and the implementation of electric public transportation within urban areas. The digital transition also takes center stage in the plan, with 26% of the expenditures allocated to it, encompassing projects in cybersecurity, digitization of governmental institutions, as well as the expansion of optical fiber infrastructure and 5G development. Lastly, the plan also allocates a significant role to educational and social infrastructures, aiming to support the digital transformation of schools and ensure long-term social cohesion.

- State of play with the EC – First payment request to be introduced in September 2023

  To monitor the implementation of the plan, 210 qualitative milestones and quantitative targets have been established in collaboration with the Commission. According to the latest biannual report submitted to the European Commission on April 30th, covering milestones up to April 30th, 2024, 60% have been achieved whilst 22% are well on track and only 18% behind schedule (a good outcome so far, bearing in mind the federal structure of Belgium and the extra layer of coordination involved).

  These various milestones and targets are distributed across 10 successive payment tranches, each associated with predefined allocations. The regulation entails that the member state

[14] The Wuppertal Institute has developed a special methodology for calculating the green ambitions of recovery and resilience plans. With 41%, Belgium is in second place behind Finland. See also: https://www.greenrecoverytracker.org/

submits a payment request once the milestones and targets of the corresponding tranche have been achieved. In Belgium, the submission of the first payment request has been delayed due to prolonged debates surrounding pension reform and the establishment of the control and audit system designed to safeguard the financial interests of the European Union under RRF. The first request is scheduled for mid-September. The upcoming requests will be filed shortly afterwards at the beginning of 2024, in order to make up for the delays incurred during the initial years.

- First lessons learned from the Belgian experience

  Without aiming for exhaustivity, three lessons can be drawn from the initial years of the implementation of the RRP to enhance public investment management capacities in Belgium.

  Firstly, the best practices employed during the plan development phase can be reiterated in the future. These best practices are centred around three dimensions: project selection, national-level coordination, and stakeholder participation. To start with, projects within the plan were chosen following an extensive sorting process grounded in specific criteria. The regulation itself provided guidelines that could be repurposed within a national context: a deadline by 2026, 37% allocated to green expenditures, 20% to digital expenditures, with no measures causing significant harm to the environment following the green taxonomy. One could possibly also add to these criteria a pinch of social conditionality to foster social cohesion. The project viability and the feasibility of proposals were also scrutinized by inspectors of finance, who acted as independent and high-level budgetary and financial advisors to the ministers submitting their proposals.

  As regards coordination at national level, particular attention was given to ensuring coherence among projects from different entities within the country. Projects that reinforce each other or complement one another were favoured. Examples of such initiatives include the development of cycling paths across the country, strategies for hydrogen development at federal level and in the two biggest regions, the digitization of interactions between citizens, companies and administrations at all levels of government, or even nationwide 5G implementation. This coordination is beneficial in guiding public funds towards consistent avenues and providing an unequivocal signal to the private sector. Lastly, an investment program of this magnitude requires discussion and collaboration with on-the-ground stakeholders in order to fully unleash its potential. Hence, social partners and environmental stakeholders were involved in the deliberations right from the outset, enriching the policy considerations and maintaining their engagement to effectively function as partners of the investment program.

  Secondly, one peculiarity of the RRP is its distinct focus on performance, that is the attainment of concrete outputs or outcomes, rather than solely on inputs and the amount of funds that can be invested. This approach is in line with an established agenda in the OECD and the EU on “performance budgeting”, which aims, among other objectives, to enhance the efficiency and transparency of budgetary decisions. For instance, linking funding to specific outcomes, such as the successful completion of a railway, encourages the project's efficient completion while minimizing costs. While this approach might not have yet reached its full maturity, and it is not

without limitations in the RRF[15], it lays the groundwork for a more effective utilization of public funds and increased transparency for citizens. However, two hurdles frequently encountered in the RRF are an excessive legalism by those responsible for assessing implementation and a sometimes-cumbersome coexistence between the performance-driven approach and the traditional cost control logic. It is crucial to prevent the logic from becoming overly technocratic and losing sight of the intended political and economic objectives. Furthermore, in the same line of thought, while still upholding a clear signal on stringent oversight of irregularities and fraud, it is crucial to strike the right balance between the layers of control over invoices and procedures and the control of outcomes.

Thirdly, one should also retain from the RRF this culture of performance monitoring and seriousness in implementation. All too often, significant projects have floundered, notably due to a lack of rigorous management during execution. The public sector should fortify itself to effectively shepherd its investment programs and bring them to fruition for the common good. Within the framework of the RRP, a team has been established within the budget administration to coordinate implementation. Additionally, IT tools have been developed to monitor projects professionally and consistently. We have also developed true expertise in environmental impact analysis, with a team specialized on DNSH assessment within the ministry of public health and environment. Furthermore, at an even higher level, a new high-level committee on public investment was established during this legislative term with the explicit purpose of gathering and disseminating expertise in public investment. In the long run, why not consider establishing a dedicated agency for the execution of investment programs, armed with all this expertise that has been accumulated? The advantages of such a body for investments far outweigh the initial setup costs. In connection with this, it is necessary to enhance the culture of public accountability by providing transparency to both positive and negative developments during project implementation. This visibility can help mitigate implementation hazards.

