The National Recovery and Resilience Plan for Romania and Opportunities for the Private Sector in the New Economy

Tuesday, March 9th, 2021, 15:30 – 17:00 EET

Aspen Dialogues Webinar Report

Rapporteur: Iulian Mihalache – Public Policy Programs Manager, Aspen Institute Romania

About the Webinar

The webinar took take place under the aegis of the **Aspen New Economy and Society Program**, the **Aspen Resilience, Governance and Society Program** and the **Aspen Dialogues** series.

The European Union is stepping up to the economic challenges posed by the coronavirus pandemic with a €750 billion recovery plan called **Next Generation EU**. Together with its new multiannual budget, the response rounds up at almost €2 trillion to be dispersed through grants and loans to member states. Despite years of **economic growth and convergence** driven by EU funded investments in the region, Romania alongside other CEE countries still showcase persistent subnational disparities. The penetration of both **public and private capital** is concentrated in Bucharest and a few other leading cities, while many of the Romanian regions still lag behind. While European funding has contributed to **local development**, it has also placed a heavy burden on administrations that often lack both technical capacity and capital for co-financing requirements—a difficult balancing act that the new EU budget needs to take into account. The new financial instruments have a much higher complexity than previous ones, and as such intermediary entities will play a crucial role in ensuring the absorption rate. With a heavy focus on **green investments and digitalization**, the EU funds will stimulate beneficiaries to align with **a new economic model** that Europe strives to achieve. However, Romania scores much lower than peers on **competitiveness, innovation, and connectivity** to knowledge-transfer networks across Europe. Leading private companies can take the lead and increase value-added production and local competitiveness, but such opportunities will be informed by the eligibility framework of the **new financial instruments**.

The webinar debated key questions, such as:

- How will the EU funding be accessed by economic actors in the domestic market?
- What are the mechanisms that support the competitiveness of the national economy, and to what extent are companies involved in the process?
- Will the new financial instruments target subnational disparities more efficiently than before?
- How will the complexity of the current financing structures be managed at national level and who will serve as financial intermediary in the absence of a specialized national entity?

Speakers:

- **Elisa Roller**—Head of Unit, Recovery & Resilience Task Force, European Commission
- **Cristian Ghinea**—Minister of Investments and European Projects
- **Dragos Pîslaru**—Member of the European Parliament
- **Dan Nica** – Member of the European Parliament

- **Murielle Lorilloux** – Chief Executive Officer, Vodafone Romania
- **Valentin Boldeiu** – Head of Structured Finance, UniCredit Bank
- **Radu Ciocoiu** – Executive Director, Regional Corporate and Public Sector, Raiffeisen Bank

Introductory Remarks by Mr Florin Pogonaru, Acting Co-President, Aspen Institute Romania
Moderator: Dr. Clara Volintiru – Bucharest Academy of Economic Sciences / Program Director, Aspen New Economy and Society Program

About the Aspen New Economy & Society Program

The ***Aspen New Economy & Society Program*** *(previously known as the Economic Opportunities & Financing the Economy Program)* is a non-partisan platform for debate. Under the umbrella of the Program, a community was created comprising multiple stakeholders from the public, private, and non-governmental sectors, aiming to identify key constraints and untapped opportunities facing the existing economic, investment, and development model of Romania and to formulate key public policy recommendations.

Program Partners: Unicredit, Mastercard, Raiffeisen Bank

Event Report

The EU's response to the health and economic crisis brought about by the pandemic has been clearly **unprecedented in scope and size** and has boosted confidence in the markets. The **Recovery and Resilience Facility (RRF)** is the central pillar of the EU's response, the €750 billion **NextGenerationEU** recovery plan. The RRF amounts to €672,5 billion, of which €312.5 billion in grants and €360 billion in loans. The speakers made the following remarks regarding the RRF:

- The RRF is a **once in a generation opportunity** to undertake **high impact reforms and investments** across the EU.
- It is a **short-term injection** into the EU economy rather than a medium to long term programming exercise such as Structural Funds and the Cohesion Fund.
- It is a **result-oriented, performance-based facility**, with payments to be carried out upon the fulfilment of milestones & targets, rather than a project-based approach.
- Ultimately, while the RRF will provide major investments across the EU, its **main objective is to facilitate much-needed reforms** in Member States in order to **address systemic challenges** and provide a vision and a roadmap for the future.
- In order to access the funds provided by the RFF, Member States each need to submit to the EU Commission **national plans detailing their reform and investment agenda** by April 30th, 2021. A key challenge is that 70% of grants will have to be committed by the end of 2022, and the rest by the end of 2023.
- The National Plans are ultimately about reforms and should be seen as a unique opportunity to **build a strategic vision** of how Member States want to develop in 5 - 10 years' time.

- The RFF is also an opportunity to revisit the old concepts of investment and cost and connect the dots between the two. Spending on digital skills, training/upskilling or issues such as energy efficiency prevention in healthcare ultimately represents a **social investment rather than a cost**.
- The focus should be on reforms and investments fostering the **green and digital transitions** and addressing key systemic challenges of each Member State. Plans will have to respect the **37% target for climate objectives** and **20% target for digital objectives**.
- In addition to the twin green and digital transitions, the starting point for discussions on the National Plans between Member States and the EU Commission will be the **country-specific recommendations highlighted in the EU Semester**.
- There are tensions between the current economic model and future economic model. Differences between the EU Commission priorities and the perspectives of Member States may appear, as it is normal for each Member State to have national priorities that may diverge from the wider EU-level picture. However, **the scope of RRF is broad enough to accommodate a combination of both national and EU priorities**, in order to mitigate any potential tensions.
- With large cities and their nearby regions at the forefront of economic development, a key challenge that national plans will have to address is **making sure the gaps between regions and citizens do not continue to expand**. That is why social and territorial cohesion and policies for the next generation are key pillars of the RRF.

