

THE FINANCING MECHANISM OF NRRP. THE INTERACTION WITH THE NATIONAL BUDGET AND THE ECONOMIC IMPACT ON ROMANIA

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Abstract: *The purpose of this paper is to highlight and to present the funding opportunities for Romania through the National Recovery and Resilience Programme (NRRP), in order to make it more efficient to access and implement these forms of support. In this regard, the main research method is based on the review of specialized literature of programmatic documents to identify funding opportunities for more effective implementation of forms of support. Also, the paper presents the functioning mechanism and governance of the NRRP, its economic impact and how it interacts with the country's budget.*

Keywords: *NRRP, Efficiency, Economic Impact, Recovery and Resilience, Romania*

Introduction

Romania's national recovery and resilience plan (NRRP) represents an ambitious agenda of reforms and investment aimed at mitigating the socio-economic effects of the COVID-19, energy and cost-of-living crises. The amended plan – approved by the Council on 8 December 2023 – amounts to €28.5 billion or 12.8 % of the country's 2019 gross domestic product (GDP). This includes the Recovery and Resilience Facility (RRF) grants of €12.1 billion (cut by 14.9 % following the June 2022 revision of the allocation), REPowerEU grants worth €1.4 billion,

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the transfer of Romania's share (€43.2 million) from the Brexit Adjustment Reserve to its NRRP, and the RRF loan allocation already fully committed under the initial version of the plan (€14.9 billion). The measures in the plan, to be implemented by 2026, also seek to facilitate the country's green and digital transition. The new REPowerEU chapter comes with seven investment and two reform measures, which –together with the remaining NRRP measures – devote €12.6 billion (44.1 % of the plan) to the green transition. Digital projects have been endowed with 21.9 % of the NRRP resources (excluding the REPowerEU chapter). Romania has so far received €9.5 billion of RRF resources, including two payments and the pre-financing. On 15 December 2023, the country submitted its third payment request of €2 billion (net of pre-financing). According to the Commission's evaluation in the 2023 European Semester, implementation of the NRRP is under way, albeit with a rising risk of delays.

1. How the NRRP works

The National Recovery and Resilience Plan (NRRP) is the strategic document that promotes the reforms and investments necessary for Romania's development in the green and digital era, with direct and indirect implications in almost all areas of activity, on the success of which depends the recovery and development of the national economy, the stability and sustainability of the budget and the performance of the administrative process.

The NRRP provides the basis for the reform priorities and investment areas, addressing a significant part of the structural challenges that remain unresolved, through the implementation of important reforms with significant impact on the economy and with lasting socio-economic benefits.

After the adjustment process of the NRRP, triggered by the Russian Federation's aggression against Ukraine, the modified NRRP allocation is €28.5 billion (€14.9 billion in loans, €13.6 billion in grants) and covers 66

reforms and 113 investments (177 measures), structured around 16 components.

In addition, 44.1% (up from 41% in the original plan) of the available funds are dedicated to green actions for measures supporting climate objectives, while for the digital transition an allocation of 21.8% (up from 20.5% in the original plan) is foreseen to support the country's digital transition.

The plan's reforms are spread across six pillars, plus the new REPowerEU component and 518 targets and milestones, and is approved on December 11, 2023, with a new Implementing Decision issued by the Council of the European Union.

Most of the reforms (approx. 29%) fall under Pillar 5 (P5) "*Health and economic and social resilience*" and aim inter alia at strengthening health sector capacity, reforming the adult protection system, improving the quality of health care, modernizing health infrastructure, reforming public administration, in particular the effective functioning of the justice system and the fight against corruption, and better management of state-owned enterprises.

The "*Green Transition*" pillar (P1) comprises about 23% of the total reforms envisaged and includes measures to strengthen the regulatory framework for sustainable water and wastewater management, improve corporate governance of state-owned energy enterprises, energy efficiency, biodiversity and sustainable mobility.

About 17% of the PNRR measures belong to the "*Smart, sustainable and inclusive growth*" pillar (P3), which includes actions on tax administration, the tax and pension system, as well as actions strengthening the business climate with a focus on the R&D&I sector.