- The upcoming Mid-Term Review of RRF

  The implementation of the RRF began in 2021 and is due to end in 2026. Article 32 of the Regulation establishing the facility provides an independent mid-term evaluation in February 2024. This evaluation should look at the achievement of the objectives of the Facility (i.e., effectiveness), the efficiency of the use of its resources and its added value, including potentially a proposal for amendments to the Regulation. The results from this evaluation will be disclosed at an event on 9 April, in the middle of the Belgian Presidency of the Council of the European Union that will start on 1st of January 2024. The Belgian Presidency will therefore put this item high on the agenda and intends to encourage in-depth reflection not only on the instrument as such, but also on the importance of strategic investments and the role of the EU in this area for the next European legislature.

[15] See for example Darvas, Z., et al., "The EU Recovery and Resilience Facility falls short against performance-based funding standards", https://www.bruegel.org/analysis/eu-recovery-and-resilience-facility-falls-short-against-performance-based-funding

3. EU Strategic Investments beyond 2026

- Financing the EU's Dual Transition will remain the EU's absolute priority, even after RRF's expiry in 2026

  As recently developed by the European Commission in a landmark communication[16], the EU should urgently move towards a "Europe of investments" by increasing private financial flows in support of strategic investments for the transitions.[17] The EU should indeed be more ambitious and resolute when it comes to strategic investments. About one year ago, the USA enacted the Inflation Reduction Act (IRA), with massive public subsidies and other aggressive incentives, which, together with other major pieces of legislation (CHIPS Act, Infrastructure Investment and Jobs Act, and so on), delivered a major shift of the US economy towards a greener growth model and a de-risking of its strategic industrial basis, away from the prevailing reliance on i.a. China. Meanwhile, in Europe clean technology startups have attracted less than half as much investment as US counterparts (USD 8.7bn vs USD 21.7bn, according to Cleantech Europe). To be sure, in the last year the total amount of funding available in the EU for the green transition has been roughly similar to the US but IRA has been "simpler and focused on mass deployment of green technologies rather than innovation"[18]. The long-term consequences of these different policy options might be quite different (also noting that a focus on innovation has a potential to bring more lasting benefits on growth).

  Where possible and desirable (notably in case of market gaps, more frequent in a more fragmented bloc such as the EU), public funding should be better used as a catalyst for private investments, notably for riskier, breakthrough sustainability projects, including their scaling up, and related manufacturing capacities in the EU, without crowding out private investment, which is a balancing act that needs constant reassessment to take into account the market evolutions. As suggested by the EC, the European Investment Bank (EIB), which is the largest multilateral bank in the world, should be fully empowered to intensify its support to strategic investments relevant for the twin transitions, such as raw materials, green tech, or biotechnology, especially for cutting-edge projects. In light of this, the EIB Group supports the pan-European Scale-up Initiative to promote tech champions and was mandated by five EU Member States, including Belgium, to manage the European Tech Champions Initiative (ETCI) Increasing the inflow of private finance into strategic investments will also be encouraged by tax incentives, green and sustainable public procurement, public-private partnerships (PPPs), incentivising suppliers to adopt sustainable solutions, pre-commercial procurement, and so on. Finally, the role of EU and

---

[16] See "Strategic Foresight Report, Sustainability and people's wellbeing at the heart of Europe's Open Strategic Autonomy", EC Communication of 6 July 2023: https://commission.europa.eu/system/files/2023-07/SFR-23_en.pdf

[17] The EU investment gap for the digital transformation is estimated at €125 bln per year. In addition, €550 billion in investment is needed to reduce greenhouse gas emissions by 55% by 2030.

[18] Alice Hancock, "US green technology investment leaves Europe in the shade", FT, 16 August 2023, https://www.ft.com/content/33ebbb0e-c7fb-448b-84b8-3c6cdfb05be4

Member States' public finance institutions should not be overlooked, which in Belgium means not only SFPI/FPIM but also PMV, Wallonie Entreprendre and Brussels Finance&Invest.

The EU should consolidate its lead in cleantech and wind technologies and support massively emerging clean industries such as hydrogen and electrolysers, including by redirecting the proceeds of climate-related taxes and levies (border adjusment mechanism, carbon tax, ETS, and so on). Whereas the US is relying heavily on tax-based incentives, which is not possible within the EU framework, Europe needs both a global vision on its investment plans and an implementation strategy that will englobe public and private sectors and mobilise all available tools, policy, legal and financial. Without this, the EU risks losing its competitive position vis-à-vis its main global rivals.

