CENTRE FOR EUROPEAN REFORM
LONDON ★ BRUSSELS ★ BERLIN

Press release

Why the EU's recovery fund should be permanent

by Elisabetta Cornago and John Springford, 11 November 2021

The EU's post-pandemic recovery and resilience facility (RRF) began disbursing funds to member-states this summer. The €723.8 billion fund will be spent by the end of 2026, and amounts to 0.8 per cent of EU GDP on an annual basis. While sceptics have suggested that it will not make an appreciable difference to growth, the fund's champions have dubbed it Europe's 'Hamiltonian moment'.

In a new Centre for European Reform policy brief, 'Why the EU's recovery fund should be permanent', Elisabetta Cornago and John Springford argue that the truth lies somewhere in between these two views. While the fund alone is not sizable enough to lead to big reductions in greenhouse gas emissions, its heavy skew towards southern and eastern member-states means it could significantly raise growth in parts of the union most in need.

The authors recommend that the fund be made bigger and permanent after it ends in 2026. To meet climate targets, this decade EU member-states will need to invest €460 billion a year in tackling climate change. The current fund will provide €45 billion – helpful, but not enough to move the dial. The authors recommend that the RRF should provide 50 per cent of that – €230 billion annually – to ensure fair burden-sharing between member-states; that climate action is achieved with the lowest possible borrowing costs; and that national parliaments and taxpayers alike have 'skin in the game'.

The authors praise the RRF's conditionality mechanism, where unlike the EU's multi-annual financial framework (MFF), member-states must pass reform and investment milestones to unlock tranches of funding. The authors recommend that this form of conditionality be extended to the MFF's regional development funds and farm subsidies, in order to improve the quality of spending. The authors also provide country-specific analysis of the recovery plans of France, Germany, Greece, Italy, Poland, Portugal, Romania and Spain.

"Channelling at least 37 per cent of RRF funds into climate investments has forced EU member-states to think about their climate action weaknesses, and strategically select public investments and necessary reforms" said Elisabetta Cornago. *"The acceleration in climate investment should not stop here though: the fund should morph into a permanent and larger 'climate fund' after 2026 to ensure that the public investments necessary for carbon neutrality happen in time."*

"France's government calculates that, by 2030, its recovery plan will reduce emissions by 1 per cent", said John Springford. *"That's not nothing, but EU climate funding needs to be much bigger if it's going to provide strong incentives for sceptical countries, like Poland, to reach net zero."*

Note for editors:
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