CONCLUSION: IS THE EU RECOVERY PLAN DELIVERING ON ITS PROMISES? KEY CHALLENGES AND THE WAY FORWARD FOR PUBLIC INVESTMENTS

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1. Introduction

Next Generation EU's potential of around €750bn in firepower – possible thanks to Eurobonds – is a unique investment plan in the history of the EU to react to an unprecedented asymmetric shock. It will have implications far beyond economic recovery and has the potential to shape Europe's development model for years to come. If successful, it will accelerate Europe's just green and digital transformation and put Europe on the path to climate neutrality. For this to happen, the role of cities and their transformation are crucial.

At the same time, it represents a new way of promoting public investments at the EU level. The most optimistic in an initial phase asked themselves: can we consider Next Generation EU a real turning point compared to the paradigm of austerity at EU level, and can this be considered a model for the future to support public investments at local level for the challenges of transition and territorial cohesion?

Unfortunately, the evidence – including our Urban Recovery Watch – seems to suggest that this instrument is not solid enough to drive the required urban transformations for a just green and digital transformation and reverse the effects of austerity. While the EU recovery plan is a key tool, it was never intended to be the solution to years of underinvestment at local level. Long-term investments are still scarce and a recovery tool that promotes short-term investments to absorb a shock cannot be "resilient" and sustainable in the long term. As we argue, the lack of a long-term perspective to public investment – including the need for capacity to deliver investments – is contributing to some of the implementation challenges of the Recovery and Resilience Facility (RRF), the main delivery instrument of Next Generation EU.

As noted by the Eurocities Pulse Mayors Survey 2023, EU funding is considered an essential support for cities by city leaders. It is therefore hardly surprising to see why they closely followed the debates on the EU recovery plan and why they are actively engaging in discussions about how the EU can promote local finances. Mayors understand that EU funding can only cover some of their needs, and beyond improving their access to grants and subsidies such as the RRF that are limited in nature, they are increasingly concerned about how the EU can promote public investments at the city level.

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Assessing and understanding the direction and the implementation of the urban dimension of the 27 European plans is not only crucial to promoting recommendations ahead of the RRF mid-term review. But on a long-term horizon it is also key to providing recommendations on how the instrument should evolve if it is to become a benchmark and a model for public investment support schemes at EU level.

In this context, cities have long called for a structured dialogue with the European Commission (EC) to explicitly monitor the status of the EU recovery plan in cities. Although the EC did not take this request into consideration, cities continued to advance the assessment of the urban dimension of the recovery to feed into the debate around the mid-term review of the instrument expected in early 2024.

Eurocities carried out two network-wide consultations to gauge the involvement of cities and CIDOB published a report "Cities in the EU recovery process: Localising the Next Generation EU" to assess cities' participation in the design phase across selected member states. Building on these efforts, the CIDOB Monograph "Urban Recovery Watch" evaluates city experiences in implementing these funds. The analysis of the urban experience in nine member states (Czechia, Finland, France, Germany, Hungary, Italy, Poland, Slovakia and Spain) provides substantial evidence to highlight interim results and implementation problems of the instrument. It also provides an opportunity to put the instrument in perspective and to reflect upon what the instrument means and how it affects the future prospects of public investment support at EU level.

It confirms previous findings suggesting insufficient involvement of cities in the implementation of these funds and sheds additional light on how – despite ongoing governance challenges and recurrent capacity and bureaucratic hurdles – cities are already achieving results and making what they can of these funds to deliver urban transitions. The aim of this short article is to provide a summary of the main findings and offer recommendations to contribute to forthcoming debates.

2. Findings, common trends and challenges

Table 1: Overview of the findings of the case studies

Country	RRF national amount	Case study	Population (MA level)	Resources for city investments	Main focus of investments	Ways to funding	Barriers to implementation
Italy	€191.5bn (€68.9bn grants, €122.6bn loans)	Bologna	1,010,812	1.1bn (650m via RRF)	Mobility	Earmarked resources for metropolitan cities	Administrative capacity
					Green infrastructure		Integrating measures
					Urban regeneration and knowledge economy	Competitive ministerial calls	Deadlines
Spain	€163bn (€80bn grants, €83bn loans)	Barcelona	5,641,569	268m	Mobility	Competitive ministerial calls	Administrative capacity
					Urban Regeneration		Integrating measures
					Local economy		Deadlines
					Care economy		
France	€40.3bn (€40.3bn grants, €0 loans)	Nantes	1,480,188	1.4bn (only partly through RRF and including local funding)	Mobility	Territorial contract with the state	Integrating measures
					Energy renovation	Competitive ministerial calls	Linking with other strategies
Metropolitan	See Chapters 1-3	Barcelona, Lyon, Turin					
		(Metropolitan governments)					
Visegrad 4 – Czechia	€9.2bn (€8.4bn grants, €8.4m loans)	Brno, Prague	2,662,230; 1,184,568	TBC – little financing expected	Brownfields and transport, culture, affordable housing	Competitive ministerial calls	NA (delays in implementation)
Visegrad 4 – Hungary	€10.4bn (€6.5bn grants, €3.9bn loans)	Budapest	3,031,887	TBC – few expectations for many funds - informal agreement for €25m	Mobility	Competitive ministerial calls	NA (delays +lack of involvement/ discrimination of Budapest)
Visegrad 4 – Poland	€59.76bn (€25.26bn grants, €34.5bn loans)	Warsaw	3,108,755	TBC – still in very preliminary negotiations	Mobility	Competitive ministerial calls	NA (delays + limited involvement for Warsaw)
Visegrad 4 – Slovakia	€6.4bn (€6.4bn grants, €0 loans)	Bratislava	723,714	TBC - still in very preliminary negotiations	Mobility	Competitive ministerial calls	NA (limited involvement + delays)
					Energy efficiency		
Germany	€27.8bn (€26.4bn grants, €0 loans)	Mannheim	1,196,227	National and regional resources (no RRF)	Temporary compensatory fiscal transfers	Direct fiscal transfers	NA (no significant involvement)
					Inner city regeneration	Competitive calls	
Finland	€1.8bn (€1.8bn grants, €0 loans)	Helsinki	1,714,741	No substantial direct resources for city but approx. €500m for companies (incl. city-controlled enterprises)	Innovation	Calls and allocations directed mostly at private companies and third-sector actors	NA (no significant involvement)
					Support for businesses		
					Energy		
					Health (innovation)		