The remaining reform measures are split between the other three pillars (P2, P4, P6) and REPowerEU. The REPowerEU chapter introduces two new reforms, namely the creation of a legal framework for the use of state-owned land as acceleration zones for renewable energy investment (RES) and the establishment of one-stop shops (OSS) to provide energy

advisory services to prosumers for energy efficiency renovations and renewable energy production.

2. Governance of the National Recovery and Resilience Plan

At the time of the elaboration of the plan, the need to put in place appropriate measures to ensure the proper use of the funds allocated to Romania through the recovery and resilience mechanism was identified, measures which would underpin the establishment of a control and audit mechanism in accordance with applicable EU and national legislation, including the prevention, detection and correlation of serious irregularities – fraud, double funding, conflict of interest and corruption.

A similar model for the operational programmes financed by the Cohesion Policy was used for the NRRP, focusing on centralized management and decentralized implementation, adapted to the needs of the NRRP, with the aim of making the process simple, transparent and with precise audit, management and control functions (selection, monitoring, recovery).

According to the national legal framework (OUG 155/2020, with subsequent amendments and additions) the Ministry of European Investments and Projects has been mandated, by memorandum, to conduct the negotiation procedures with the EC for the approval of the PNRR, while the Ministry of Finance has been mandated to conduct the negotiation procedures at the level of the Council of the European Union.

At the same time, in accordance with the provisions of GEO 155/2020, with subsequent amendments and additions, the Inter-Ministerial Coordination Committee of the National Recovery and Resilience Plan (CIC PNRR) was established as the body responsible for coordinating and monitoring the implementation of the plan, its main tasks being to initiate measures to correct delays in the implementation of investments and reforms.

The PNRR CIC is coordinated by the Prime Minister, as chair, and the Minister of Investment and European Projects, as vice-chair, with the Minister of Finance and the ministers/heads of the institutions with a coordinating role for reform and/or investment in the PNRR.

Immediately after the formal approval of the National Recovery and Resilience Plan by the European Commission (October 29, 2021), the legal mandates of all institutions with attributions in the implementation, control and audit system of the NRRP were established by Emergency Ordinance 124 of 2021 on the establishment of the institutional and financial framework for the management of European funds allocated to Romania through the Recovery and Resilience Mechanism, as well as for the amendment and completion of the Emergency Government Ordinance no. 155/2020 on some measures for the elaboration of the National Recovery and Resilience Plan necessary for Romania to access external reimbursable and non-reimbursable funds under the Recovery and Resilience Mechanism.

Thus, the EPRM is responsible for signing loan agreements (with the EC) and financing agreements (with the Reform and Investment Coordinators), controlling and monitoring the plan, preparing progress reports and reporting on the status of achievement of targets and milestones, including monitoring the status of implementation of reforms and the need for amendments, ensuring the functions of control and recovery, authorization and disbursement, and resolution of irregularities.

Also within the responsibility of the MIPE are the drafting and forwarding of payment claims and the verification of claims for payment from beneficiaries.

The Ministry of Public Finance (MFP) assists the MoPEIM in financial management tasks, while the line ministries ensure the implementation of reforms and investments falling within their remit and carry out financial planning and reporting, according to the financing agreement with the MoPEIM.

Audit and control tasks include systems audits and substantive audits, thus ensuring (i) the prevention, detection and correction of irregularities

and (ii) the correctness of interim objectives and targets previously set, which are ensured by the Audit Authority.

Also as part of the PNRR governance system, by Government Decision no. 247/23.02.2022 the organization and functioning of the National Recovery and Resilience Plan Monitoring Committee (CM PNRR) was established.

The CM PNRR is an inter-institutional body, with a consultative role, composed of representatives of non-governmental organizations, selected through a call for projects, together with representatives of trade unions and employers' associations as well as representatives of local public administration associations (UNCJR, AMR, AOR, ACR).