- Addressing climate change will be a key driver of future Strategic Investments

Increasing green public investment while consolidating budget deficits will be a central challenge of this decade. The EU has set the ambitious goal of a 55% greenhouse gas emissions reduction by 2030 compared to 1990 and zero net emissions by 2050. This will require a major increase in green investments, of which is a sizeable part should be public investment. According to the European Commission's impact assessment, to which the EIB's Annual Report refers, just to adapt our energy and transport systems, we would need to invest 3.7% of the European Union's GDP each year over the next decade, representing a cumulative amount of around 5,000 billion euros. This amount should be understood as a minimum threshold, as it does not take into account the many other investments and measures required for transition in the European Union.

- The EU needs a clear and long-term policy on boosting Strategic Investments, including within the Economic Governance Reform framework

In the aftermath of extraordinary fiscal support during the Covid period, significant fiscal consolidations will be required under European fiscal rules. In the past, such consolidation episodes have resulted in major public investment cuts. Sustainable public finances, while a prerequisite for economic confidence and stability in the long-run, they should not come at the cost of growth-friendly investments. How can the EU ensure that this time, essential public investment will not be repressed in such context?

Member States should be incentivised towards moving to a medium/long-term approach of investment and balancing their investment needs against other expenditure priorities. Reforms and investments can boost the growth potential of an economy, improve the sustainability of public finances and build forward better, providing powerful incentives per se for their implementation. In the context of the excessive deficit procedure, criteria such as the implementation of reforms conducive of strategic investment and policies supporting well-targeted investment programmes should be considered by the Commission as a relevant assessment factor under the EU's economic governance reform.

Back in 2015, during the "Juncker Plan" period, the EC had already factored in the need to flex the stability pact to account for public investment[19]. The Commission's guidance on how to approach public investments with positive, direct and verifiable long-term budgetary effects on growth and on the sustainability of public finances (commonly referred to as the "investment clause") required the requesting Member State to meet certain restrictive conditions[20].

Clearly, this limited flexibility was not sufficient to kick-start a new wave of strategic investments at a scale commensurate with the enormous challenges of the "dual transition". Instead, a "Golden Rule" has been proposed that would more clearly differentiate the accounting of (productive) public infrastructure investment and alleviate the restrictions. Such investment generates an economic pay-back in the short, medium and long-term that itself has a positive impact on public finances[21].

More recently, a "Green Golden Rule" has been floated, that would allow green investment to be funded by deficits that would entail a softer treatment in the EU fiscal rules[22]. The authors admit that a comprehensive and broad-based reform is unlikely to be completed within the ongoing economic governance; but as the need to increase green public investment now is inhibited by the impending budget consolidation and the practical political challenge to finance green investments by cutting current expenditures or raising taxes, a preferential treatment of the related public debt should be adopted (it is also not recommended that long-term capital investments be funded from current revenues; economic and accounting logic suggests that net capital investments be funded by debt, reflecting the long lifetime of green infrastructure).

It should be noted that, because they are financed from the EU's borrowing, RRF grants (but not the loans) are not counted as Member State debt (as per Eurostat guidance), nor do they matter for deficits. RRF grants are thus exempt from EU fiscal rules.

---

[19] EC Communication of 13 January 2015, "Making the best use of the flexibility within the existing rules of the Stability and Growth Pact", http://ec.europa.eu/economy_finance/economic_governance/sgp/pdf/2015-01-13_communication_sgp_flexibility_guidelines_en.pdf

[20] (i) GDP growth negative or GDP remaining well below its potential (resulting in a negative output gap greater than 1.5 % of GDP); (ii) the deviation from the MTO (Mid Term budgetary Objective) or the agreed fiscal adjustment path towards it does not lead to an excess over the reference value of 3 % of GDP deficit and an appropriate safety margin is preserved; (iii) the deviation is linked to national expenditure on projects co-funded by the EU under the Structural and Cohesion policy, Trans-European Networks and Connecting Europe Facility, and to national co-financing of investment projects also co-financed by the EFSI, which have direct long-term positive and verifiable budgetary effects; (iv) co-financed expenditure should not substitute for nationally-financed investments, so that total public investments are not decreased; and (v) the Member State must compensate for any temporary deviations and the MTO must be reached within the four-year horizon of its current Stability or Convergence Programme.

[21] H. Bogaert, Improving the Stability and Growth Pact by integrating a proper accounting of public investments: a new attempt, Federal Planning Bureau, January 2016: https://www.plan.be/uploaded/documents/201601211007080.20151221_WP_EN_golden_rule.pdf.