Source: See introduction and relevant chapters of the CIDOB Monograph

Our in-depth analysis is testament to the diversity of each National Recovery and Resilience Plan (NRRP) and its urban dimension. This degree of differentiation is the result of the substantial variations in national funding allocation, the interaction with other funding resources and programmes available at the national level, and the focus of investments, as well as the different experiences and capabilities in implementing significant public investment programmes. With that said, we can identify trends and challenges that are common to most of them.

In most cases, not only the design but also the delivery and governance of plans have been centralised, with a lack of consideration for the specific needs of cities and local governments and the role they could play.

2.1. Ways to access funding

Time pressure and limited consultations undermining local involvement: Timescales for preparing the plans were tight across the cases, resulting in quick and limited consultations with local governments. This often limited the involvement and participation of cities in the design of the plans. Despite the clear time limits, in some countries with a tradition of structured dialogue between levels of governments – Finland, for example –, though limited, consultations were considered substantial. The haste has not only limited the participation of local governments in the design phase, it also undermined meaningful involvement in the implementation and optimal choices for local investments and measures.

"Generic" distribution of resources with no attention to locally integrated policies: Across the analysed cases, funding was distributed in a generic way and without clear coordination between the different ministries and agencies. This has created challenges for the optimal and integrated local allocation of resources, preventing the areas and sectors most in need from being adequately benefitted. This lack of focus could compromise the overall effectiveness of the plans and absorption of resources.

Territorially blind planning – centralisation, competition and no redistribution: In most cases, not only the design but also the delivery and governance of plans have been centralised, with a lack of consideration for the specific needs of cities and local governments and the role they could play. Most plans have focused on distributing the resources through competitive calls rather than empowering territories based on their needs and potential. Plans have not properly considered the needs of each territory (e.g. through an *ex ante* assessment) and the impact that these investments could have in promoting territorially balanced development.

Unclear complementarity with national and EU funds: Although cohesion funds should complement recovery plans, it might be inferred from the analysed cases that there are no clear synergies but rather competition between the schemes. Furthermore, some countries (e.g. Germany) have financed their recovery partially with national resources, following different governance methods. Others (e.g. France) incorporated into the NRRP some of the projects already provided for in the relevant national budgets. Bringing other national and EU resources into the NRRPs has sometimes resulted in suddenly tighter deadlines and compliance with strict criteria, such as the "do no significant harm" (DNSH) principle.

2.2. Local results and implementation

Cities are using the funds to drive urban transitions across sectors: Across the broad range of major or minor resources received for public investments, all the cities are using them to power public investments to drive urban transitions. Cities that are receiving the highest per capita amount of resources (e.g. Bologna in Italy, Nantes in France, Barcelona in Spain) are using them to develop comprehensive and integrated investment packages with a strong focus on mobility, infrastructure and social inclusion. Cities receiving fewer resources (e.g. Helsinki in Finland and Mannheim in Germany) are using these funds for more targeted investments, often with a focus on innovation. Cities from the V4 have received few resources despite strong allocations at the national level and in spite of their efforts to present comprehensive packages of investment projects.

Urban investments without vision and coordination: A point of convergence is the clear emphasis on urban (and local) investments in countries that have received the highest amounts of resources. Cities have been recognised as central to economic and social recovery, with a particular focus on infrastructure. However, these urban investments are not properly coordinated and implemented with consistency and within a broader framework of multilevel and multi-sectoral alliances for urban transformation. The existence of an urban policy at the national level (e.g. Spain) can help in promoting a more adequate distribution of urban investments and coordination between levels of government, but it is insufficient if not properly connected with the national investment plan from the outset.