This body was set up to ensure effective monitoring of the PNRR by involving the socio-economic partners and civil society in monitoring the progress of the implementation of the reforms and investments of the PNRR.

All these actions have allowed the creation of a solid governance system to ensure an optimal implementation, monitoring and supervision of the plan as well as a clear definition of tasks and an appropriate division of key functions between the different national bodies.

3. How payment instalments are calculated

The parameters negotiated in the PNRR are based on performance, in the sense of meeting the milestones and targets assumed by the Romanian State (investments and reforms). 8 Payment Requests are predefined in the PNRR, which include targets and milestones with clear deadlines and objectives, the payments under these payment requests being conditional on the achievement of results by reference to the milestones and targets of the recovery and resilience plans and the operational arrangements which are set out in the Annex to the Commission Decision approving the operational type agreements between the Commission and Romania pursuant to Regulation (EU) 2021/241.

Payments of the financial contributions and, where appropriate, of the loan to the Member State concerned shall be made until December 31, 2026, in accordance with the budget appropriations and subject to the funds available.

4. How future installments are affected by some delays

In order to ensure transparency and equal treatment between Member States, the Commission issued on 21.02.2023 a Communication on the methodology on the basis of which the assessment of the satisfactory achievement of targets and milestones will be made, building on the experience the Commission has gained so far under the Recovery and Resilience Mechanism Regulation.

The "unit value" of a milestone/target is the basis for the calculation of the methodology and has been calculated by taking the amount of the total budgetary allocation of non-reimbursable financial assistance of EUR 14.23 billion for 308 targets and milestones and EUR 14.94 billion for reimbursable financial assistance for 210 targets and milestones.

Applying the criteria of the Commission Methodology, we will detail below the impact that this methodology will have on the Payment Claims that Romania will submit to the Commission for validation.

Coefficients and upward and downward adjustments

In order to take due account of the differences between the measures foreseen in the NREAP and between milestones and targets, the Commission will calculate "corrected unit values" by applying coefficients to the unit value. These coefficients are established by assessing the importance of each unmet milestone or target and the gap that their non-achievement creates. Once the corrected unit values have been established, upward and downward adjustments will be made in the specific cases set out below.

The final amount to be suspended for each unmet milestone or target will be equal to the corrected unit value, subject to any upward or downward adjustment ("suspension value").

Coefficients applied to the unit value:

- 1) A coefficient of 2 shall be applied for milestones and targets for large investments (representing more than 10% of the grant or loan support) with a maximum of 5 milestones and targets.
- 2) A coefficient of 0.5 is applied for:
 - the lowest investment milestones and targets (representing maximum 0.1% of the grant or loan support);
 - intermediate milestones (and not targets) which are followed by intermediate milestones (and not targets) which are followed by subsequent milestones and/or subsequent targets related to the same investment.
- 3) For all other milestones and targets a coefficient of 1 is applied.

5. The Plan's economic impact on the country and how it interacts with the state's budget

Against the backdrop of the COVID 19 crisis, government spending underwent two concomitant processes, namely a shift in the structure of spending in favor of public spending to solve the problems created by the pandemic and which the market, through its self-regulatory mechanisms, cannot solve, and an absolute increase in public spending, across all components of the consolidated general budget. Given the fall in domestic supply, accompanied by a fall in the disposable income of the population and a fall in the profits of firms (both non-financial and financial), it is necessary to increase public investment, accompanied by reforms to ensure budgetary sustainability and an appropriate targeting of resources to areas where it is necessary to increase resilience in response to crisis situations and to close the economic gap and to bridge social and territorial disparities.

Taking into account the above, the plan proposes concerted actions in strategic areas aiming at modernizing and increasing the potential of the Romanian economy, by referring to the national strategic objectives in

correlation with the contribution to climate change and digital transition. Thus, it is envisaged to sustainably meet the nominal convergence criteria and significantly improve real convergence, achieve investment-led economic growth and limit internal and external deficits, implement fiscal and budgetary reforms that ensure budgetary sustainability and medium-term predictability, increase investment in priority areas, namely in the environment, energy efficiency, education, health, transport infrastructure, as well as support access to finance for the business environment, make the labor market more flexible by increasing skills, including digital skills, develop sectoral policies that lead to improved competitiveness.