[22] How to reconcile increased green public investment needs with fiscal consolidation, CEPR (Guntram B. Wolff & Zsolt Darvas), 7 March 2022: https://cepr.org/voxeu/columns/how-reconcile-increased-green-public-investment-needs-fiscal-consolidation

- Learning from the RRF - enhancing the quality of investments (long-term vision and rigorous appraisal)

  The national expertise in public investment management should be strengthened, with the support of the European Union. Similar to the initiatives taken in Belgium (as mentioned above), each member state should establish bodies of experts whose mission would be to objectively identify the needs for public investment in various sectors of the economy, in close collaboration with the private sector. They would then select the best projects using proven methods and ensure a professional and transparent monitoring of the implementation. The European Union itself could play a driving role in establishing these bodies (which already exist in some countries) or in their reinforcement, as well as in organizing the sharing of best practices at the European level. EIB's Advisory Hub (which includes EPEC) could be strengthened by the Commission to increase assistance to member states upon request, aiming to enhance the impact of investment programs, develop appraisal and monitoring methodologies, or improve the absorption of public funds at the national level. Furthermore, the coordination of the strategic investment efforts among member states is also crucial to address the challenges of the upcoming decades. The European Union should be able to play a central role in this coordination, which would facilitate the development of European common goods, to a much larger and ambitious extent than what is already the case for certain network infrastructure such as the mapping and targeted subsidising of Trans-European Networks ("TENs") in the areas of transport, energy or telecoms.

- Designing a set of consistent, effective and stable EU financial instruments to stimulate investment at European level after 2026

  The EU has two direct tools at its disposal to inject money into Strategic Investments. The first one is the firepower of the EU budget. What is generally known as "structural funds", roughly 40% of the bloc's budget and in total several hundreds of EUR billions over the seven-year period, goes into a myriad of local-level projects of various sizes and sometimes less obvious relevance, despite the high-level oversight of the EC.

  Much more could and should be done to put part of these funds to a better, more impactful and coordinated use across member states, without deviating from the necessary rationale of supporting the less economically developed regions of the EU. The lessons learned from RRF are in large part applicable to these instruments.

  As briefly mentioned above, the second, and too often overlooked, financial tool at EU level is the EIB Group, the world's largest multilateral bank with EUR 80bn of financing delivered per year, of which roughly 90% within the EU. EIB is already an active player when it comes to climate and transition (it is on its way to become "The Climate Bank" with over 50% of its activities to be dedicated to this objective by 2030). In close strategic co-operation with the EC, it could do more with additional capital and an increased backup by the EU's budget to absorb most of the risks inherent to venturing into the financing (debt and equity) of unproven technologies and ambitious infrastructure projects. It is one of the smartest ways to leverage up the EU budget, in the same vein as what was done under the "Juncker Plan" but with much more audacity and

flexibility, more dry powder and less red tape (such as the heavy institutional reshuffling that coincides with each new budgetary period and results in a totally counter-productive stop-and-go in EIB's operations backed by the EU budget). EIB is also in a good place to act as interface between the EU and the other public lenders, whether multilateral (such as EBRD or IFC) or domestic (national promotional banks and institutions).

3. Conclusion

NextGenEU has been a powerful instrument to scale up investment in the twin transition, yet it is not enough to meet the investment needs in climate, digitalisation and just transition. More should be done, now.

In this paper, we have shown the importance of investing in strategic infrastructure from a growth point of view, and we have surveyed the many ways the EU could act to boost such investments. It will be about improving the existing EU financing tools (including EIB and a better use of the EU budget) and encouraging Member States to create a stable and predictable policy, legal and regulatory environment conducive of investment by the private sector, including through new and creative delivery models for infrastructure.

When it comes to RRF more specifically, the mid-term review of the instrument is to take place in April 2024 during the Belgian Presidency of the EU. We must learn from the initiative and, even in the absence of a new EU borrowing campaign in the foreseeable future, consider retaining a similar momentum to stimulate investment at European level after 2026, which involves notably a systematic and comprehensive screening of the quality of the investments (long-term vision and thorough value-for-money appraisal), coordinating national efforts at EU level (including achieving a high multiplier when the EU budget is at stake), monitoring investment implementation (better absorption and transparency), safeguarding enough headroom for strategic investments in government budgets year on year (more stable investment programmes), and finally considering a differentiated treatment of public investment in the EU's fiscal rulebook ("Golden Rule").

At a time of heightened global competition between blocs or large economies on future-shaping issues such as technology (digitalisation and IA, space and satellites, cyber-security, etc.) or energy (hydrogen, renewables, and so on), its is of the essence that the EU reinforces its pivotal coordination and support role in boosting strategic investments to ensure that our unique political and social model can continue to benefit our citizens and inspire the rest of the world.