The speakers further discussed the **National Plan for Recovery and Resilience (PNRR)** of Romania:

- Romania will be allocated over €29 billion out of the total RRF sum of €672,5 billion. However, the PNRR will feature investments totaling over €40 billion, in order to provide a menu of useful possible projects, which could be co-financed by national funds if they prove their viability.
- The PNRR will feature 33 components, distributed on the **6 pillars** on which the RRF is structured: green transition; digital transformation; economic cohesion, productivity and competitiveness; social and territorial cohesion; health, economic, social and institutional resilience; policies for the next generation.
- The PNRR will have to address difficult reforms, for instance **improving the legislative / regulatory framework in areas such as public procurement, increasing the institutional capacity of the public administration**, including local authorities, improving the **sustainability of public finance**, or **reforming social policies** and the **labor market**. Further systemic challenges will be investing in green energy, investing and expanding broadband and 5G connectivity, and digitalizing the public administration as well as SMEs.
- Drafting the PNRR has become more inclusive since the beginning of the year, but a **national consensus** is needed in order to find solutions for effective investments and reforms. Further public consultations are needed with key stakeholders and beneficiaries such as the private sector, local authorities, trade unions.
- The PNRR is a centralized national plan but it will also require the **decentralization of implementation** through the principle of subsidiarity. In this, **local authorities are key** and so their input in the PNRR is crucial.
- In order to involve local authorities, the Ministry for Investments and European Projects has proposed a **resilience fund for local authorities**, through which municipalities, regional councils

etc. will be able to propose projects along the line of the RRF priorities such as the green and digital transitions. Similarly, a resilience fund for civil society is planned.

- For Romania, there will be country-specificities, most importantly **road transport**, with around €4.5 billion projected investments in TEN-T highway system.
- In terms of the **energy sector**, investments in natural gas distribution should be coupled with a hydrogen infrastructure. Thus, there is a need to invest in both networks and research.
- It is important to also find **synergies with other instruments** such as the **Just Transition Fund**, which will provide Romania with approximately €2 billion to alleviate the social and economic costs resulting from the transition towards a climate-neutral economy.

The **key role of the private sector** in implementing the Plan was emphasized, as speakers also discussed private sector opportunities provided by the PNRR.

- The private sector can be an **accelerator** for the faster transition of the whole economy to a green, digital economic model.
- When talking about reforms and investments, a differentiation should not be made between the public and the private sector. The **private sector should be involved in the national plans**, as it is an innovative economic actor, and private investments should be an important addition to the Recovery Package.
- For the private sector, reforms are as important as the investments provided by the PNRR, as **reforms create the sustainability and predictability** allowing it to thrive.
- Some of the main reforms provided by the PNRR will bring **key benefits to the private sector**, including regulation to reduce red tape, the digitalization of ANAF (which will also significantly increase state revenues), the establishment and operationalization of a national development bank.
- The PNRR should **leverage Romania's assets and comparative advantage** (e.g., a telecom infrastructure above the EU average in terms of speed and reliability) and accelerate them, making sure projects and programs in areas such as connectivity in rural areas, broadband and 5G are expanded at a national level.
- The **private sector needs to be consulted** on how 5G networks are designed and the telecom infrastructure is rolled out at the national level. The state should **support the private sector in the 5G and broadband acceleration as well as in improving connectivity in rural areas**, because it is **important not to leave citizens and regions behind in the digital revolution**.
- The PNRR and the involvement of the private sector in the competition for projects will offer Romania the opportunity to **leapfrog in various key sectors**, such as road infrastructure, energy infrastructure or health infrastructure. The goal should be not just to catch up with the rest of the EU but also be **ready for the future**. For instance, the road infrastructure should be built in the logic of smart transportation, being connected to 5G from the start.
- The private sector must also be included in the competition for projects aiming at the green transition and increasing energy efficiency.
- The constructive role of the private sector in the PNRR consultation process was emphasized. The private sector has been enthusiastic in **putting forward projects** that are fully compliant with the RFF guidance, totaling around €3 billion, across sectors and industries. Key requirements for this

money to be accessed are a good **collaboration between the public and private sector** and a **clear integrated plan at the national level** ensuring consistency among these projects.

- The PNRR and the new EU instruments can play an important role in **building resilient businesses**, able to transition to economic health through EU funding.
- Banks play a key role in ensuring liquidity on the market, especially for SMEs, which have been the most hit and vulnerable sector in the economic crisis. State guarantees and EU grants will continue to be essential.
- Banks are involved in **implementing financial instruments** and are also **partners in grants, state aid programs, direct subsidy schemes and operational services**.
- Banks are ready to be **involved in channeling EU funding**. In terms of the 2021 – 2027 Multiannual Financial Framework, agriculture and rural development projects should remain a priority for Romania, together with investments in new technologies, and the green and digital transitions.
- Another valuable service that banks provide is **expertise**, in terms of consulting for projects. Banks will play an **important role in helping roll over EU funds**, especially since new instruments are even more result-oriented than before.
- While the National Credit Guarantee Fund for SMEs (FNGCIMM) was crucial for helping SMEs survive through the crisis, it is important to think of means of increasing the efficiency of the state guarantee scheme and of including in the process companies that were not able to benefit until now. One important reform that could be addressed through the PNRR is **increasing the institutional capacity of the FNGCIMM**, in terms of a **transfer of know-how** aimed at its full alignment with the best practices and standards in the EU.