In the medium term, potential economic growth will approach 4%. The projected evolution of potential GDP is the result of positive contributions from all factors of production (except, to a small extent, labor), the most important being the capital stock given the substantial contribution of investment, followed by total factor productivity, the latter also reflecting how structural reforms will support the economic recovery. This structural feature of the composition of potential GDP is driven by increased investment inflows through the implementation of the National Recovery and Resilience Plan, but also by a more effective implementation of the Multiannual Financial Framework 2021-2027, in line with the government's objective to support investment from national budgetary funds.

6. Future perspectives, the impact of PNRR on the development of the country, what Romania will look like in 2026

The RRP continues to address the consequences of the COVID-19 pandemic as well as the main structural, socio-economic and environmental challenges affecting Romania, pursuing the cohesion objectives and contributing to all six pillars referred to in Article 3 of the RRF Regulation. Romania's RRP includes reforms and investments with lasting impact in all five key areas included in the plan – green economy, education, business

environment, health, social inclusion, public administration and digitalisation.

The modified RRP, including the REPowerEU chapter, continues to contribute to economic cohesion and address the vulnerabilities of the economy. Investments and reforms in education, including digital skills and vocational training, the decarbonisation of industry, the digitalisation of businesses and the formalisation of domestic work, are expected to make the main contribution to growth and employment. The measures in the REPowerEU chapter are also expected to contribute to sustainable growth. This is the case, for example, for support for the acquisition of green skills and the development of renewable energy sources.

Also, the modified RRP and REPowerEU chapter contribute to social cohesion. The revised RRP includes measures addressing older social challenges that remain unaddressed. These concern the responsiveness and accessibility of health and long-term care services, as well as access to services for children in vulnerable communities and persons with disabilities. Social vulnerabilities should also be addressed through the provision of a wide range of social services to ethnic minorities and integrated programmes to support disadvantaged communities in disadvantaged metropolitan areas. A new reform aims to improve social assistance and reduce poverty for the most vulnerable, while reducing the administrative burden for all stakeholders involved. It aims to boost employment through activation measures, as well as increase educational attainment. These measures are expected to contribute to the implementation of the European Pillar of Social Rights Action Plan endorsed at the Porto Summit on 7 May 2021, and to contribute to improving the levels of the Social Scoreboard indicators.

The revised RRP should also foster the improvement of digital skills for the new generations. The measures also support the integration of digital technologies into the pre-university education system, as well as the digitalisation of universities and their preparation for the digital professions of the future.

7. General progress of reforms, regional development and cooperation opportunities

38 reforms (57.6% of the total), i.e. more than half of the 66 reforms contained in the Recovery and Resilience Plan of Romania are fulfilled! Another 23 reforms are being implemented and the remaining 5 reforms are scheduled to be implemented in the second half of 2025 and the first half of 2026. Of the 38 reforms, 21 are closed definitively, and 17, having approved the key elements of legislation and implementation, have associated results, effect and impact targets that are measured in the years 2025-2026.

The most relevant reforms: Laws of justice (laws on the status of magistrates, judicial organization, the Superior Council of Magistracy) and the changes made to the criminal code and the Criminal Procedure Code; the fight against corruption (the whistleblower protection law and the National Anti-corruption Strategy); The Pensions Law (the new laws on the pension system, the reduction of expenses with special pensions); ANAF reform through digitization (SPV, risk criteria, fiscal control structures); improving the budget programming mechanism (multiannual budget planning, analysis of health and education expenditures, fiscal council); cyber security (law, strategy, new digital occupations in the COR code); the government cloud; sustainable transport (road decarbonisation according to the "polluter pays" principle); sustainable urban mobility (sustainable urban mobility law and plan (PMUD)); Education laws (pre-university, university); establishment of one-stop shops for the provision of advisory services in the field of energy.

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