Difficulties in absorbing funds especially among the biggest recipients: Countries with larger resources per capita often appear to face difficulties in absorbing funds. This is particularly evident in nations and cities least prepared to manage large-scale public investments, highlighting the importance of administrative capacity for effective implementation. Difficulties in responding to tenders and following processes were evident in many countries, demonstrating the complexity of managing such programmes.

Critical administrative capacity: Administrative capacity has emerged as a critical factor for effective implementation of plans, especially in the biggest recipients. The lack of staff and relevant skills at the local level made it difficult to monitor, manage and implement projects. Many countries have not applied a uniform method of technical assistance, leaving investment management to national discretion. In countries where this assistance was lacking, administrative capacity proved to be a challenge, hindering programme implementation. The technical assistance system envisaged in the cohesion policy would have been excellent to replicate in the plans.

3. Recommendations and way forward

3.3. Towards the RRF mid-term review: making the most of urban recovery

As stated previously, the RRF is expected to undergo a mid-term review in early 2024. With this mind, the Urban Recovery Watch aims to feed the debate with concrete evidence on the first phases of the implementation in cities. Building on the expert analysis presented in the chapters and our assessment sketched above, we make a few recommendations for the mid-term review, which could contribute to a more effective implementation of the plans, and benefit cities and their citizens.

The RRF mid-term review should consider providing (more) direct access to RRF resources for cities as direct beneficiaries and implementing actors.

1. **Stronger involvement of cities in the implementation phase for stronger impact and absorption**: the EC and member states should properly address the participation gaps of cities in the implementation of urban investments. The RRF mid-term review should consider providing (more) direct access to RRF resources for cities as direct beneficiaries and implementing actors. This is crucial, especially in those countries where there is a risk of absorbing resources in a context where city governments are spending time and resources to respond to ministerial calls. It is also crucial in those countries where some cities were deliberatively left out.
2. **Promote national reforms that can enable urban transformations and ease public investment implementation**: the RRF mid-term review should place emphasis on the advancement of those national reforms that can help reduce red tape and bureaucratic hurdles (e.g. public procurement procedures) related to urban investments. At the same time, reforms should promote the development of national urban policies and multilevel coordination on urban issues and investments.
3. **Allow for readjustment of plans with a view to ensuring territorial and social equity:** the mid-term review should put the emphasis on territorial and social equity and should allow for possibilities to readjust current allocation to ensure that all people and all territories benefit from the funds supporting urban recovery.
4. **Promote stronger coordination with the urban dimension of cohesion policy (including for administrative capacity support)**: As the RRF and the next cycle of cohesion funds are being implemented in parallel, it will be paramount to promote coordination between NRRPs and cohesion policy programming with specific attention to their urban dimensions. This means, for instance, ensuring that the two different funding streams and measures complement each other while sharing a common administrative framework, but also that cities can use the support for administrative capacity coming from cohesion policy to help them implement all EU funds, including the RRF resources.
5. **Redirect non-committed resources to projects supporting urban transformation:** Not all the resources available under the RRF have been taken up by member states and there are many loans still available, while simultaneously not all the resources committed will be spent by the deadline. In light of these circumstances, we call for a pragmatic approach that allows national governments to directly entrust city governments that have ready-made projects to support their urban transformation. At the same time, we call on the EC to consider reallocating some of the unspent resources to support the implementation of EU missions, including the EU mission on climate-neutral and smart cities.

3.2. After Next Generation EU: lessons learnt on promoting local public investments at EU level

The debate on the legacy of the Next Generation EU instrument will have major repercussions on the EU budget, and notably cohesion funds. As highlighted in the introduction, it is an unprecedented model. Even though the instrument has been described as unique in European history, European institutions are considering it as a model for gathering resources and issuing common debt (Eurobonds), but also as a delivery mechanism for distributing resources and subsidies at the European level, that is, as an alternative to other models such as cohesion funds.

Clearly, a budget that is equivalent to just over 1% of the European gross domestic product (of which about a third is linked to agricultural subsidies) coupled with one-off Eurobonds with limited scope will not be able to solve the problems of finances and public investments at the local level. Therefore the discussion on the European budget must be addressed in a coherent manner together with all the financial levers. Having said this, we reiterate that any future EU public investment scheme should:

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1. Be designed and implemented in partnership with territories. The lack of multilevel governance and a real partnership approach is one of the key shortcomings of the RRF. This deficiency is undermining its ability to be a driver for public investments and recovery across all territories. Any new large-scale EU funding scheme needs to be built with these principles at its core.
2. Address capacity gaps to deliver investments and act as complementary investment support. There is a need to support cities' finances beyond providing more direct subsidies. A stronger vision and strategy to promote urban investments at EU and national level must be developed and embedded in reforms that can support urban transformation. This means supporting fiscal decentralisation to reinforce administrative capacity and the capacity to drive investment plans, as well as developing clearer coordination and support structures for urban investments at the national level.
3. Recognise and address the negative externalities of EU budgetary rules. There is a need to recognise that EU public investment frameworks are not implemented in a vacuum and that they interact and are affected by the EU economic governance rules and by the recommendations of the EU semester. There is a need to build greater consistency between schemes and EU rules so that they both promote a coherent approach to long-term investments at the local level.